

# Service Quality in Luxury E-commerce. Case Study in China

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# Service Quality in Luxury E-commerce in China Market

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## Abstract

The thesis aimed to examine the importance levels of different service performance from customers' perspective in luxury fashion e-commerce sector in China. Based on the E-S-QUAL and E-RecS-QUAL scales, this thesis developed a 10 dimensions Luxury E-S-QUAL framework namely: fulfilment reliability, efficiency, product portfolio, contact, responsiveness, web site design, information, personalization, compensation policy, and community, which could be used to evaluate service quality in online retailing luxury fashion context. The utmost practical contribution in this study was to present a better understanding about the service offerings in online retailing luxury fashion development in general and for China market in particular. The Kano's customer survey also conveyed Chinese online customers' perceptions regarding their requirement for different types of services or service components in online shopping experience. The main results indicated that the fashion luxury industry has not yet bloomed in Chinese e-commerce market and purchasing luxury goods on the Internet has not been common for Chinese luxury customers. Online luxury companies, both local and international ones have not been differentially outstanding from conventional websites. While most Chinese online consumers are realistically outcome-oriented minds who emphasize the importance of direct human contact service, delivery service, guarantee service and after-sales services..., current independent luxury online retailers in China are on the average performance for offering such critical services. Foreign companies in our research, even showed lower service performance comparing to the local ones.

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**Keywords** fashion luxury, e-service, Chinese customers, luxury service quality

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# 1 INTRODUCTION

## 1.1 Background

Luxury market in China has grown remarkably in the past few years to become the world second largest luxury consumption in the world, just behind The US (Lu, 2010). Not long ago, luxury brands in China were displayed only in high-class shopping streets or in luxury boutiques located in few biggest cities where the richest came to show off their wealth. However, the increasing demand for luxury goods from the high and middle class consumers coming from different parts of the country (Gao et al., 2009) and the incredible revolution of e-commerce industry recently in China (KPMG, 2014) has opened a new distribution channel for luxury brands: selling luxury products on the Internet.

As sophisticated and sensitive as its term “luxury”, selling luxury goods online faces many challenges (Okonkwo, 2009), especially how to keep the luxury values in online services that absent the human interaction. Service quality is one of the key elements in customer satisfaction (Gronroos, 1984), however, since the Internet is a relatively new transaction channel for luxury brands, companies may not have a clear, standard strategy for service quality. Moreover, although some previous researches tapped into services of luxury e-commerce, there has been lack of attention from the academic researches for service quality dimensions in particular. For instance, Dall’ Olmo & Lacroix (2003) identified needed features in luxury websites from customers’ perspective; Arvil (2008) studied different online and offline service needs in online luxury; and Broillet & Dubosson (2008) reported specific e-services at the pre- and after-sales stages of luxury e-commerce. It is not surprise to see how web sites selling luxury goods have different service operation, perhaps rely purely on their experiences, some even under service performance comparing to general mainstream goods retailing web sites. In a sector like luxury e-commerce, the luxury customers’ requirements for providing high-end services are rational and sophisticated. The question for luxury brands and retailers is to identify what service types are worth of investing and what services are wasting company’s time and money, because sometimes even adding a small customer service might make big difference in customer satisfaction or dissatisfaction (Kano et al., 1984).



## 1.2 Thesis objectives and methodology

With a great interest in Chinese luxury market and an intention to add in academic world some understandings about service quality of luxury e-commerce, the author saw a need to examine the current service quality practices and how online customers have different views about these practices. Applying Kano's Theory of Attractive (Kano et al., 1984), this study will classify and prioritize identical service attributes according to their importance levels from customers perspectives in order to create some concrete guidelines for luxury e-commerce companies such as: a no-surprise-available service; a must-be-available service to increase customers' satisfaction, an attractive service to make customers delighted, or a non-sense service that makes no different. This study will be the first one to explore service quality for luxury e-commerce in China. On the other hand, this thesis will also suggest a framework for service quality dimensions to be applied in luxury fashion online context. The framework will be built based on an investigation of previous researches about electronic service qualities and luxury service values, especially direct expansion from E-S-QUAL and E-RecS-QUAL scales by Parasumaran et al. (2005).

To sum up, the theoretical objectives of the thesis:

1. To have a discussion about concept of luxury fashion electronic service quality and its dimension scales till date.
2. To develop a suitable electronic service quality framework to be used in luxury fashion e-commerce based on E-S-QUAL and E-RecS-QUAL dimensions proposed by Parasumaran et al. (2005) and other relevant studies.

The practical objectives of the thesis:

1. To evaluate the efficiency of the current service offerings practiced by different players in Chinese luxury online market.
2. Through validating Kano's Theory of Attractive (Kano et al., 1984) in online service quality in luxury fashion field to give some understandings about Chinese consumers' perception of luxury online service quality.

To have an in-deep understanding of service offering situation in current luxury retailers in Chinese online market, the author conducted an extensive review of 11 online shopping web sites and identified the specific different e-service attributes offering between luxury web sites and commodity sites, between local operations and foreign operations. Then, a

customer survey using Kano's Theory of Attractive (Kano's et al., 1984) to examine customers' perception of some particular service attributes. The survey was distributed both through online networks and randomly in some big shopping malls around Shanghai, China for 3 weeks. The analysis of Kano's survey was then performed in excel.

### **1.3 Thesis research scope**

Luxury goods include different categories such as apparels, shoes, bags, watches, jewelry, accessories, cosmetics and perfumes, wines, cars, yachts... and not all of them are suitable to be sold online by an independent retailer. New luxuries, which will be discussed later in the chapter 2 of luxury classification, represent the new luxury fashion brands demanded more from the mass, therefore are typically found on the internet. Besides, though it was seen that the luxury service categories such as hotel, travel, and tourism... are widely presented online (Niels & Hansen, 2010), they are pure services and their supporting customer services are different from the product categories. Therefore, this study only focused on luxury fashion category.

Secondly, it was observed that brand owned e-commerce web sites were very rare in Chinese market (IRResearch, 2012). The reason to explain why brand owned e-commerce sites are not operated popularly because of the fact that, each country market has its specialty such as customer service preference, payment methods, delivery methods which luxury brands need to adapt, even online distribution channel is not exceptional. Therefore, most of luxury brands limited to operate online channel only in their country of origin. For this reason, the author decided to solely examine independent web sites, also called third-party online retailers.

### **1.4 Thesis structure**

This thesis is divided into 7 chapters. Chapter 1 explains the motivation leading the author to conduct this study and specifies the study's objectives, methodology, scopes, and its limitations. Chapter 2 introduces the current situation of luxury fashion industry on the Internet, especially focus on identifying unique luxury fashion's classification in Chinese online market. Chapter 2 also discusses the role of service innovation in the development of online retailing luxury. Chapter 3 aims to review previous academic researches about

concept of electronic service quality, including different quality dimensions developed until present. Then, it goes on with a discussion about how luxury specific values should be attached to services in the virtual environment. A service measurement approach based on 4 stages of the shopping process- search information stage, agreement stage, payment stage, after-sales stage- is proposed as thesis framework in chapter 4. Chapter 5 explains the methodology to be used in this thesis which is a qualitative empirical study while chapter 6 presents and discuss the study results. The last chapter summaries the thesis's main findings and its contributions in academic knowledge as well as in practice. Suggestions are provided for managerial purposes, finally, the author discourses the study's limitations and some ideals for further research.

## **2 LUXURY FASHION IN E-COMMERCE**

This chapter presents an overview of e-commerce luxury fashion industry in general as well as the Chinese market for e-commerce luxury fashion in particular, first discussing the current situation the industry is in, then the opportunities and challenges that the industry has been experiencing. Next, different luxury online retailing types are classified based on its business models and its accessible levels. This thesis focuses on the development of third party web site platforms selling multi-luxury brands rather than single brand owned web sites. Service development and innovation is an important topic in luxury retailing, especially as it enters a new, highly competitive market, the Internet. How luxury e-retailers can be successful by improve better service offering. Some new ideas are given for further discussions.

### **2.1 Industry profile**

#### **2.1.1 Electronic revolution of luxury fashion industry**

Although the e-commerce world has emerged for almost 20 years, it is mainly the market for commodity products. Luxury brands, in contract was refusing to embracing the digital revolution, for instance: international brands such as Versace and Prada did not have corporate websites until 2005 and 2007, respectively (Okonkwo, 2009) The reasons were explained by several absolute distinctions between “luxury” and “the internet”: between rarity and abundance (Kapferer & Bastien, 2009); between sensory experience and virtual experience; between image control and freedom of speech (Hennigs et al., 2012); between timelessness and speediness (Schwedt, 2012). Later, the popularity of internet greatly influence the changes in business management with no exception for luxury brands (Seringhaus, 2005). Although slowly adapting on the web (Okonkwo, 2007), luxury brands have gone from no website present to actively participate in social networks and some even operated online retailing channel (Niels & Hansen, 2010). Regarding online selling of luxury goods, academic researchers also made different criticisms. While Kapferer (2012) agreed that an internet strategy is generally required for luxury brands to keep up with the

global trend, they insisted that the internet should only be used as communication channel. In opposite views, Hennigs et al. (2012) and Okonkwo (2009) recommended that luxury brands should not only communicate online, but should also engage in online retailing. Kluge et al. (2013) also emphasized that “luxury brands cannot afford to miss this opportunity to make use of the fastest growing sales channel- internet.” There were seen some luxury brands took initial steps in this new challenging market, for example: Burberry, Hermes, Paul Smith and Mulberry have offered e-commerce to multiple countries in the early mid- decade of 2000s (Niels & Hansen, 2010). Nevertheless, not until the immediate success after the introduction in 2010 of Yoox ([www.yoox.com](http://www.yoox.com)), an Italian online luxury fashion retailer, majority of luxury brands still faced a dilemma that “if a luxury product is placed for sale on the internet, it is no longer a luxury product” (Niels & Hansen, 2010). In Niels & Hansen’s (2010) study, following the year of 2010, there were 80% of most famous luxury brands observed, offered opportunity to order products online, but limited to US, UK and most of the European countries. Some brands such as Dior, Louis Vuitton, and Prada were still resistant to only offered accessories.

While the debates of luxury e-commerce are still going on, real statistics showed the demand for global luxury online sales is on the growth. Report of online sales of personal luxury goods have shown a strong annual growth of 20-25% over past years up to 7.0 billion euros in 2012 (Bain & Co, 2012). This undeniable trend has also expanded dramatically to emerging countries like China, Russia, and Brazil... (Bruce & Kratz, 2007; Schwedt, 2012) as those countries are on the rise of economic boom. Perhaps, due to the continuous economic crisis causing declining sales in physical stores, luxury brands have turned to online markets in those countries where development still promise to grow (Okonkwo, 2009).

The Internet has created both opportunities and challenges to luxury brands. Firstly, internet makes access to luxury brands easier for rich people who live in remote areas where physical stores are not yet available (Kapferer, 2000; Ukonkwo, 2005). For luxury brands, internet seems to be the cheapest investment to catch the local and the new demands. Secondly, as e-commerce keeps growing in popularity, people build more trust in online shopping. Young and wealthy people who face time constrain, are willing to buy their favorite luxury goods as long as the quality is assured (Turk et al., 2012). Thirdly, internet is an excellent new communication channel to be exploited. Luxury brands can enhance

brand's image and reputation by interacting with non-customers. Websites allow people who are interested in luxury brands without purchasing intention to visit because a website is always opened regardless of time or location (Radon, 2012). As regards to challenges, the first and most issue that concerns luxury brands is its loss of luxury perception over the Internet. Luxury fashion brands fear that since the mass and classless Internet democratizes information access, it may decrease the exclusivity of luxury brands' equity, even worse, make them become common products. Another problem that has been along the way and increased its intensity on the Internet is luxury counterfeit. By presenting their products online, they provide unintentionally detailed of their products not only to actual and potential customers but also to counterfeit suppliers (Bruce & Kratz, 2007; Hennigs et al., 2012). Global competition is another challenge. While the big online retailers like Yoox, Net-a-porter operate internationally, there are also local players in each market making the competition even tougher. Last but not least is the issue of local adaptation. Luxury stands for top-class in both products and services. The challenge is how they can keep the outstanding performance geographically where are language, customs, culture differences and the absence of physical interactions.

### **2.1.2 Online luxury fashion in China market**

The luxury market in China has witnessed a strong growth in continuous years despite the recent economic crises that caused significant drops in luxury traditional markets. A report by Bain & Co. (2011) noted that in 2009, Europe shank in luxury sales by 8% while North America faced a 16% plum. In contract, China's luxury sales rose up to account for 30% of the global market share in 2010, and expected to grow to 44% by 2020 (Branigan, 2011). As a result, many of the big luxury brands are keeping their investment scales in China while cutting costs in other markets less of a focus (KPMG, 2013). Furthermore, the booming of e-commerce market in China with market value in 2013 of 295 billion US Dollar, already surpassed US e-commerce market to become the biggest e-commerce market in the world (McKinsey & Company, 2014). The growth of e-commerce in China offers a new and potential opportunity for luxury brands. A survey conducted by KPMG (2013) indicated that around 70% of potential consumers search for luxury brands on the internet at least once a month (see figure 1.). Additionally, from online shopping intention

perspective, in 2012, 40% of them claiming they were interested in purchasing luxury goods on the internet in compare with just 22% interest in 2011 (see figure 2.).

