

Luxury surrenders to the Internet

Understanding the impact of the *Millennial* generation

By David Millán Planelles

Foreword

The white paper "Luxury surrenders to the internet" is based on almost 4000 interviews, carried out with members of the selected source of Condé Nast readers, followers and networks. We have aimed to follow up on the results of our first investigation in 2013 and to gain a deeper understanding of the customer journey and how new generations of so-called millennials behave.

As baby boomers are replaced by Generation X as the major consumers of luxury, the industry takes a look at millennials with a view to understanding how the first digital native generation will approach luxury. Research carried out by the IE Premium & Prestige Observatory provides insight into the redefined customer journey, exploring how different generations and age groups go on this journey.

Digital disruption has affected all industries, including the premium and luxury sector. Luxury brands that were initially very cautious have now embraced digital transformation and see it as a priority. The IE Luxury Barometer and this new research have both confirmed this trend. However, this same research shows that despite the unavoidable digital reality, bricks-and-mortar retail continues to play a major role and is a cornerstone of the industry.

The IE Premium & Prestige Observatory was launched in 2010 with the goal of generating and sharing knowledge about the premium and luxury sector and market worldwide. With the support of Mastercard, we have conducted research on the digital impact on the behaviour of luxury clients and on the pace at which the industry is adapting. We have explored the meaning of the most important memorable experiences and what drives them. The IE Observatory has also explored the key dimensions of urban tourism, including the impact of technology, and how experiences and the digital world intersect for premium urban travellers. We have also supported and given visibility to sustainable luxury entrepreneurs.



It is thanks to the support and visionary leadership of Mastercard, which is committed to generating knowledge about the premium and prestige sector, that this work has taken place. The research could not have been conducted without the support and collaboration of Condé Nast, who enabled us to reach the right target sample; thanks also go to them for the insightful conversations we had. Our gratitude to Professor David Millán Planelles who adroitly managed to complete this work while finishing his PhD – thank you for your expertise and your passion for luxury. Thanks also to the teams at IE, to IMBA students Gabriela Cerqueira and Carlos Gomez, and Mastercard that support and guide our work.

Maria Eugenia Girón
Executive Director.
IE Premium and Prestige Observatory
Madrid, February 17, 2017

ieFUNDACIÓN



About the IE Observatory

By generating worthy research & insights in collaboration with industry partners the IE Premium & Prestige Business Observatory aims to be a global reference point and platform for pioneer knowledge for the premium market players in Spain, Europe, and worldwide.

About David Millán Planelles

Boards and top management advisor. Associate professor of strategy at IE Business School. Visiting professor at international institutions like INCAE in Costa Rica or the International University of Monaco. Published several case studies and articles on luxury strategy.

About Mastercard

The group is a world leader in payment solutions with the vision to use their unique expertise and technology to facilitate services in a world beyond cash. Mastercard launched the unique "priceless cities" program, offering cardholders one-of-a-kind experiences in cities around the globe.

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Executive summary

The second edition of *Luxury surrenders to the internet* from the IE Premium & Prestige Business Observatory, prepared in collaboration with Condé Nast, evaluates the evolving impact of the internet on the luxury market. This edition focuses particularly on understanding the role of the younger generation of millennials.

Creator vs. distributor: millennials have a greater impact on luxury firms' strategy

The role of social media is clearly different for millennials. In all three variables (reasons to share, content to share and media to share), millennials display a more intensive use of social networks. However, it is not only the use of social media which defines the millennial generation. Perhaps more importantly, this study unveils the different priorities they have in the way they approach it.

In the case of Millennials, the motivations to share content through social media are more related to personal pictures and social interaction. While this might be applied to younger audiences in general terms, the fact that the sample includes respondents of up to 35 years old should be considered, since it shows that this can be seen as a more lasting trend.

Non-millennials follow a distributor approach in their motivations for sharing content, sharing official content. Millennials also employ a distributor approach, yet for **millennials the role of distributor is as important as the role of creator, where one's own generated content (images, videos and opinions) is key**. Consequently, **millennials have the ability not only to distribute the message, but also to build part of that message**. The millennial approach is also a characteristically multi-platform approach. All of this suggests that millennials have the ability to have an impact and influence the strategy of luxury firms more than the preceding generations.

Retail remains the cornerstone of the luxury business as it complements the driving force of online consumption

In the **luxury market, online shopping seems to complement traditional retail's ability to create value rather than threaten it**. Looking at the most frequently-used channels or frequently-followed consumption patterns, **consumers across all generations favour bricks-and-mortar retail**.