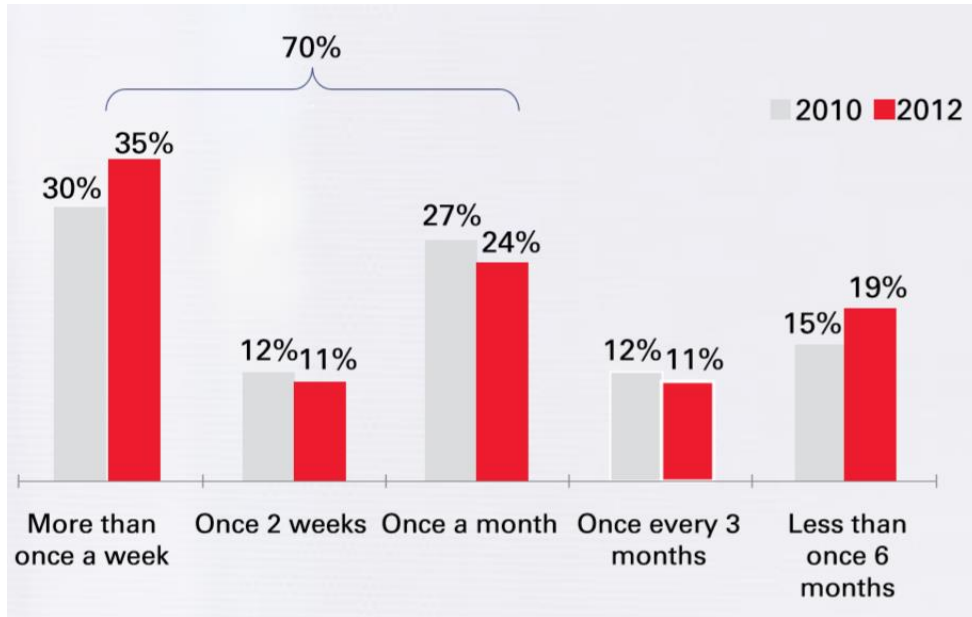


Figure 1: How often do you search for luxury product information on the Internet? (KPMG, 2013)

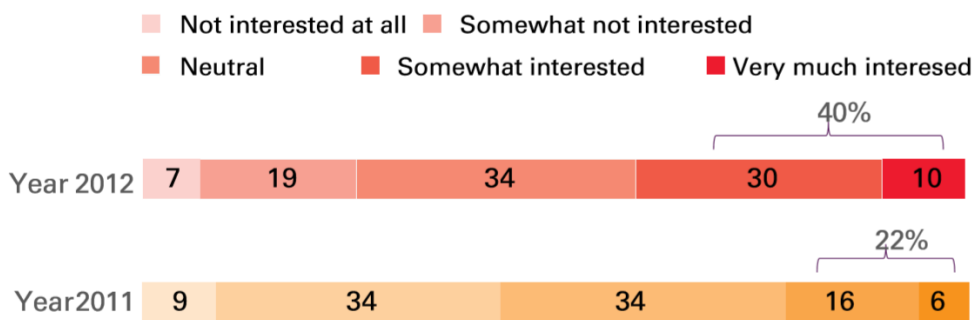


Figure 2: To what extent are you interested in purchasing luxury goods on the Internet? (KPMG, 2013)

Currently, the most noticeable luxury brands in China have presented online (see table 1), in which luxury fashion category including clothes, shoes, bags, accessories, cosmetics and perfume dominates the online market (Zhang et al., 2011). The Chinese luxury e-commerce market scale was 6.36 billion RMB in 2010, equal to 1 billion US dollar (IREsearch, 2012). As of the first half of 2012, Chinese luxury e-commerce market size lifted up to 13.5 billion RMB, estimated equal to 2.2 billion US dollar, and predicted to increase to 37.24 billion RMB in 2015 (KPMG, 2013). This outgrowth situation which is far ahead comparing to the beginning period of the world luxury e-commerce, probably comes from

Chinese “new rich” class’s new demands (Gao et al., 2009). Those consumers with high purchasing powers, however, are located geographically different in China, not only in the China’s metropolis such as Beijing, Shanghai, Guangzhou but also in the tier 2<sup>nd</sup> , 3<sup>rd</sup> cities namely Hangzhou, Wuxi, Qingdao, Chengdu... Statistics reported about 60% of new demand for luxury goods are from subordinate cities (KPMG, 2013). Since China has 656 cities as in 2014, of which 14 cities have population of more than 5 million each; 67 cities have between 1 and 4 million (The People), it is costly and risky for luxury brands, especially small brands to lay out their flash- ship stores in every cities to capture all possible demands. Hence, the Internet seems to be the optimal choice for them to explore new market areas while is not afraid of losing so much (Ren, 2011)

*Table 1: Luxury brands have integrated e-commerce in China (Yan & Zhao, 2010)*

Audemars Piguet	Bulova	Dooney & Bourke	Chanel
Balenciaga	Burberry	Ebel	Chole
Baume & Mercier	Bvlgari	Fendi	Chopard
BCBGMAXAZRIA	Carlos Falchi	Ferragamo	Citizen
BEDAT	Corum	Giorgio Armani	Luminow
Blancpain	Dior	GUCCI	Marc Jacobs
Bottega Veneta	DKNY	Haurex Italy	MIU MIU
Breitling	Dolce & Gabbana	Cartier	Movado
Bulberry	Polar	Juicy Couture	Stuart Weitzman
Nixon	Prada	Kate Spade	watch
Omega	Pulsar	Raymond Weil	Tag Heuer
Oris	Ralph Lauren	Rolux	Techno Marine
Patek Philippe	Invicta	RUCOLINE	Tiffany & Co.
Philip Stein	Jessica Simpson	SEIKO	Timex



Piaget	Jimmy Choo	Skagen	Tissot
TOD'S	Valentino	YSL	

## 2.2 Luxury e-commerce classification

### 2.2.1 Types of luxury e-commerce web sites

Internet shopping sites can be divided into 6 categories (Clark, 1997): 1) manufacturer sites which are established by manufacturers in attempt to selling product directly to online customers; 2) brick and mortal retailer sites that display products details from retailers who own physical stores; 3) catalog hybrid sites which display the printed catalog on the Internet and allow customers to order from the catalog; 4) pure dot-com retail sites that buy products directly from manufacturers and then re-sell them online without owning physical stores; 5) mall sites that lend shopping online space to retailers; 6) brokerage sites that connect buyers and sellers through internet and charge a transaction fee. Of which, 4 online models are most frequently appeared in fashion retailing including: virtual e-retailers (pure dot-com retail sites), catalog company, bricks-and-mortar retailers, and multi-channel retailers (Jang & Burns, 2004). As luxury brands want to protect the exclusivity and risks of counterfeit products, they do not want to be exploded in a new market called e-commerce. Thus, it has seen a movement of carefully controlled product distribution, either through the owned exclusive websites or through selective trusted re-sellers (Kapferer, 2000). Generally, luxury fashion brands will only pick several product categories for some intended customer's segments to sell on their own web sites. Though they can be from new or past seasons, luxury brands rarely sell them on a discount directly from their web sites in order to protect brands' value. On the other hand, luxury products to be passed on to re-sellers usually come from existing stocks (or outlet-type of products), so those products will be sold at lower prices than the original prices. It is important that retailers in luxury e-commerce market are identical with reputation. Typical business models to be seen among them are: 1) integrated fashion shopping sites such as Yoox, Saks Fifth Avenue (IResearch, 2011); 2) flash sales web sites such as Gilt.com, an US based-company, Vente-privee.com, a Spanish company operated internationally (Osta-

penko, 2013); 3) General merchandise involved in luxury shopping such as Amazon; vertical luxury online store such as Net-A-Porter, Thecorner (IResearch, 2012). There are some retailers successfully negotiated with brands and designers to secure exclusive access to premium product lines, and therefore can provide full-price, premium products such as net-a-porter.com, The Corner, Scoop NYC. Among 50 most popular luxury online sites (The international man), most of them provide multiple types such as women and men clothes, shoes, bags, and accessories while few focus on one specific category such as shoes (Shoe Buy.com), bags (Mybag.com), watches, for women (My Theresa.com), for men (Mr Porter.com).

In the past, luxury goods were always associated with wealth, exclusivity and power, as well as the satisfaction of non-basic necessities for the royal classes and the riches (Brun & Castelli, 2013). However, the economic growth have broadened the luxury customer base. One of the most recognizable effects of economic development is the increase of consumer purchase power which enables the middle-class consumers to demand high-end, luxury goods. The change in customer segments have driven traditional luxury brands to expand to sub-brands, sub-product lines and to create new luxury brands. Silverstein & Fiske (2003) came up with a definition of “new luxury” brands or “accessible luxury” brands to address the emerged change. New luxury refers to “goods that are not necessarily rare or manufactured in low volume; these goods acquire the luxury label for design, additional services and the aura created by the brand”. Its positioning of lower price to target upper middle class consumers who are less interested in the product itself, but more interested in the image associated with the brand. This phenomenon also was mentioned by Chevalier & Lu (2010) in their book to explain the Chinese luxury consumers’ behaviors. Furthermore, accessible luxury brands have recently enjoyed a growth rate of 22% only in Asia-Pacific countries excluding Japan, which was nearly two and a half times greater than the global average for accessible luxury sales growth. Commonly, like its name of “accessible luxury”, these new luxury brands are not afraid of losing exclusivity, instead, they strive for sales growth and expansion. Luxury brands with e-commerce strategy in plan usually prioritize to offer their “accessible” lines on the Internet and still keep their core luxury lines offline.

## 2.2.2 Luxury e-commerce models in China

Generally, there are two electronic models for luxury e-commerce in China, the former ones are company owned websites whereas the others are third-party retailer platform. About 70% luxury brands hold simplified Chinese websites which are mostly for issuing products' information and brands' news. Only few of them such as Burberry, Armani, and Coach are offering possibility of direct online purchase. Due to the complication in transaction process, mostly in payment works, the rest of luxury brands, even the big names choose a third-party website to authorize marketing their products such as Omega, Chanel, LVMH, Hermes (Ren, 2011). The advantages of an independent supplier are local expertise and minimum investment in infrastructure such as logistics, marketing. Nevertheless, the biggest concern of luxury brands when cooperating with a third-party is control issue: product and service quality control, and brand image control...

Luxury e-retailers appeared in China from early 2008 starting with the establishment of the first local company named MEICI.COM, then in 2009 were 5lux.com, Yintai.com, SECOO, Vip.com, Jiapin.com following by shangpin.com, Glamour Sales being opened in 2010. Within the past years, there have been new companies entering the market: xiu.com, Yintai.com, zhenpin.com, ihaveu.com, 360Top.com, Yoka.com, lux.360.cn, feebag.com, paipai.com, gloluxury.com... (IResearch, 2012) In contrast to the business operation in the beginning, currently, domestic companies are trying to escape from the past tag of "limited discount sales" or in other words either flash-sales offering limited-time availability; auction sales; or big discounted outlet goods (Ostapenko, 2013) to new business form with distinguished characteristics and competitive advantages. One of the biggest challenges for independent, self-run luxury shopping web sites is to sustain their supply sources. There are typically four supply channels: 1) to obtain authorization from the brands. This channel is relatively limited because obviously that only few best well-established companies can sign deals with big luxury brands (Ostapenko, 2013); 2) to purchase, even buy out out-of-season luxury products in discount stores or outlets; 3) direct purchase in release conference or promotion conference; 4) to directly buy product of new season in brand store with little discounts. (IResearch, 2012). The latter channels are often more unsecured in stocks because generally, each luxury product category is produced with limited quantity.

On the other hand, foreign companies also lifted their steps to Mainland China because they could not stand to lose the pieces of cake in this world most promising market. The first international brand online store was opened in 2010 by Emporio Armani under Yoox Group, a successful Italian company operating as luxury fashion re-seller. Later in 2011, Yoox Group transferred its core business lands: Yoox.com focusing on fashion and design products and thecorner.com specializing in luxury and premium products into Chinese marking the actual business kick-off for this giant. Another big player, NET-A-PORTER, belonged to Richemont Group, formally joined in 2012 under Theoutnet.cn (Lian, 2013). Although having years of experience in other countries, Yoox and NET-A-PORTER still need to do a lot of works in Chinese market such as adapting into Chinese business culture, investing in infrastructure and improving their services (Lu, 2010; Lian, 2013)

The below table summarizes the popular luxury e-commerce web sites in China

*Table 2: Popular luxury e-commerce web sites in China*

<b>Name</b>	<b>Opening Year</b>	<b>Offices</b>	<b>Business mode</b>
MEICI.COM	2008	Shanghai	Outlet sales
YINTAI.COM	2009	Beijing	Outlet sales
5lux.com	2009	Beijing	Flash- sales
SECOO	2009	Beijing, Shanghai, Chengdu, Tokyo, Hong Kong	Combination of premium sales and discount sales
VIP.COM	2009	Guangzhou	Outlet sales
GLAMOUR SALE	2010	Hong Kong, Shanghai.	Outlet sales
SHANGPIN	2010	Beijing	Premium and designed products, full-price sales

YOOX	2011	Origin from Italy with office in Shanghai	Combination of premium sales and discount sales
THECORNER	2011	Origin from Italy with office in Shanghai	Premium sales, new season products
THE OUTNET (NET-A-PORTER)	2012	Origin from England with office in Hong Kong	Premium sales, full-price sales through e-catalog

### 2.3 Service innovation in luxury fashion e-commerce

Service development and innovation is one of the key strategies that can bring competitive advantages for companies including luxury brands (Okonkwo, 2009). Luxury brands normally do not pay attention to particular customer service improvement because for them, their customer segments are identical either loyal group who admire the brands and will consume the luxury products anyway; or the one-time purchasing customers. Besides, some product categories such as watches, jewelry, perfume are often sold through brands' distributors, thus luxury brands seem to pass also customer service responsibility to the retailers. (Chevalier & Mazzalovo, 2008) From luxury retailers' views, they could solely count on the individual information and relationship to serve each customer in the past, but that strategy is no longer comprehensive on the Internet environment. The competitiveness on the Internet gets tougher among e-retailers when customers can freely access and compare information online. Customers might be loyal to luxury brands but they do not need to stay with the same retailer unless they feel satisfaction and delighted with their previous purchases.

Customer services involve both online services and offline services. In online service, the good news for e-retailers is they can use the power of technology to seize what used to be impossible before such as improve shopping experiences with advanced features, tracking customer shopping behaviors, customer profiles through intelligent customer relation management system. For instance, YOOX delivered its products with exquisite designed

packages made of degradable environmental protection material and with microchip stick which ensured reliable delivery and hassle-free return process; NET-A-PORTER included e- fashion magazines published monthly in its web site which brought new shopping experience to web site visitors; and VIPSHOP created flash cartoons to educate customers about luxury brands' stories and histories. Mass social networks can also be taken as powerful channel to connect to new and potential customers. In light of technology enhancement, the West has been more eager to adapt while the East has been seen a little slower (Green, 2014). For example, while customized newsletters are considered requirement for e-retailers in the US, Chinese customers are still bothered with irrelevant advertisement daily. On the other hand, in offline services, the East has something that others can learn from. Chinese retailers seems to be excellent in customer responses. Not only they offer 24 hours available direct contact methods such as phone, live chat, but also some go to an extend of personal service level. Take Zhenpin as an example: Zhenpin aiming at "zero distance online shopping experience", launched the "fashion adviser" service online and offline. The online advisers could provide customers one to one consultancy related to brand culture, luxury knowledge while the offline professionals would drive Benz SMART to deliver goods or when coming to customer's house for other services (Lu, 2008).

Nonetheless, service innovation can sometimes cause undesirable experience to customers it does not consider customer role in service process design. Moreover, the strategy for each market requires independently cultural understanding and adaptation. It means what does make sense to this market might not suitable for others (Schwedt, 2012). With this prospect, this study also engaged innovative services which found available from international and Chinese companies, in evaluation.

### **3 LITERATURE REVIEW**

This chapter discusses the electronic service quality (here after e-SQ) measurement in luxury fashion context as a foundation to create the thesis framework. It first introduces previous academic researches about e-SQ methodologies in general, then identifies set of dimensions of luxury e-service quality. For the purpose of integrating those dimensions into a comprehensive framework, the author considers the online purchasing process review. Finally, some aspects related to customer's perception of service quality are discussed.

#### **3.1 Measurement of e-service quality**

Online retailers once solely relied to mere presence on the web and low pricing strategy to be sufficient. However, in today e-commerce development, they are considered as survival conditions, not enough for the intense of market competitiveness (Barrutia, J. & Gilsanz, A., 2009). Online customers, who becomes more and more demanding, are turning to cherish good service performance and less tolerant to poor service quality. Electronic service quality is, thus argued not only as a primary source of competitive advantage (Parasuraman et al., 2005), but also a basic requirement for success of internet-based operations (Wolfinbarger & Gilly, 2003; Fassnacht & Koese, 2006; Barrutia, J. & Gilsanz, A., 2009).

Despite its importance, academic research in the field of e-SQ is still in the early stage and lack of common agreements such as in standard conceptualization, measurement of e-SQ... (Santos, 2003; Ladhari, 2010). In attempt to search for a suitable e-SQ measurement framework, the author did a comprehensive research on e-SQ dimension scales, particularly in luxury fashion and apparel context. Fassnacht and Koese (2006) defined e-SQ as "the degree to which an electronic service is able to effectively and efficiently fulfill relevant customer needs" whereas Santos (2003), from customer perspectives, defined e-SQ "is the overall customer perceptions, judgments and evaluations of the quality of service obtained from a virtual marketplace. These definitions refer to electronic service in general online channels. On the other hand, a definition, suggested by Parasuraman et al. (2005) shows more focus on online shopping: "e-SQ is the extent to which a website facilitates efficient and effective shopping, purchasing, and delivery of products

and services”. This definition emphasizes that e-SQ should consist of all aspects within customer shopping process. Similar to Ladhari (2010); Niall (2014), the author also agrees on this definition.

Early studies of e-SQ misinterpreted website system quality as e-SQ (Barrutia & Gilsanz, 2009), therefore concentrated only on quality of website interface design. For example: WebQual (Loiacono et al., 2000); SITEQUAL (Yoo & Donthu, 2001). Typical quality dimensions for web site quality covers aspects of web appearance; information quality; ease of use; speed; and security (Loiacono et al., 2000; Yoo & Donthu, 2001; Janda et al., 2002). However, when customers do shopping in the internet, they not only search for products/ services and complete online transaction, but also later receive product/ service delivery. Sometimes, they might even occur some personal problems within or after purchasing process. Hence, evaluating system quality only does not satisfy requirement of a comprehensive measurement method. Some researchers (Wolfenbarger & Gilly, 2003; Santos, 2003; Parasuraman et al., 2005; Barnes & Vidgen, 2002; Bauer et al., 2006) caught this issue and tried to solve the problem by beginning with offline service quality frameworks such as the SERVQUAL (Parasuraman et al., 1988). They acknowledged that SERVQUAL itself was not appropriate for measuring e-SQ because of a significant difference between offline service which focused on human interaction and online service which tended to occur in artifact interaction scenes. Therefore, in their new frameworks, they modified the scales to fit in online context by eliminating non-related elements such as competence; courtesy; knowing customers while emphasizing the importance of keeping reliability, efficiency; contact; and communication dimensions as means to measure all customer concerned services (which are the similar for both offline and online circumstances). The fact that even though online channel reduces direct interactions between customers and company, human touches in services cannot be replaced (Semeijn et al., 2005), especially services dealing with non-routine activities (customer complain, compensation). Personnel contact ability can improve customers’ trust in the high uncertainty level of internet world. Along with the vein, some researchers suggested to add product portfolio quality together with website quality and customer service quality in e-SQ scale in order to completely address all of its facets (Madu & Madu, 2002; Yang et al., 2004; Niall, 2014). Product portfolio refers to availability of product (variation and quantity) and product pricing. Anyhow, product portfolio is, fundamentally what shoppers really



pay attention the most. With these support arguments, a summary for a comprehensive e-SQ framework whether to examine from shopping process or to look from service subjects should include website quality dimensions, customer service quality dimensions and product portfolio quality dimensions.

The table below summed up literature review of e-SQ scales discussed above.

*Table 3: Summary of previous research on e-SQ scales*

<b>Article</b>	<b>Model</b>	<b>Website Quality dimensions</b>	<b>Customer Service Quality dimensions</b>	<b>Product portfolio quality dimensions</b>
Loiacono et al. (2000)	WebQual	Web appearance; entertainment; informational fit-to-task; transaction capability; speed; trust		
Yoo and Donthu (2001)	SITE QUAL	Ease of use; aesthetic design ;process speed; security		
Janda et al., (2002)		Performance; access; security; sensation; information.		
Barnes and Vidgen (2002)	WebQual	Usability; design; information; trust;	Empathy.	
Madu & Madu (2002)		Performance, features, structure, aesthetics, security/ system integrity,	Reliability; serviceability, responsiveness, empathy; reputation	Storage capability; product/ service differentiation

		trust, web store policies, assurance		and customization
Santos (2003)	Incubate dimensions and active dimensions	Ease of use, appearance; linkage; structure and layout, content; security	Reliability; efficiency; support; communication; incentive	
Wolfinger and Gilly (2003)	eTailQual	website design; privacy/ security	Customer service; reliability	
Jun et al., (2004)		ease of use; security; access	Reliable; attentiveness; credibility	
Yang et al., (2004)		ease of use; security	Reliability; responsiveness; competence	Product portfolio: variety in product types and quantity; pricing structure
Lee & Lin (2005)		Website design; trust	Reliability; responsiveness; personalization	
Parasuraman et al. (2005)	E-S-QUAL/ E-RecS-QUAL	System availability; privacy	Reliability; Efficiency; responsiveness; contact, compensation	
Bauer et al. (2006)	eTrans-Qual	Functionality; aesthetic design; process enjoyment	Reliability; responsiveness	

Cristobal et al., (2007)	PeSQ	Web design; assurance; order management;	Customer service	
Collier & Bienstock (2006)	Based on shopping process	ease of use; design; information accuracy; functionality	Transaction quality; recovery quality	
Niall (2014)		Website; Trust; information; company image	customer service ease of contact; personalization	product range

Among recognized e-SQ frameworks, E-S-QUAL & E-RecS-QUAL scales developed by Parasuraman et al. (2005) have been one of the most popular methods to measure e-SQ (Niall, 2014). Despite receiving some critics (Ladhari, 2010; Cristobal et al., 2007), E-S-QUAL was validated in different product and service industries such as apparel (Kim & Stoel, 2004; Kim et al., 2006), luxury goods (Turk et al., 2012); and in different countries such as in Greece online consumers (Santouridis et al., 2012). E-S-QUAL contents 4 dimensions: reliability or fulfillment, efficiency, system availability and privacy while E-RecS-QUAL, with a mean as a sub-scale to measure recovery services quality and only apply when customers experience through problems after-sales, adds three quality dimensions to the framework: responsiveness, compensation, and contact. Since service quality is multi-dimensions and subjected to different contexts (Parasuraman et al., 1988), studying e-SQ should also consider its industrial and geographical contexts. For example, in research of online apparel retailing, Kim & Stoel (2004) applied both E-S-QUAL and E-RecS-QUAL scales with modification. They included three new elements to the scales and excluded compensation element to be fit into fashion industry requirement: efficiency, fulfillment, system availability, privacy, responsiveness, contact and personalization, information, graphic style. Similarly, when Turk et al. (2012) used E-S-QUAL framework to study e-SQ in online luxury goods, they rejected “system availability”, “privacy” and “compensation” dimensions as irrelevant elements in luxury fashion context. The e-SQ dimensions were modified to be: efficiency, fulfillment, design, information, contact and responsiveness. Acknowledging the above analyzed problems in E-S-QUAL

and E-RecS-QUAL scales, the author planned to use E-S-QUAL and E-RecS-QUAL to create its unique framework that would suit the study topic of e-commerce luxury fashion industry. At the same time, Turk et al.'s framework (2012) was tested with high validity and reliability, thus later, can be used to compare with the findings in this thesis. Below are the explanation of e-SQ dimensions.

- 1) Fulfillment/Reliability dimension is defined as “the extent to which the site’s promises about order delivery and item availability are fulfilled (Parasuraman et al., 2005). This dimension was emphasized as the most important element in e-SQ from customers’ perspective (Wolfenbarger and Gilly, 2003).
- 2) Efficiency dimension refers to website ease of use, accessibility, loading speed, navigation, and transaction capability (Parasuraman et al., 2005). Customers buy products through online channels because of time saving and convenience, therefore, efficiency in website usage is a critical component in overall website quality (Santos, 2003). No navigation, slow speed, complicated procedure make customers leave the site (Kim et al., 2006).
- 3) System availability dimension addresses “the correct technical functioning of the site” (Parasuraman et al., 2005). Similar to efficiency dimension of the web site, system availability is the tool needed for customers to process online purchase. Poorly system design, for example: missing links, and non-working buttons not only cause frustration but also loose customers’ trust in the e-retailer. (Bregman & Karimov, 2012) Nevertheless, Turk et al. (2012) argued that “system availability” dimension that stands for the utmost basic function required by all e-commerce sites, is not appropriate in addressing e-SQ. Without system availability in place, there is no online search, transaction, payment... With the same reason, the author decided to dismiss this dimension from the study framework.
- 4) Privacy dimension links to “the degree to which the site is safe and protects customer information” (Parasuraman et al., 2005). Throughout the development of e-commerce, privacy issue has always been concerned by customers (Loiacono et al., 2002; Yoo & Donthu, 2001). They worry whether their personal information will be misused by company for other purposes than processing transaction and therefore, resist online channels. Fortunately, online retailers have soon realized the importance of having privacy policy in place, for example a study of e-commerce websites in China

indicated that 100% retailing websites examined, had conducted privacy policy (Zhang et al., 2011). Thus, the author argues that this element shall be removed from the framework.

- 5) Responsiveness dimension in the sub-scale E-RecS-QUAL is defined as “effective handling of problems and returns through the site” (Parasuraman et al., 2005). It means fast and accurate problem solving. Not like in its original definition, responsiveness dimension should be measured throughout the shopping process, not only at the after-sales stage because customers can have problems at any time and they should be able to contact and receive useful supports from online retailers.
- 6) Compensation dimension is defined as “the degree to which the site compensates customers for problems occurred” (Parasuraman et al., 2005). It covers guarantees, refunds of product and shipping costs when customers want to return an undesirable product.
- 7) Contact dimension refers to the availability of different contact methods and contact time (Parasuraman et al., 2005). The more channels customers can directly communicate with online retailer, the less chance of misunderstanding and unsatisfactory for customers can occur. Moreover, since online customers are those lacking of time for physical shopping; in order to enhance convenience, online retailers can consider to operate longer time in customer service beside office hours (for example to provide 24 hours service or at least cover evening time).

### **3.2 Electronic Service Quality in luxury fashion industry**

The literature review generally showed a lack of attention for online luxury research (Liu et al., 2013), especially in field of online luxury services (Broillet et al., 2009). To be more specific, the author only found three studies related to services in luxury e-commerce: Broillet & Dubosson (2008) and Broillet et al. (2009) investigated the needs upon pre- and after-sales services whereas Turk et al. (2012) covered a more comprehensive measurement of e-SQ in online luxury retailing using E-S-QUAL framework. However, luxury services discussed in their studies, were derived directly from normal services with some touches in luxury specialty regardless whether or not services for luxury goods should be dramatically sophisticated comparing to services offered for normal products.

In this thesis, the author attempted to start investigation from the fundamental of luxury to discover distinguishable elements of online services in luxury fashion context.

Luxury, by definition is a phenomenon which “highly influenced by individual perception, and individual definitions depend upon what they value” (Brun & Castelli, 2013). Although luxury is a subjective (Phau & Prendergast, 2000) and perceptual concept (Seringhaus, 2005), luxury brands, in contrast “acquire a concrete and absolute quality through the product or service which presents a promise of performance in return for the trust placed in it” (Seringhaus, 2005). People consume and appreciate luxury goods for a various of specific distinctions that luxury owns, including originality and creativity in product and retail conceptualization, craftsmanship and precision in creation and production, emotional appeal and enhancing image in brand reputation, exclusivity and limitation in access, high quality, premium pricing, and for particular clientele (Dubois et al., 2001; Okonkwo, 2009). Vigneron & Johnson (2004) described “luxury” in words as “Conspicuous; Precious; Best; quality; Stunning; Elitist; Rare; Sophisticated; Leading; Extremely; expensive; Unique; Superior; Very powerful; For the wealthy; Crafted; Exquisite; Rewarding; Very exclusive; Luxurious; Glamorous; Successful” shows a complete picture of luxury world. It can argue that luxury consumers are pursuing for passion rather than for functional reason (Turk et al., 2012). Cornell (2002) also emphasized the psychological benefits as the main element differentiating luxury from non-luxury goods. From a broader view, Wiedmann et al. (2009) identified four different categories of luxury values which are perceived by customers namely: financial value which addresses direct monetary aspects and alternative values to be sacrificed to obtain a luxury product; functional value refers to the core product or service benefits such as quality, uniqueness, usability, reliability and durability; individual value relates to personal belief orientating toward luxury consumption; and finally social value focuses on social recognition acquired by consuming luxury brands (see figure 3.)

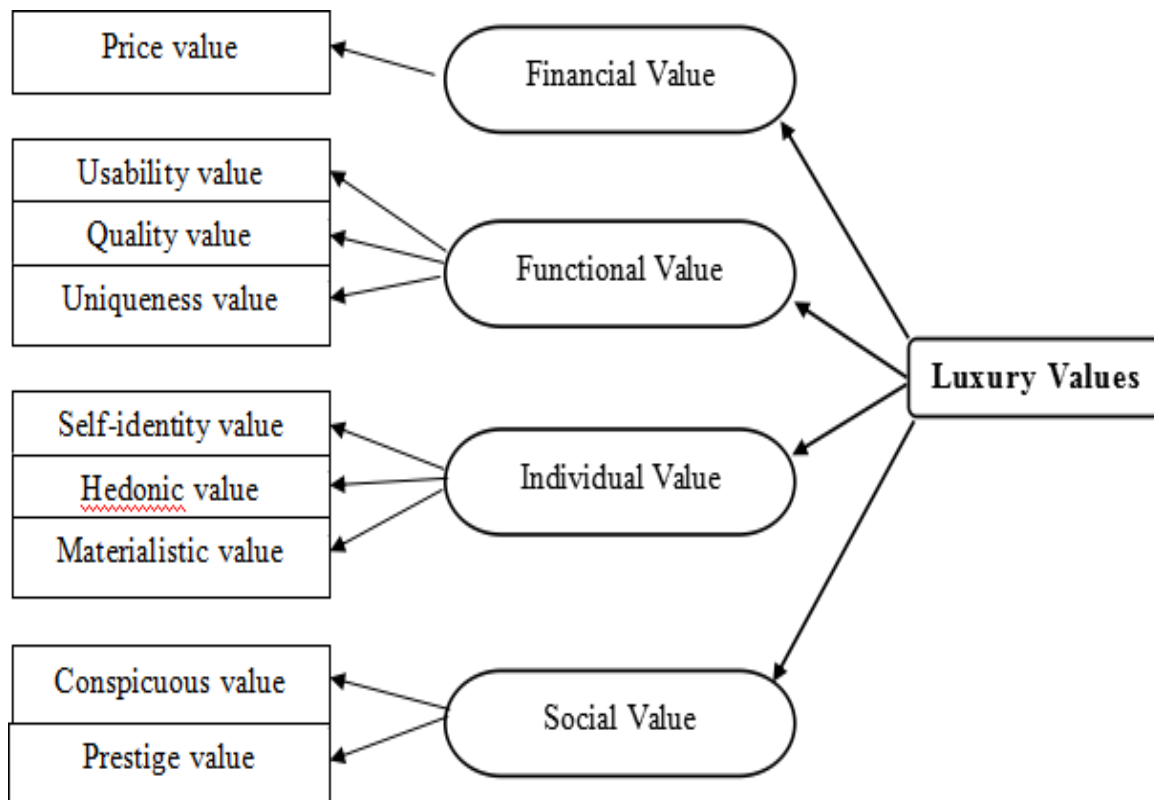


Figure 3: model of customer perceived luxury values (Wiedmann et al., 2009)

The continuing debatable issue about e-commerce of luxury retailing concerns the loss of luxury values over the internet circumstance, for instance: dropping off of premium pricing, losing exclusively access, falling quality, or lessening self-identity. Below discussed the four luxury values in online context.

- 1) Financial value: which is understood as price and product value relationship, should be maintained as it is in offline world (Hennigs et al., 2012). In reality, most online retailers count on lower, discounted prices to attract customers and it seems online customers are keen on seeking better deals when purchasing online, too. Some luxury consumers might only interested in quality, brand image and are willing to pay a full-price for product's value even they are shopping on the internet. Furthermore, price value is also influenced by variety of product (product types and product quantity). What type of product and how to distribute are one of the main questions to be decided by e-retailers (Okonkwo, 2009).
- 2) Functional value: luxury goods are classified as sensory goods which need to be seen, to be touched, to be felt in order to be appreciated (Okonkwo, 2005). In stores, customers can already experience the product's sense of luxury displayed with visuals,

smells and sounds. The experience which is precious for luxury customers, is almost absent when shopping online. Beside product-related functions, the functional value of luxury in an online environment also refers to the usability, quality and uniqueness of the website appearance (Hennigs et al., 2012). Similar to offline store atmosphere concept, website concept and website interface design play an essential role in the overall buying experience (Bauer et al., 2006; Kim et al., 2007). To improve the website quality, Okonkwo (2005) gave some advises to enrich visual design (adding colors, video clips, flash animation); sound design (music); and usability (not only in term of navigation, speed but also in increasing interactivity, and shopping aids such as item suggestion or stylist advice (Kapferer & Bastien, 2009).

- 3) Individual value: luxury consumers experience luxury as a symbolic mean, to give themselves specific identities reflecting the luxury terms of “exclusivity, authenticity, quality, uniqueness, culture...” (Hennigs et al., 2012). Some might feel that anything exhibiting on the internet, will soon become so popular (Riley & Lacroix, 2003). Luxury online retailers must overcome this prejudice, for example, by providing personal customization services, leading new trends, creating new dreams, or forming new types of individual identity which are all unique for the virtual world.
- 4) Social value: concerning social recognition, luxury customers might feel less being appreciated when buying luxury goods online (Riley & Lacroix, 2003). The reason is the lack of non-human interaction on the internet. Take an example, in high-street luxury stores, there are several staffs will take care of a customer from the time (s)he enters the shop until when (s)he leaves. In contract, online shopping means that little or no direct human-contact throughout shopping process. The solution is either customers will be tolerant or e-retailers must increase possibilities of human contact online and offline. Broillet & Dubosson (2008) noticed services in e-commerce luxury as “professional services” and indicated the need of customization and the high intensity of experts in human resource. From the social community perspective, the internet has already established different online social networks, in which Facebook is currently the world most popular online social network whereas in China with the absence of Facebook, Sina Weibo is dominant. It is luxury brand’s responsibility to bring social value to online customers. With good strategy, luxury brands can become a part of consumers’ online identity (Hennigs et al., 2012) and even better, new group of online ambassadors for luxury brands might be created.



Since each luxury brand tries to make itself unique, luxury service standardization is nowhere to be found. As the result, few academic researchers also sought to formalize services offered among luxury brands (Nueno & Quelch, 1998). Nevertheless, customer services, as an important part not only in mainstream retailing generally but in luxury retailing particularly, are expected to be superior (Broillet et al., 2009). It is logical that luxury customers are paying premium prices in return to receive high-class services which are already included in the prices. Therefore, no matter in context of offline store or online environment, when it comes to luxury goods, luxury service quality should fully reflect the luxury values.

Then, there are specific services characterized only for the internet environment such as shipment, online payment, and security (Turk et al., 2012). In the beginning of e-commerce, studies found one of the most concerned issue for customers was security (Salisbury et al., 2001; Pavlou, 2003; Schaupp & Belanger, 2005). However, with the rapid development of e-commerce and advanced technology, security has become mandatory task to be responsible by online retailers (web site operators) while customers less and less take the security level of website to measure service quality (Wolfenbarger & Gily, 2003; Parasuramann et al., 2005). So, security is considered irrelevant in e-SQ measurement. There are also services, due to the internet condition, need to have different strategies comparing to traditional services. Firstly, customers are more conscious about high risks in online shopping, especially for high financial value purchases like luxury goods purchases (Broillet et al.). To reduce customer perceived risks on the internet, retailers need to provide as many product information descriptions as possible, including not only product's sizes, colors, quantity, materials, transaction instruction, payment and delivery information, guarantee, return conditions... but also information about brand origin, company history, and expert's and customers' evaluation about products (Seringhaus, 2005; Broillet et al., 2009; Kim & Stoel, 2004). Secondly, people often think in online business, all service activities are delivered through the internet without the need of having physical services. However, a study showed that except businesses selling digital products or services, in other industries which offering real products, most of customers in one way or another, do have the needs for physical pre- and after-sales services (Broillet et al., 2009). Statistics showed 47% e-commerce luxury customers prefer that e-retailers have physical stores to support them so they can feel less risky by ordering online; more than 50% were

critical about how online retailers provide repair and maintenance services in line with luxury standard (Broillet et al.), thus customers request to have clear complain and compensation policies. Moreover, such particular luxury segments like watch and jewelry always have repair and maintenance services being taken care by in-store retailers. If online retailers do not offer the same services, for long-term convenience, customers will buy products in the stores instead of on the internet.

In summary, services quality in e-commerce luxury goods has significantly different elements from traditional luxury retailing to be considered. They appear in offering product portfolio, providing product information, and designing website appearance, emphasizing customization or personalization and communication, and assuring compensation policy.

### **3.3 Online service process**

Based on the accepted definition about e-SQ, e-SQ is comprised of the pre-purchase, purchase and post-purchase activities involved in the search, selection, purchase transaction and fulfillment of goods or services (Parasuraman et al., 2005), several researchers applied the consecutive online transaction process based framework to measure e-SQ with purpose to capture all aspects of e-SQ (Singh, 2002; Bauer et al., 2006; Collier & Bienstock, 2006). Generally, online shopping process follows similar steps of in-store shopping process (Bauer et al., 2006) except that most of them are conducted through virtual environment instead of physical environment. Chen & Chang (2003) generated a model for online shopping process with three stages: interactivity refers to customers' interaction with web site to find desired products or services; transaction refers to selection and payment activities, and fulfillment refers to delivery and after-sales activities while Bauer et al. (2006) similarly divided the shopping process into four phases: information phase, agreement phase, fulfillment phase, and after-sales phase. Bauer et al.'s (2006) framework is suitable for the purpose of this study.

- 1) Information phase: in this stage, customers use internet to access to web sites and search for information about products and/or services offered. Website appearance, information completeness (of both product and online retailer), products and prices are primary aspects to be considered by customer (Bauer et al., 2006). Due to the

dramatic expansion of e-commerce, with a click, customers can switch to other competitor sites if the web site does not meet their expectations and needs. Hence, online providers need to create good impression at this phase to cope with the extreme competitive conditions on the internet. Zeithaml et al. (2002) suggested that website designed with entertainment features can provoke customers' extrinsic value for fun.

- 2) Agreement phase: this phase cover selection of products and/or services. Online retailers need to ensure customers are well informed about all information related to product guarantee, purchase, payment methods, delivery, return and exchange policy, security and privacy policy. In this stage, customers often have questions and problems, therefore, it is necessary to prepare a comprehensive support system to quickly response to customers' inquiry (Bauer et al., 2006).
- 3) Fulfillment phase refers to delivery of products or services upon completing payment (Bauer et al., 2006). In this phase, quality perception depends on how easy and quick customer is able to make payment (Parasuraman et al., 2005; Wolfinbarger & Gilly, 2003) mostly through online payment system. In few cases like in China, customers can choose cash-to-delivery service in which they can pay when products are delivered to them. Overall, a smooth, non-hassle process will prevent customers' resistance against buying decision while relevant support services like order confirmation, delivery tracking increase customers' trust and satisfaction.
- 4) Post- purchase phase primary refers to provide solutions in response of complaining, return and exchange issues if occurred (Parasuraman et al., 2005), but in most case should address customer care services (Bauer et al., 2006) which help online retailer build long-term relationship beyond a single completed transaction. Customer relationship management is very crucial, especially in luxury industry (Schwedt, 2012; Cailleux et al., 2008). Traditionally, luxury brands tend to know every customer by name, thus help build mostly personal relationships with customers. Moving to the mass internet world, this strategy can be difficult in practice. Nonetheless, thanks to intelligent technology development, online retailers can collect and manage customers' information in a systematic manner (Nueno & Quelch, 1998). Online retailers can customize informing messages about new products, special offers, suggestions of products or services which are suitable for each customer. On the other hand, many online retailers currently take initiative in creating new, innovative services such as sending birthday gifts; organizing online and offline social events for exclusive group

of customers.

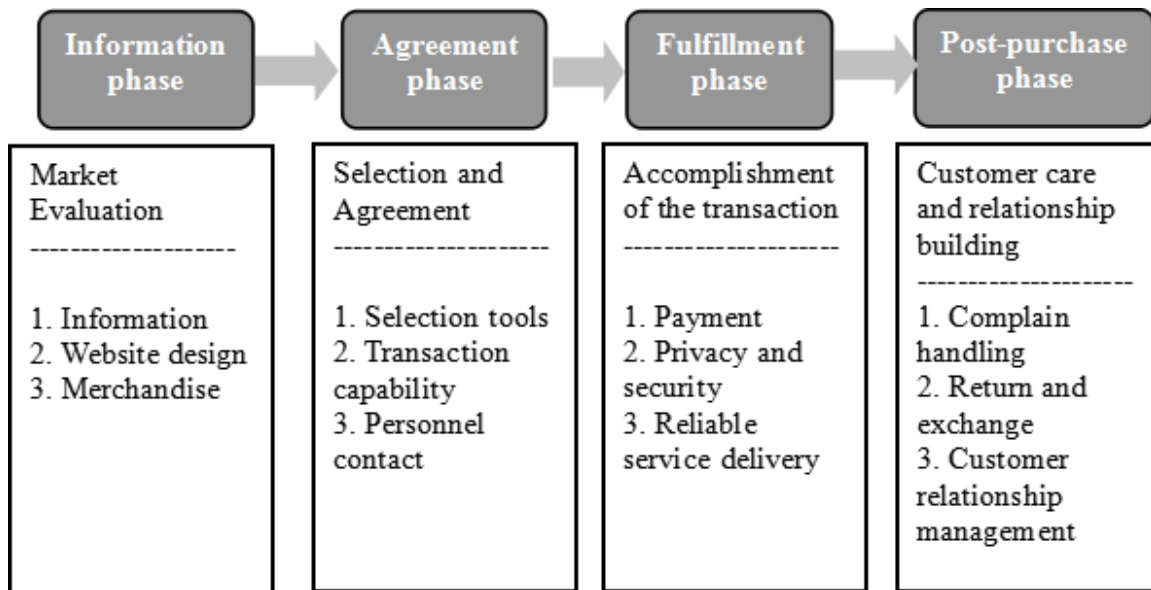
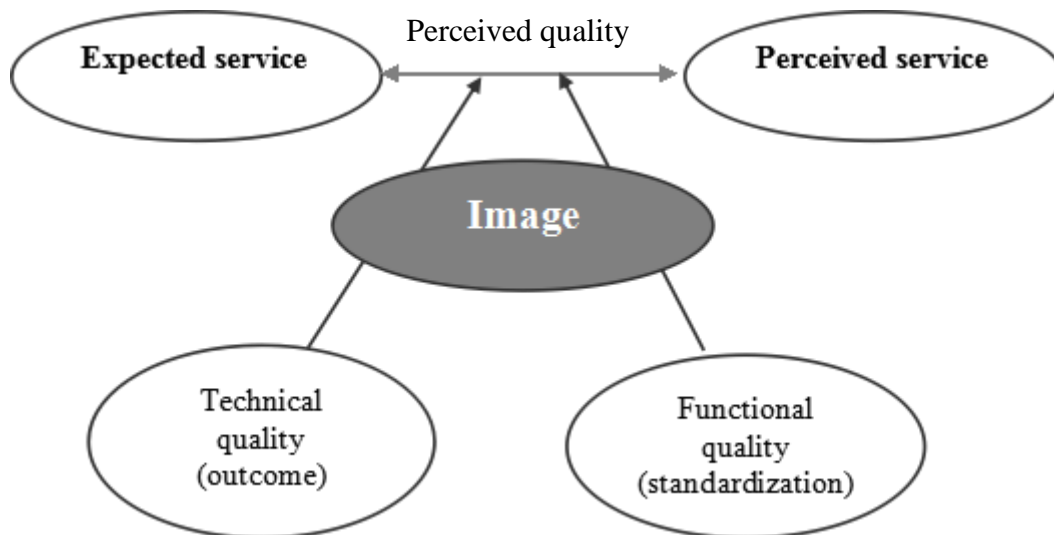


Figure 4: Quality elements of online purchasing process (Bauer et al., 2006)

### 3.4 Customer perception of service quality

Customer's perception of service quality links directly to customers' expectation of service quality and customers' received of service experiences (Gronroos, 1984). Gronroos (1984) identified two types of service quality dimensions which are: functional quality and technical quality. Functional quality represents how the standard service should be delivered and often is acknowledged by customers before service delivery processed. Technical quality, on the other hand, reflects the customers' perceived quality of actual outcome during service delivery processed. Both of them are equally important to establish an image for customer perception of quality. (See figure 5.)



*Figure 5: Customer perception of service quality model (Gronroos, 1984)*

Service quality perceptions are multilevel and multidimensional (Dabhoikar et al., 2000). Customers' desires or expectations in service might be subjected by customers' specific characteristics, for example in e-commerce might be technology readiness levels differentiate among ages, geographies, genders, incomes... (Parasuraman et al., 2005). Finally, in the pool of total service quality, customer perception of different quality attributes are not the same, in another words, customers might consider one quality weighted more important than the others (Kano et al., 1984).

## 4 THESIS FRAMEWORK

### 4.1 Luxury fashion e-SQ dimensions

Base on E-S-QUAL and E-RecS-QUAL scales (Parasuraman et al., 2005) and previous discussion about luxury values in e-commerce environment that e-SQ should reflect the luxury values, the author identified 10 e-SQ dimensions to be applied in luxury fashion online retailing context including five E-S-QUAL and E-RecS-QUAL dimensions- fulfillment, efficiency, responsiveness, contact, compensation-, and five luxury fashion integrated dimensions- product portfolio (Madu & Madu, 2002; Yang 2004; Niall, 2014), information (Kim et al., 2006; Turk et al., 2012), web site design (Okonkwo, 2009; Turk et al., 2012); personalization/ customization, and social community. Later in this study, the scale to be named Luxury E-S-QUAL dimensions for convenience.

- 1) Fulfillment represents degree of delivery reliability and will be examined by the speed and accuracy of product delivery, alternative delivery methods, scope of delivery- nationwide or worldwide, online delivery tracking.
- 2) Efficiency measures how the usability of technology system can enhance shopping process experience. Technology advancement throughout e-commerce includes but not limited to: advanced search engines, high loading speed, comparison shopping, intelligent suggestions, site map, site navigation, express check-out, alternative order methods, and alternative payment methods.
- 3) Responsiveness refers to degree of fastness and accuracy in response to customers' inquiries not only in the after-sales phase (Parasuraman et al., 2005) but at any time. It shows in service contact operation time, customers' waiting time limitation.
- 4) Contact measures by the ability to reach support staffs by different channels such as phone line, live chat, email, message box, instant help library, and in-store visit. It also mentions staffs' professionalism as well as attitude of empathy, and friendliness.
- 5) Compensation covers having published guarantee policy, return and exchange policy.
- 6) Product portfolio refers to the degree of product type variation and availability in stock; pricing strategy- full-prices, discounts, or auction

- 7) Information is divided to online retailer or company information which is commercial type of information such as company history, founder, investment information, contact...; and product information which means non-commercial type of information. Having full company information can increase customers' trust (Broillet et al.)
- 8) Web site design analyzes the concept and graphic style showing the degree of functionality, impression and entertainment. Sensation enhancement, though has not yet been recognized, probably due to technology barrier, was believed to increasingly play an important role in overall service quality (Janda et al., 2002). Some online retailers already adopted new technology innovation such as 3-D images, live try-on (Okonkwo, 2009)
- 9) Personalization is the degree of customization to increase recognition for customers. Personalization displays through personal advise service, customized newsletter, showing recognition, gift related services (wrapping, card, delivery) (Walley et al., 2013).
- 10) Community examines the degree of social participation by having sharing feature, online bulletin board, chat room, combination of online and offline community.

## **4.2 Integrated framework**

Measuring e-SQ based on purchasing process comprehensively covers all aspects of e-SQ (Bauer et al., 2006). When applying the above 10 luxury fashion dimensions in the purchasing procedure, the author found many similarities (see figure 6.). Moreover, it was discovered that some of dimensions should be spread on more than one stage of the shopping process. For example: efficiency dimension effects in both agreement phase (selection tools, transaction capability) and fulfillment phase (payment); contact and responsiveness dimensions, as discussed above, are not only presented in after-sales stage but throughout the shopping process. Therefore, to make it easy to track the dimensions and later, to design a survey questionnaire, the author decided to transfer the Luxury E-S-QUAL scale into Process-based e-SQ elements (see figure 6.) while ensuring the definition of the Luxury E-S-QUAL dimensions to be remained and fully integrated in 9 elements measured in purchasing process.

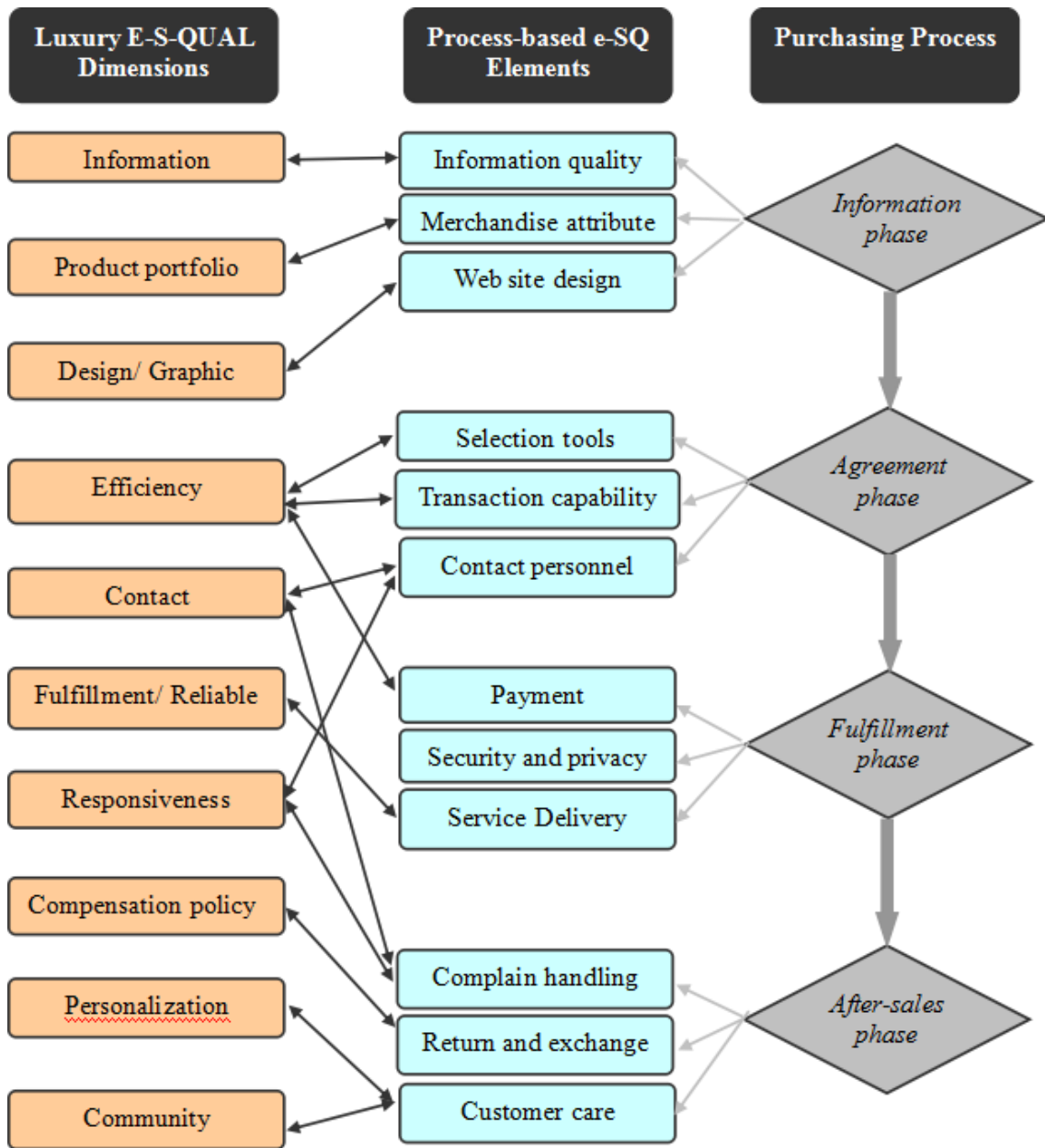


Figure 6: Integrated luxury e-SQ framework based on purchasing process



## 5 METHODOLOGY

This chapter first introduces the Attractive theory of quality including its concept, methods, its advantages and disadvantages, as the thesis's study method to examine the importance level of different service attribute quality from customers' views. After that, the author will explain how the thesis's procedure is organized step by step: the first stage is desktop research of luxury e-commerce web sites in China; and the second stage is the planning, distributing and analyzing of a customer survey.

### 5.1 Attractive theory of quality

Attractive theory of Quality was first introduced by Kano et al., 1984 and has been one of the most popular quality models to classification of quality attributes among researchers and practitioners in marketing and management (Lofgren & Witell, 2005; Lee et al., 2011). The Kano's model is used to evaluate patterns of quality based on customers' satisfaction. The theory explains how the relationship between the degree of sufficiency and customer satisfaction with different kinds of attributes to be different. According to Attractive Theory of Quality (Kano et al., 1984), the impact of a particular product or service attribute-quality is no longer to be viewed as linear line (Kano et al., 1984) but in curve shapes (see figure). Depending on the nature of the relationship, product and service attributes can be classified into five categories of perceived quality: "must-be quality (M)", "one-dimensional quality (O)", "and attractive quality (A)", "indifferent quality (I)" and "reverse quality (R)". A "must-be" attribute is a basic, standard service required by all customers. If the "must-be" attribute is not fulfilled, customers will be dissatisfied. However, because the attribute is so obvious to customers, it is not appreciated. A "one-dimensional" attribute creates satisfaction if fulfilled, and dissatisfaction when not fulfilled. "One-dimensional" attributes are taken as competitive advantages for companies. On the other hand, "Attractive" attribute is described as surprise and delighted services for customers, something they do not expect to receive. Thus, these attributes enhance satisfaction when fulfilled but do not post negative effects if not available. Most successful companies tend to do well in predicting those unconscious needs of customers. "Attractive" quality has a high relation to degree of customers' loyalty (Nilsson & Fundin, 2005). "Indifferent" attribute means this attribute has no influence in customers' satisfaction

whether it is provided or not. The fifth category, “Reverse” attribute, in contract expresses an undesirable element which reduce customers’ satisfaction if presented.

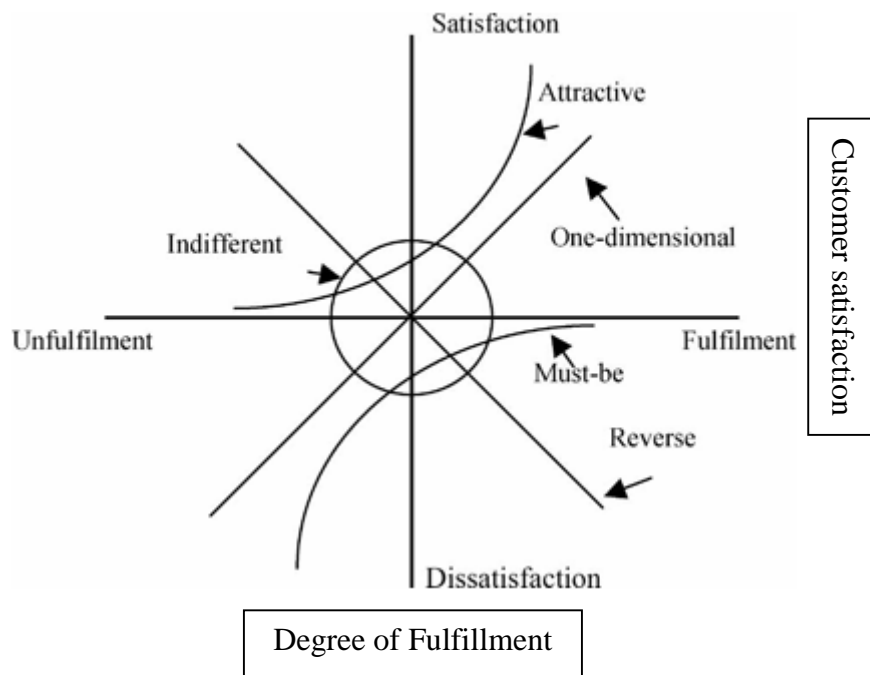


Figure 7: Overview of the Theory of Attractive Quality (Lofgren & Witell, 2008)

The traditional classification method of quality attribute suggested by Kano et al. (1984), used a questionnaire consist of functional and dysfunctional question for each attribute. First, customers were asked how they would feel if a particular attribute were presented or fulfilled, then they were asked how they would feel if that attribute were not present or fulfilled. Then, it used Kano’s evaluation table to combine the two answers into defined category (see figure 8.). The most common approach to determine the result is the frequency distribution for each attribute. The highest frequency represents the dominant customers’ view.

If the company offers 24 hours live support service, how do you feel?  (Customer requirement - Functional form)	<input checked="" type="checkbox"/> 1. I like it that way
	<input type="checkbox"/> 2. It must be that way
	<input type="checkbox"/> 3. I am neutral
	<input type="checkbox"/> 4. I feel it helpless that way
	<input type="checkbox"/> 5. I dislike it that way

If the company does not offer 24 hours live support service, how do you feel?  (Dysfunctional form)	<input type="checkbox"/> 1. I like it that way
	<input type="checkbox"/> 2. It must be that way
	<input checked="" type="checkbox"/> 3. I am neutral
	<input type="checkbox"/> 4. I feel it helpless that way
	<input type="checkbox"/> 5. I dislike it that way

Customer requirement		Dysfunctional				
		Like	Must be	Neutral	Helpless	Dislike
Functional	<b>Like</b>	Q	Q	<b>A</b>	A	O
	<b>Must be</b>	Q	Q	I	I	M
	<b>Neutral</b>	R	R	I	I	M
	<b>Helpless</b>	R	R	R	Q	Q
	<b>Dislike</b>	R	R	R	Q	Q

Customer requirement	M	O	A	I	R	Q	Total	Grade
1.			1				1	1

Figure 8: Kano's methodology: pair questionnaire, evaluation table, and tabulating result table

Kano's methods has been widely applied in numerous studies within service management such as banking service, tourism service, health care service, supermarket, e-service, web pages (Lofgren & Witell, 2008). The Kano's concept and model has proved to help managers to understand customers' needs; to re-define quality patterns (Matzler & Hinterhuber, 1998); to prioritize important issues; and to correct wrong, unwritten ideal that 'no complain from customers' meant 'customer satisfaction' (Joiner, 1996).

Bergen et al. (1993) summarized the classification methodologies for assigning quality attributes into appropriate categories as Kano et al. 1984 suggested. Although researchers and practitioners are in agreement regarding the rationale of the Kano method in logical assessment of customer feelings for a particular product/service attribute, they still debate to find different classification methods (Brandt, 1988; Yang, 2005; Witell & Lofgren, 2007; Lin et al., 2010). General speaking, the classification methods can be divided into two groups (Lofgren & Witell, 2008): firstly, Dual evaluation methods which mostly comprise of modified traditional Kano pair questionnaire methods in term of question wording or number of categories classification. The wording of the alternatives from which customers can select to answer the pair questions was mixed in most studies (Lofgren & Witell, 2008). For example, Matzler et al. (1996) changed ‘Helpless’ into ‘Can live with’ (see figure 9.). Bergen et al. (1993) suggested to change “it must be that way” to “I expect it that way” and “helpless” to “I can accept it” (see figure 10.). Kano (2001) and Chen & Lee, (2009) suggested to reduce the five answer options to three options which then decreased the number of classified categories from 25 to 9. The second method group is applied statistics technical methods such as Dual Importance Mapping (DIM), Penalty Reward Contract Analysis (PRCA), Importance-performance Grid (IG), regression model (Lin et al., 2010)... These statistical methods aimed to eliminate long and complex questionnaires, but beard some technical limitations (Mikulic & Prebezac, 2011). Overall, most recent researches compared the existing methods, concluded that the traditional questionnaire method by far was the most common approach (Lofgren & Witell, 2008.) and was still the most reliable one for the classification of quality attributes according to Kano’s Attractive Theory of Quality (Mikuli & Prebežac, 2011).

Customer requirement		Dysfunctional				
		Like	Must be	Neutral	Can live with	Dislike
Functional	<b>Like</b>	Q	A	A	A	O
	<b>Must be</b>	R	I	I	I	M
	<b>Neutral</b>	R	I	I	I	M

	<b>Can live with</b>	R	I	I	I	M
	<b>Dislike</b>	R	R	R	R	Q

Figure 9: Matzlers' evaluation table (Chen & Lee, 2009)

Customer requirement		Dysfunctional				
		<b>Like</b>	<b>Expect</b>	<b>Neutral</b>	<b>Accept</b>	<b>Dislike</b>
Functional	<b>Like</b>	Q	A	A	A	O
	<b>Expect</b>	R	(I) Q	I	I	M
	<b>Neutral</b>	R	I	I	I	M
	<b>Accept</b>	R	I	I	(I) Q	M
	<b>Dislike</b>	R	R	R	R	Q

Figure 10: Berger et al.'s evaluation table (Berger et al. 1993)

## 5.2 Study approach

Since this study aims to explore customers' perception on the level of importance of different service attributes offered in luxury goods web sites, the Kano's Attractive theory of Quality is chosen because it is the most suitable method for quality attribute classification so far the author can exploit. This study examined the following issues:

1. How different in service offering between web sites selling commodity goods and web sites selling luxury fashion products, between local retailers and foreign retailers.
2. How these different services are classified according to level of importance from customers' viewpoints.

This thesis, therefore was divided in two stages. The first stage was an empirical study of 11 web sites. The second stage was assigned to a customer survey using Kano's Attractive theory of Quality.

### **5.2.1 Web sites analysis**

The method for data collection used a similar approach from Zhang et al.'s (2010) study of Chinese apparel websites' quality. The analysis was conducted following 11 service quality dimensions identified in the Luxury E-S-QUAL framework. As mentioned in the literature review, online retailers selling luxury goods in China are operated differently: luxury premium websites, luxury outlet websites, flash-sale stores, or combination of all. On the other hand, by nations, not only Chinese companies, but also foreign companies have entered the Chinese luxury e-commerce market. To reflect the dynamic players in current Chinese market, a list of 6 popular local luxury goods retailers, 3 luxury web sites based outside China, and 2 local mainstream good websites were taken to study. Among them, 3 web sites claimed to be premium luxury providers while other sites fell into luxury outlet or discount category. The web sites were found from Baidu.com search engine using appropriate search words in Chinese.

### **5.2.2 Kano's survey**

#### **Survey design**

The customer survey was designed in English by the author and then translated into Chinese language by a Native. According to Bergen et al. (1993), when applying Kano's methodology, how the questions are worded is critical. In an empirical study of packaging, Lofgren & Witell (2005) proved that using different evaluation tables (such as Kano et al., 1984; Bergen et al., 1993; Matzler et al., 1996) had a minor impact on the overall classification of quality attributes. Considering fitness in Chinese translated version of Kano's questionnaire method, the Bergen et al.'s version (1993) seemed to be the closest version, thus was adopted in the survey (see figure 10).

The survey focused on examining service attributes that possessed one or some exceptional features resulting from luxury goods' characteristics. Ideals for questionnaires derived from the comparison table of 11 web sites which identified services or elements of service offered uniquely either from luxury goods web sites or from normal web sites; from local providers or from foreign providers. Acknowledging one obvious weakness in Kano's method which is long and complex, during the design process, the author was

consulting a manager from a luxury website to select meaningful attributes, clarify questions' situations to minimize imagination. Mikuli & Prebežac (2011) criticized that customers might have different reactions between when asked about the presence or absence of a service and when asked about the degree of performance of a service. For example, if the first case gives a question "what do you feel if company provides/ does not provide online chat service?", customers might response with more positive attitude; and the second case gives a question "what do you feel if company provides/ does not provide good online chat service?", they might show more personal bias feelings. Hence, Kano's method can produce incorrect classification result about the attribute. In response to that issue, all attributes in the survey were described in term of presence or not presence, not in term of their degree of performance either good service or bad service. The questionnaire was divided into three parts: the first part was introduction about the purpose and instruction of the survey, the second part was the background which related to gender, age, income, online shopping interest and experience. These questions can be used to determine how different segments respond and whether there are any differences in individual or combined segment answers. The third section was Kano's pair questions. They were arranged following the shopping process- search information and alternatives evaluation stage, purchase stage, after - purchase stage, so that in one hand, respondents will have a good picture of the survey structure and concentrate on how they will feel as they walk through the whole process. On the other hand, the approach also comprehensively covers the most important aspects of the web sites (Bekker, 2003). Finally, in order to make sure the survey is accessible and understandable, the survey, then was tested by 7 native Chinese who are students, office workers, males and females.

### **Respondents' collection**

General speaking, majority of luxury consumers have not been familiar with online shopping for luxury goods, especially for Chinese customers who have high perception of risk online (Lu, 2008). Thus, unless one can get access to company's customer database, it is difficult to gather information from only customers who already had experience with purchasing luxury goods on the Internet. Fortunately, Kano's method allows to test with people regardless their previous experience with the tested product/service (Mikuli & Prebežac, 2011). When customers or their expectation are unclear about a product or service quality, measuring what is important to customers proves to be more meaningful

(O'Neill et al., 2001; Niall, 2014). It supports the author's choice of using Kano's method in this study. Therefore, this survey can be distributed to random Chinese customers without concerning their previous experience with luxury online shopping. However, the author also acknowledged online luxury consumer segments are identical, for example: the demographics skew toward younger adults with stable and high incomes, have in the past purchased goods on the Internet or have some interests of luxury goods... Therefore, the strategy was to focus on high and middle-class groups, young, white-collar workers. Besides sending the survey through social and professional networks using snow ball method, also called chain referrer sampling (Biernacki & Waldorf, 1981), the survey was mainly distributed in high-end shopping malls around Shanghai city. Most of the targeted audiences are young, who went shopping and asked if they had time to participate in a survey concerning services in online shopping. Upon giving the survey, the guests were also asked if they had online shopping experience before and if they recognized any familiar luxury web sites. In case they did not have any previous online shopping experience, we did not count their opinions. Due to time consuming, this tactic was carried in total 3 times in Xuijahui shopping center, Factory Outlet, and Mega Mills.

### **Result analysis**

The most common method to generate result is to look at frequency distribution of each attribute and the highest frequency interprets the dominant customers' view. In order to acquire better insight understanding from the result, a combination of different methods should be used (Bergen et al., 1993). Extremely detailed situations can increase the "noise level" to a point where requirement attributes are judged as Indifferent. For example, if there are 20 answers classifying an attribute as "must-be", 19 answers as "one-dimensional", 18 answers as "attractive", 21 answers as "indifferent", and 2 answers as "reverse", and 1 answer as "questionable", then the frequency distribution rule will assign this attribute as "Indifferent". This classification necklaces the fact that 57 respondents, accounting for 70% of total responses, rated that attribute as one way or another different than "Indifferent" category (Bergen et al., 1993). One way to avoid "the noise" was suggested by Kano, 1993 (cited in Bergen et al., 1993) to take into account quality categories as groups of (Must-be + Attractive + One-dimensional) and (Indifferent + Reverse + Questionable). If (Must-be + Attractive + One-dimensional) > (Indifferent + Reverse + Questionable), then choose the maximum frequency distribution among (Must-be, One-



dimensional, and Attractive). In opposite case, then choose the maximum among (Indifferent, Reverse, and Questionable). On the other hand, some blurring situations where degree of “must-be” and “one-dimensional” and “attractive” are close to each other. An attribute with 20 responses as “must-be”; 10 responses as “one-dimensional” and 2 responses as “attractive” should not be treated the same as an attribute with 20 responses as “must-be”; 2 responses as “one dimensional” and 10 responses as “attractive” (Bergen et al., 1993). Obviously, the first mentioned attribute should be seen more important than the later one. Therefore, if there are several attributes located in the same category, one can assess the importance of different attributes by using importance scaling method or consider also the second most frequent response of the evaluated attributes (Bergen et al., 1993). An attribute, sometime cannot be significantly categorize to one quality dimension because this attribute has the most and second most assigned frequencies close to each other. A Z-test of proportions difference was conducted for each attribute to determine whether its classification is significant or randomly by chance. Those attributes with insignificant results will be assigned under a combination label (Bergen et al., 1993). In such case, it is possible to calculate averages of customer satisfaction for better and worse cases of each attribute. A better-worse diagram indicates how much customer’s satisfaction can be raised in case of fulfilling a certain requirement- for better; and how much customer’s disappointment can be prevented also by fulfilling the requirement- for worse (Berger et al., 1993). It is surely better to fulfill a customer requirement in case this requirement provides higher chance to increase customer’s satisfaction. But it must, even more urgent, to fulfill those customer requirements which can prevent the result of greater disappointment. This measure aid improved Kano’s traditional diagram and categories from pure qualitative assessment method to an extent of quantitative assessment (Bergen et al., 1993). In practice, it also has proved to be useful in better communicating and understanding the results of quality attributes classification in Kano’s method. (Lofgren & Witell, 2008.)

Based on the above consideration, the result of the survey will be treated as follow: Firstly, each customer service will be classified into five categories: “Must-be”, “one-dimension”, “attractive”, “indifferent”, and “reverse” (exception of “combine” only when applicable) by using the above group grading method and the Z-test results. The constructed category table will be ranked by their importance. Rule to be applied is:  $M > O$

> A > I. If the Z-test shows any value to be insignificant, both two potential Kano's values of that attribute will be presented: the most frequent response and the 2nd most frequent response. Secondly, we will calculate the "better-worse" values following the formula below:

$$\text{Better} = \frac{A+O}{A+O+M+I} ; \text{Worse} = \frac{O+M}{A+O+M+I}$$

The "better-worse" result will be presented in a chart for comparison. The "better-worse" chart aims at finding patterns for luxury e-commerce in specific China market if there is any, for example typical luxury services along shopping process. Finally, in analysis, the author will also compare results with previous studies.

## 6 RESEARCH RESULTS

This section described the main results in the study. The first part analyzed service offerings in 9 different luxury goods e-retailers and 2 commodity goods e-retailers in China, in focus of the commons and differences between luxury web sites and normal web sites, between local web sites and foreign web sites. Then, the second part showed the results collected from the customer survey.

### 6.1 Web sites analysis

A total 11 e-commerce web sites were under study in which two web sites were commodity goods sites - Jingdong.com and Tmall.com; six web sites belonged to local luxury goods retailers- SECOO, Shangpin, Glamoursales, Meici, 5lux, and Vipshop; and the last three web sites were foreign luxury goods providers- Net-a-porter, Thecorner, and Yoox. Eleven service quality dimensions identified in the Luxury E-S-QUAL framework were used to analyze the websites. Each dimension will be discussed below.

- **Information Quality:** All web sites studied had company introduction section where highlighted company's milestone, founder, investment relations, and contact information. About the product information, however, there were big differences. Normal sites tended to provide general information of a product category, but not specific information of one product. It meant they usually copied and duplicated a good set of information for similar products from the same brands. In contrast, luxury product introduced in luxury web sites, was separately displayed with its specific information about its origin, designer, brand information, product's materials, design, sizes, colors, and prices with real 2-D pictures. Two-third of studied web sites were considered "to provide full information" because they had specific product measurement guide and instruction care while others had only common selection guides for all products. One local web site even suggested expert's comments for products. "Mix-match" feature which advised different fashion style choices, were common in all foreign sites but still absented in local sites: only one local web site had this feature though poor selections. While providing excellent product descriptions, luxury web sites still hesitated to allow open communication channels such as customer's comment or chat room. These features were unarguable available in all normal sites.

- **Merchandise attributes:** practically, commodity retailers often wanted to diversify their product categories in order to serve wider audiences. Though some luxury retailers insisted to stay purely in the niche luxury area, more than half of luxury web sites sold mix of both big brands and unknown brands. As a common thoughts on the internet, the cheaper was the better, it was expected to see all sites, even the ones claimed to be premium luxury web sites, offered discounts, sales-off to attract customers. Many web sites applied scarcity strategy to stimulate customer demands.

- **Web site design:** in a glance, all web sites were simple and easy-to-use with search function, navigation, mobile phone application- with exception of 2 foreign web sites did not have mobile phone apps, as well as other standard features in an online e-commerce platform. Web site design concepts were not evaluated because the author assumed that ideal of standard of beauty was too difficult to access. Entertainment elements were noticed in all luxury sites in different types such as e-fashion magazine, lottery... to show that luxury companies paid special attention to enhance customers' shopping experiences. Although music effect was found to be positive on customer's attitude toward a web site in Kim & Lennon's research (2012), web sites with music seemed not to be popular yet. Evidently, all web sites studied did not apply music in the backgrounds.

- **Selection tools:** with a great effort to provide the most convenient tools for shoppers, all web sites observed to have shopping cart, express check-out, and flexibility in ordering. It observed there was not much difference among web sites.

- **Transaction capability:** besides ordering product via the Internet, Chinese online retailers also offer local customers ability to order directly via phone. Customers having difficulty with online transaction process can call help center to order products with product reference numbers. Customers who were lack of technology knowledge might feel safe and please to use phone order service. On the other hand, foreign companies needed to catch up with local suppliers since currently none of them provided such services. Nonetheless, all web sites indicated advance, practical transaction security execution as expected.

- **Contact:** with significant advantages, the local retailers had better service concerning customer contact methods. For instance: the local web sites provided more contact lines to customers via email, message, phone, live chat in a local system called QQ, or Wechat

and face-to-face channels while customers can only contact the foreign retailers through email or phone. Only one foreign company was found to be operated its phone contact service 24 hours/7 days to resolve the time zone differences. None of local companies reached this service level.

- **Payment:** local retailers were found having no problem when cooperating with local banks, therefore, they could easily provide different payment methods for shoppers including credit cards, bank transfer, Alipay or cash-to-delivery method – a method in which customer only needs to pay by the time receiving product. The foreign studied companies, on the other hand, were not fully adapted into Chinese market. They had fewer options for payment such as by Credit cards, Visa cards.

- **Service delivery:** all web sites had online tracking feature, delivery insurance, and flexible delivery time. Foreign companies competed with local companies by offering express delivery services, namely DHL, FedEx but the downside was high expenses on customers themselves. Local companies could offer free delivery if customer's purchase value was high. Furthermore, one local company conducted a trial service innovation which allowed customers to try-on product right after receiving it while the deliverer will wait for them a half an hour. It was not clear how the trial went.

- **Complain handling:** normal web sites studied all had separated hot-line to handle customers' complains more effectively, perhaps because they had really big number of customers and thus, often receive unsatisfied comments from them. Only 2 luxury web sites accounting for 22%, offered the same service. However, it is arguable that if the number of complaining cases are small and all service staffs can be well-trained to handle whatever situation might come, there is no need for company to separate the customer service lines. At the same time, having many contact lines might also confuse customers.

- **Return and exchange:** to increase customers' trust in online shopping, a guarantee for free return and exchange product is common in practice. In this study, comprehensive policies were noticed to be available in both commodity sites and luxury sites. However, when the author attempted to examine how easy the return and exchange process was in each company, it found that only 2 foreign sites tried to ease the hassle by including pre-paid return stamp and return instruction inside its delivery box. Other companies required customers to pay return delivery fees if product was sent back not by seller's faults.

- **Customer care service:** was seen as a distinguished element to classify high-end services to normal services. Luxury companies focused on giving customers customized services to increase luxury values of products such as providing maintenance and repair services, offering personal fashion advisers, sending birthday gifts, having VIP club – which stands for “Very Important Person”- to appreciate loyal customers. It was marked that firstly, foreign companies valued customers’ privacy- unlike local sites, foreign sites allowed customers to make changes in newsletter or advertisement subscription and tried to reduce spams information. Secondly, while local companies valued customers’ recognition, foreign companies did not. None of foreign sites had member club or membership reward system.

Table 4: Services in Luxury e-commerce web sites comparison

<b>Dimensions</b>	<b>Indicators</b>	<b>Normal sites (2)</b>	<b>Local luxury sites (6)</b>	<b>Foreign luxury sites (3)</b>
1. Information quality: company information and product information (quality and quantity)	Provide full information about company	Yes	Yes	Yes
	Provide full information for each product	No	3Yes, 3No	Yes
	Products are displayed in high-tech	No	No	1Yes; 2No
	Offer mix-match suggestion	No	1Yes, 5No	Yes
	Able to give comment on a product	Yes	3Yes, 3No	No
	Expert’s evaluation for a product	No	No	1Yes, 2No
	Provide online chat room	Yes	No	No

2. Merchandise attributes: product variety (variety of categories and quantity in stock); pricing	Offer mix of luxury and normal brands	Yes	4Yes, 2No	1Yes, 2No
	Offer discounts, and lower prices comparing to original prices	No (only in special times)	Yes	Yes
3. Website design: impression, efficiency and fun	Offers mobile phone application	Yes	Yes	1Yes, 2No
	Design with music, video on background	No	No	No
	Offer fashion magazines, entertainment programs	No	Yes	Yes
4. Selection tools: convenience, ease-to-use	Able to cancel or change a purchase after payment	Yes	Yes	Yes
	Able to save favor products, to compare products, to review purchases.	Yes	Yes	Yes
	Offer express-check-out	Yes	Yes	Yes
5. Transaction capability	Able to make order by phone	No	Yes	No
6. Contact: responsiveness	Offer immediate, direct customer support	Yes	Yes	1Yes, 2No
	Offer 24 hours contact service	No	No	1Yes, 2No
7. Payment	Offer different payment methods with local bank operators	Yes	Yes	No

8. Service Delivery	Able to choose time when to receipt product	Yes	Yes	Yes
	Able to try-on product when delivery	No	1Yes, 5No	No
	Offer online tracking	Yes	Yes	Yes
	Offer goods insurance during delivery	Yes	Yes	Yes
9. Complain handling	Offer separated hot-line for customers' complains	Yes	2Yes, 4No	No
10. Return and exchange	Able to return and exchange product without reasons	Yes	Yes	Yes
	Hassle-free delivery when return product	No	No	2Yes, 1No
11. Customer care	Provide maintenance and repair services for shoes, bag, jewelry	No	5Yes, 1No	No
	Able to change subscription of newsletter or advertisement	No	No	Yes
	Offer personal fashion advises	No	4Yes, 2No	2Yes, 1No
	Give birthday gift	Yes	Yes	No
	Offer gift services	No	Yes	Yes
	Offer VIP club	Yes	Yes	No
	Offer VIP special offline events	No	2Yes, 4No	No



## 6.2 Kano's survey results

### 6.2.1 Respondents' profiling

The survey collected in total 102 responds in which 76 responds were collected offline using paper survey and 26 responds were collected online through Webropol. There were 5 respondents without online shopping experiences, thus they were excluded in the final result. Of 97 valid answers, 59 were female which accounted for 61% and 38 were male, made up 39%. 94% respondents were from 18 years old to 35 years old as expected while 4% in between 36-45 years old range and 2% over 45 years old. Their monthly income were vary: the group of 15% having under 3000 RMB per month was considered unable to buy luxury goods; 37% were making above 3000 RMB and under 6000 RMB monthly which still could not be the luxury buyers. In China, a person who has an income over 6000 RMB per month, is regarded as middle and higher classes (KPMG, 2013) and is potentially a luxury consumer. In this survey, 38% belonged to middle-class with monthly income of 6000 RMB - 9999 RMB and 10% making more than 10000 RMB every month, belonged to high class.

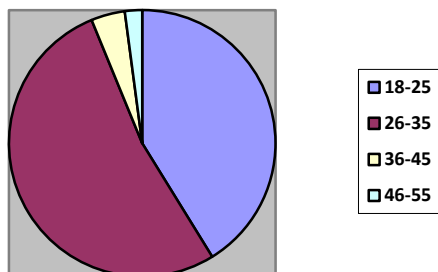


Figure 11: Sample by age

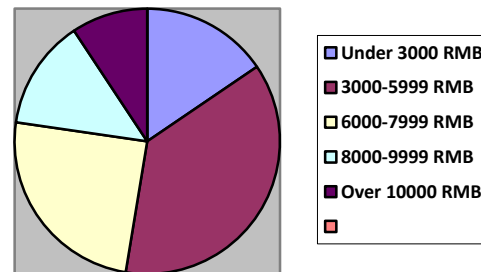


Figure 12: Sample by income

### 6.2.2 Result analysis

The results of Kano's survey are presented in the table below. It can be seen from statistical Z-test for proportion differences, with assumption for p-value < 0.05, that out of 27 attributes, 17 attributes are significantly fitted in one category and 10 attributes cannot be

assigned to only one category, thus are under combined group (see table 5.). The agreement column shows how many percent agreed with the classification; the Total Strength (TS) column is the sum of “must-be”, “one-dimensional” and “attractive” respondents to show the degree of importance whose attribute would uplift customer’s satisfaction.

The “must-be” group includes 6 attributes which are all considered as fundamental objectives for any online shopping platform in China. They focus on the aspects of product information provided; services and guarantee policy in post- purchase stage. These attributes aim to lower customer’s perception of purchase risks when buying products on the Internet. This finding supports a previous study of luxury e-SQ by Turk et al. (2012). E-commerce has entered China not long ago but its rapid development shows that Chinese online retailers have worked very well, with the help of necessary infrastructure readiness, to deliver the new shopping form to become popular with Chinese consumers. It reflects the empirical study above that all local shopping web sites offer direct and quick human responses, easy and safety payment methods with Chinese local banks. However, foreign web sites have not adapted well regarding localized operation such as cooperation with local banks to provide convenient payment methods, or having local service representatives. Moreover, the evaluation information from the crowds was especially more valuable to enhance customer’s trust than product information provided by company. Unfortunately, at the moment, this essential feature is necklaced by most luxury web sites. Attributes graded as combination of “must-be” and “one-dimensional”, also fall into after-sales services: “hassle-free delivery when returning product”; “provide maintenance and repair services”, and “offer 24 hours contact service”, which underline Lee & Han (2012) study showing Chinese online customers’ recognition of the important effect of shipping factor and retailer’s trust factor in customer’s choice. The “one-dimensional” group has one element which is to allow customers to change their purchases after payment had been made. This indicates the degree of flexibility of a company and can greatly contribute to company’s reputation. Customers cannot totally blame the company for mistakes they made in their own purchases, but if the company is willing to solve the customers’ problems, they will feel pleased. Otherwise, their emotion would shift toward an extreme distress. Though not belong to “must-be” category, this attribute was seen in all studied web sites.

The “attractive” category consists of 6 attributes in which, most surprising, 5 of them are belonging to customer care services. Customer care services generally aim to bring personalization values to customers. Though personalization element is not a significant factor for overall service quality in commodity goods (Lee & Lin, 2005), but this study at first forecasted that in luxury context, personalization values will be emphasized more. However, to an extent, Chinese customers seems not to really praise for flashy complement services. Nevertheless, customers still accept those services with appreciation by grading them in “attractive” category. Chinese customers also seem not care much about innovative services. For example, they ranked “products are displayed in high-tech” and “mix-match suggestion” features as combined of “Attractive” and “indifferent”. They put “offering mobile application” element as only “attractive”; and “able to order by phone” element as combined of “indifferent” and “attractive”. This result does not match well with the recent rapid adoption of smartphone and smart-devices in Chinese consumers’ lives (KPMG study, 2013). While foreign companies took initiatives to engage advanced technology and innovation, local web sites have been slow. For instance, “able to change newsletter subscription” is standard practice in foreign web sites, but totally absent in local Chinese web sites. Given an explanation from Kano’s survey, this attribute does not make any difference for Chinese customers (is ranked as combination of “indifferent” and “attractive”). Perhaps, it is still lack of a real demand from the customers’ side to push such improvement.

The “indifferent” category grounds 4 elements: “product selections have a mix of different brands”; “expert evaluation on products”; “online chat room”; and “VIP events”. It proves that Chinese online customers either are not familiar with such services or they do not tend to use the services. Therefore, whether or not having these services will not affect customers' satisfaction in their online shopping experience.

It is not surprised to see as many as 10 elements are classified in “combined” category. The reason is explained by Kano (2001) that customers’ value of a service attribute tends to change in service life cycle, for example at the beginning, an unfamiliar service might be just “attractive”, as its application becomes common, the “attractive” might shift to “one-dimensional” or “must-be” in customers’ standard. The author argues that the attributes fall into combination of “must-be”, “one-dimensional” and “attractive” are as

equally important to customers as other pure “must-be”, “one-dimensional”, and “attractive” attributes. It means that “free delivery when returning product”, “shopping cart”, “maintenance and repair services”, “express check-out”, “24 hours customer support”, “discount offer” are important features to customers. They should not be necklaced because their influence toward customers’ satisfaction or dissatisfaction are as significant as ones in “must-be”, “one-dimensional or “attractive” categories, perhaps a note here that only their strength levels are different. For example, though “offering express check-out” or “shopping cart” features are graded the same as “combination” of “one-dimensional” attribute, their different total strengths of 80% and 89%, respectively show that the later feature certainly is more essential feature than the first one in e-commerce web sites. So graded combined features with the primary ranked “attractive” are less crucial. Similarly, those attributes assigned between “indifferent” and “attractive” demonstrated the transformation to either succeed to catch customers’ interest or become useless. They need to be under further investigation.

Table 5 below listing attributes by their importance levels aims as a checklist to guide web sites’ managers when they evaluate their web sites.

Table 5: Kano’s service attributes classification

<b>Customer Requirement</b>	<b>Agreement</b>	<b>TS</b>	<b>p-value</b>	<b>Classification</b>	<b>Combined</b>
Able to return and exchange product without reasons	71%	93%	0.0003	Must-be	
Offer different payment methods with local bank operators	65%	86%	0.0002	Must-be	
Able to give comment on a product	57%	92%	0.0069	Must-be	
Provide full information about a product	52%	90%	0.0091	Must-be	
Offer immediate, direct customer support	55%	88%	0.0084	Must-be	

Offer separated hot-line for customers' complains	49%	88%	0.0394	Must-be	
Hassle- free delivery when return product	36%	82%	0.2214	Combined	M; O
Able to cancel or change a purchase after payment	55%	86%	0.0046	One-dimensional	
Able to save favor products, to compare products, to review purchases.	43%	89%	0.3890	Combined	O;M
Provide maintenance and repair services for shoes, bag, jewelry	41%	95%	0.3566	Combined	O; M
Offer express-check-out	36%	80%	0.3952	Combined	O; A
Offer gift services	69%	80%	0.0001	Attractive	
Offer birthday gift	60%	73%	0.0026	Attractive	
Offer fashion magazines, entertainment programs	58%	61%	0.0089	Attractive	
Offer VIP club	54%	67%	0.0327	Attractive	
Offer personal fashion advises	62%	72%	0.0014	Attractive	
Offers mobile phone application	53%	71%	0.0135	Attractive	
Products are displayed in high-tech	46%	60%	0.0904	Combined	A; I
Offer mix-match suggestion	41%	61%	0.4264	Combined	A; I
Offer customer support 24/24	38%	78%	0.0981	Combined	A; M

Offer discounts, lower prices	35%	79%	0.4647	Combined	A; O
Expert's evaluation for a product	65%	33%	0.0004	Indifferent	
Provide online chat room	63%	37%	0.0005	Indifferent	
Offer VIP special offline events	57%	42%	0.0069	Indifferent	
Offer mix of luxury and normal brands	52%	40%	0.0168	Indifferent	
Able to make order by phone	45%	42%	0.2283	Combined	I; A
Able to change subscription of newsletter or phone messages	32%	52%	0.0742	Combined	I; A

The “better-Worse” chart (see figure 13.) indicates the degree of increasing customer’s satisfaction if a service is available - “better” and the degree of decreasing customer’s satisfaction if a service is not presented – “worse”. The chart is analyzed based on the standard shopping process. Again, it showed that services in the transaction stage and after-sales stage demonstrated high level of customer requirement for service performance. On the other hand, customer care services after-sales seemed to make customers happier but did not make them disappointed in the reversed case. In the search stage, attributes were graded differently. There were some attributes exhibit as very important features but some were just nice to have and some were at all unnecessary features. Although product portfolio dimension is considered important in previous literature research, it is unexpected in the Kano’s survey showed Chinese online customers did not pay attention to how product portfolio is sold in web sites. Whether to offer mix of luxury and normal brands or to offer only luxury brands did not matter to them. Even customers seem please with the diversity on the Internet. It is opposite to an unspoken rule in normal physical stores where there has never been a mix of luxury brands and commodity brands together in the same place, web sites offering mix of brands might cause de-graded of the web site’s high-end level. Since customers did not perceive the importance of separation to create luxury atmosphere in the online environment as they did require in any luxury

retailing stores, most of e-commerce web sites chose to diversify their product ranges to seek for more customers. Likewise, “offering discount and lower prices” is commonly deployed in China without fearing to vanish critical financial luxury value because Chinese customers highly praised this element as combined of “attractive” and “one-dimensional”.

The overall result shows that most of Chinese customers are outcome-oriented minds. It means when shopping for product online, even luxury goods, they mostly focus on products and other physical necessities in purchasing process. Other elements which are not directly related to shopping process such as fun shopping experience, VIP club... are less important to Chinese online customers. A Forbes article also agreed that Chinese luxury customers buy the luxury products but not the luxury experience. Taking an example of Chinese consumers who can buy 2000\$ of a bag but then happy to stay in a two-star hotel when travelling. (Forbes, 2013) Therefore, Chinese customers only strictly expect luxury online web sites to reach common quality standards as in commodity web sites. Beyond these standards are nice-to-have services.

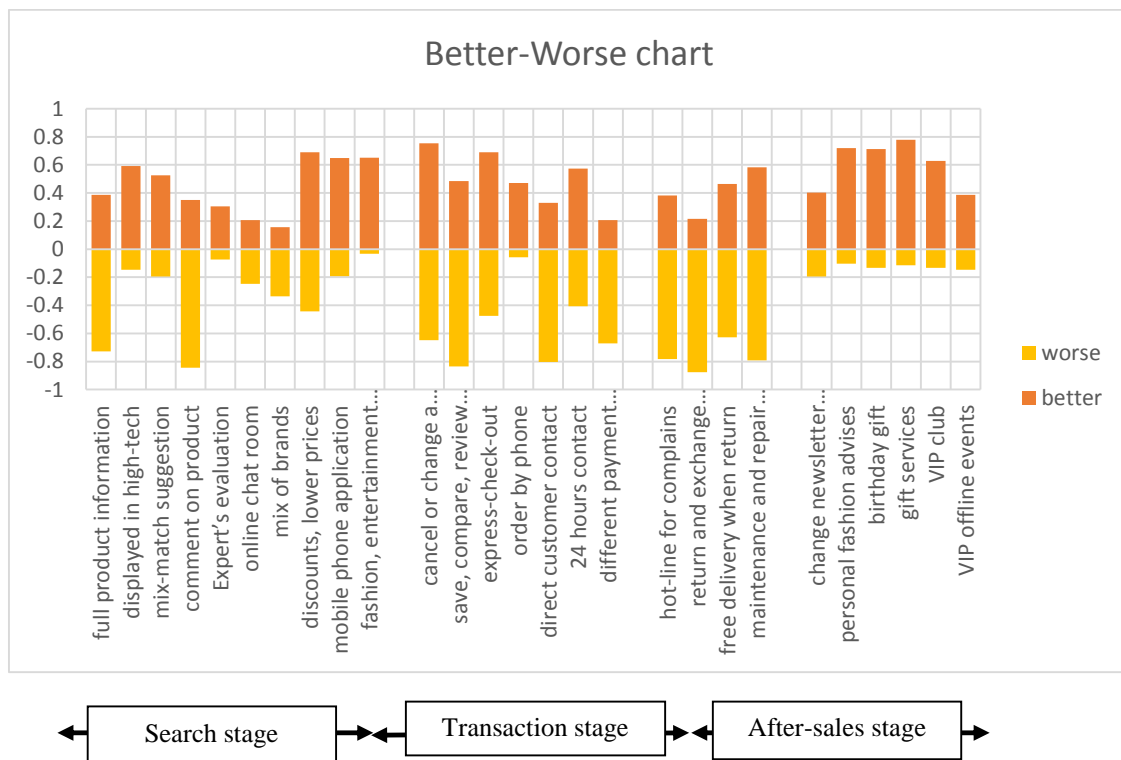


Figure 13: Better-Worse Chart

## 7 CONCLUSION AND RECOMMENDATION

The thesis purposes aimed to examine the importance levels of different service performance from customers' perspective in luxury fashion e-commerce sector in China. Based on the previous researches, especially the E-S-QUAL and E-RecS-QUAL scales (Parasuraman et al., 2005) and the main luxury values (Wiedmann et al., 2009), this thesis developed a 10 dimensions Luxury E-S-QUAL framework which can be used as measurement scale to evaluate service quality in online retailing luxury fashion context: fulfillment reliability, efficiency, product portfolio, contact, responsiveness, web site design, information, personalization, compensation policy, and community. From the theoretical perspective, firstly, the thesis's results contribute some new know-how to the academic knowledge concerning measurement of luxury service quality on the Internet. Before this study, this research area was mainly left untapped. The Luxury E-S-QUAL framework has further developed the E-S-QUAL and E-RecS-QUAL scales proposed by Parasuraman et al. (2005) to apply in luxury fashion e-commerce. Secondly, this thesis also tested Kano's attractive theory of quality (Kano et al., 1984) in online retail luxury context. The results demonstrate a wide applicability of Kano's methodology.

Applying the luxury E-S-QUAL framework to conduct an empirical study using customer survey method of 97 Chinese consumers, the author found that the fashion luxury industry has not yet bloomed in Chinese e-commerce market and purchasing luxury goods on the Internet has not been common for Chinese luxury customers. Online luxury companies, both local and international ones have not yet been differentially outstanding from conventional websites. While most Chinese online consumers are realistically outcome-oriented minds who emphasize the importance of direct human contact service, delivery service, guarantee service and after-sales services..., current independent luxury online retailers in China, both local and foreign companies, are on the average performance for offering such critical services. Foreign companies in our research, even showed lower service performance comparing to the local ones. On the other hand, ease-of-use of technology feature on web sites is expected in a moderate and standard style. In this aspect, although international companies totally went ahead of Chinese local web sites, Chinese online customers seem not to show their excitement for innovative and advance technology features. Besides, for Chinese luxury online customers, personalized customer care



services do not play the essential roles as they placed most of them as “attractive” services or “indifferent” services.

The thesis motivation started from the author passion for luxury goods and her excitement when observing the luxury e-commerce segment’s rapid growth in China. Therefore, the utmost practical contribution in this study is to present a better understanding about the service offerings in online retailing luxury fashion development in general and for China market in particular. It also conveys Chinese online customers’ perceptions regarding their requirement for different types of services or service components along the shopping experience. Needless to say how important the voice of customers is for the development of a business, especially when working with an emerging sector like e-commerce. Hence, the following section will give some recommendations taken from the study for managerial purposes.

## **7.1 Managerial recommendation**

This study emphasizes the essential role of service quality performance to influence the customers’ satisfaction and loyalty, especially when coming to luxury goods. This research tapped in e-commerce, a new sector which only recently adapted for luxury products. The study found that current strategy practices are vary among the players, hereby only mentioned in Chinese market. Moreover, luxury customers are sophisticated and not the same as normal customers. Therefore, it might be difficult in finding right strategy to win the market if companies only compare with other competitors.

The first recommendation for management in this field is to first focus on the customers because customers are the ones who shop, experience and make purchase choices. Thus, clearly understanding and always reviewing who are the past, the current and the prospect customers, of whom to be considered are the targeted ones, what are their needs and expectations... is the primary requirement for any companies wanting to become the better. The author suggests to use 10 service quality dimensions-Luxury E-S-QUAL framework as guideline to define important aspects of service quality, then use Kano’s methodology as a tool to classify customers’ different needs for different services and service components right from customers’ perspective. Increasingly researchers and practitioners are also supporting service improvement and innovation process to take users or customers as the central of the process in order to create the services that customers truly desire.

Secondly, this study's results can already give some insights about customers' desires and expectations in web sites that sell luxury fashion goods. The author assumes that these results can be applied in all types of web sites including luxury-brand-owned platforms or independent- retailer- owned web sites; Chinese local companies as well as international companies. Since Chinese online consumers still have a high risk perception against online shopping, even deeper fear for high value purchases like luxury goods, they mostly pay attention, firstly for guarantee policy after sales such as free return and exchange, repair and maintenance services; then to delivery services, direct contact service. Companies need to establish reliable, faultless services which then will help increase companies' reputation. A feature that is able customers to make comments on the products, is said to be one of the most critical requirements in any e-commerce web sites. Thus, at the moment, for many luxury web sites without such basic feature, they need to re-design their web sites and integrate the comment feature. It will be even better if companies can give customers' incentives to leave their opinions on the web sites after their purchases. Foreign companies entering China market obviously face more challenges comparing to local companies. For examples, foreign companies in this study are still lack of investment in operation of direct contact service or cooperation with local banks to offer convenient payment services. Perhaps, those companies are in the exploring stage in China market, so they have not invested much. Considering local customers' requirements, foreign companies will need to be able to at least offer equal services with local competitors in the long run. The advantages foreign companies have are international reputation and advance technology in their web sites and they should kept them up-to-date. Though Chinese consumers possess different characteristics comparing to the Western customers, for example, they are not only slow in accepting new, advance features but also sometimes, they tend to resist if something is different from the tradition, the author believes online customers will soon realize and value the convenience that technology brings to them. Therefore, Chinese companies will also need to learn from foreign competitors to integrate more advance features in the web sites, for instance: automatic mix-match suggestion, feature to subscribe and make changes for newsletters and/or advertisement messages.

Furthermore, understanding the distinguish character of the virtual space, Internet, online customers seems not to raise high demand for personal service performance yet. However, even though customer care services are currently not considered as important in

customers' views, they should not be underestimated. Those service attributes belonging to "attractive" category such as offer personal fashion advice service, VIP club, birthday gifts, publish fashion magazines and entertainment programs in the web sites should continue to offer. Those service attributes belonging to "indifferent" category such as to provide online chat room, to organize social events can be removed or be revised to be more suitable with customers' desire. To win in today's high level of competitiveness, a company needs to make sure that it is not only catching up with the industrial standard performance but also go beyond. Innovation in services thus, should become an important part in the whole strategic management.

Overall, e-commerce channel is a potential opportunity for luxury goods, typically new luxury fashion brands to expand and reach old and new customers. Like in physical stores, online customers expect services through the Internet to match the "luxury" level, especially concerning to the fundamental services of e-commerce including delivery, payment, security, guarantee issues. The better service quality companies offer in these service blocks, the more chances the companies will succeed in satisfying the customers.

## **7.2 Limitations and further research**

Firstly, the author admitted a weakness in survey distribution method is that it has not been completely random but limited by geography. The survey respondents mainly lived in Shanghai because financially, the author has not been able to reach residents in other cities in China when distributing the survey in different shopping malls. Customers living in a center metropolis like Shanghai city might have different ideals concerning delivery services, contact services comparing to customers who live in the 2nd tier, the 3rd tier cities. Furthermore, the author has assumed that all participants who said to have visited luxury e-commerce web sites in the past, have been familiar with e-commerce, in other word, online shopping. However, this assumption lacks control of to which degree of familiarity with e-commerce a participant has had. A customer's online shopping experience will largely effect his opinions about service quality (Kim & Stoel, 2004). In the survey questionnaire, it should have been better to include a filter question such as "how often do you visit those web sites?" With this question, the result might have been examined based on cluster analysis.

Secondly, this thesis has proposed a framework for E-SQ dimensions in online luxury fashion context solely based on a discussion how different luxury values should be integrated in e-SQ dimensions to fully measure “luxury” aspect of service offerings in luxury web sites. This Luxury E-S-QUAL framework consisting 10 dimensions had not been tested through an empirical research, for example: using customer survey to test the relevance of the framework’s dimensions influence in customers’ satisfaction, loyalty, or purchase intention... Therefore, the author suggests future researches can exploit further along the above ideals.

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