The reasons behind **online and traditional retail consumption are homogeneous across the different generations**. Consumers value convenience and product assortment when buying online, whereas the main motivations of buying in physical stores are related to the shopping

experience. The drivers of **consumption in these two formats are complementary rather than substitutive**. This would seem to indicate that **luxury firms have great potential in leveraging and integrating their traditional retail strategy in order to conquer new digital spaces**.

Although only proven for commercial purposes in this study, the idea that digital and physical formats are complementary suggests that further research into other areas of the business model, such as communication, client relationships or customer service, would be beneficial.

Smartphones: a strategic must-have as online consumption evolves

Generally, **luxury consumers view convenience as a top priority**. In 2012, the main driving factor in online consumption was product assortment; in 2016 it was convenience. For **millennials, the choice on offer is also a key priority**, and a wider variety, while not the top driver, is also highly valued by millennials. The role of convenience could be linked to the arrival of the smartphone, as it is a device that truly enhances convenience for the consumer.

The increased importance of the online shopping channel identified in categories with more frequent consumption (fashion, leather goods, shoes, cosmetics and perfumes) is **consistent with the arrival of the smartphone as it also ties in with consumer convenience**.

As a result, the **combination of a more intensive use of smartphones for luxury purchases, the drivers of online consumption related to convenience and choice, and the increase in online shopping in categories with more frequent consumption, gives the impression that the smartphone is a game changer (also) in the luxury industry**. The commercial strategy of luxury firms must therefore be modelled with this in mind.

Attitudes towards luxury not significantly impacted by millennials

No significant differences in attitudes towards luxury have been found in this study in terms of luxury as a concept and the motivations for consuming luxury.

Contrary to common perception, **millennials do not seem to hold different notions in their understanding of luxury, which remains firmly linked to the perception of quality**. Neither does the consumption process (researched in three stages: information, evaluation and purchase) show any significant differences between generations.

It should be pointed out that **this study is not able to identify the impact of other products other than personal luxury**. It is in this realm of personal luxury where the idea of luxury and the motivation to consume luxury seem to be homogeneous.

Objectives & Methodology



Objectives

Market research studies of luxury goods have certain peculiarities that do not usually pertain to other markets, making them difficult to analyse. First of all, there is the rather complex matter of defining what a luxury good is, and hence knowing in which category it belongs. And secondly, having access to luxury consumers can often be difficult and expensive.

With this complexity in mind, this research deals only with personal luxury, in line with the approach from other renowned studies in the field, such as the one carried out by the Fondazione Altagamma. Thus, the categories covered in this study are:

- Clothing
- Leather goods
- Shoes
- Watches
- Cosmetics and/or perfumes
- Jewellery

Several studies have been conducted to explore the definition of luxury and the attributes of a luxury brand (Dubois et al., 1993; Kapferer, 1998; Vigneron, 1999). Despite those efforts, there is no consensus about it, and it is common to encounter different viewpoints on this (Vigneron et al. 2004, Dubois 2005).

One likely explanation for the lack of consensus is the fact that luxury is a sociological concept and is hence defined by a given society at a given time (Berry, 1994). This fact is extremely pertinent to the fundamental goal of this study, which is to evaluate how the luxury market is evolving over time. In order to understand this evolution, the study will address two variables that are widely believed as likely to have an impact on the market in the coming years:

- The effect of the arrival of younger generations, e.g. millennials.
- The effect of technology, and in particular the role of social networks in the luxury consumption process.

Millennials, a new generation influencing the market

Before examining the millennial generation in this context, we should first clarify this term with a definition. It is in general complicated to define exactly when a demographic generation actually starts. There is however some consensus that the generation of millennials denotes those individuals born between 1980 and 2000 (Gurau, 2012).

The millennial generation is expected to significantly influence business. The impact it is believed they will have comes from the idea that every new generation is likely to behave differently from the preceding generations (Eastman et al., 2012). According to this theory, previous generations such as those known as Generation X (born between 1965 and 1980) and Baby Boomers (born between 1946 and 1964) might have different values, attitudes and consumer behaviour. It should be noted that how these generations are categorised is based on US history (Meredith et al., 1994). This fact should be taken into consideration as it might limit the generalisation of the categories just mentioned.

As a result of this theory, several studies have been conducted over the last few years to try to understand the specific characteristics pertaining to the millennial generation. The impact of the millennials has thus been researched in the context of different areas, such as their attitudes towards mobile consumption (Eastman et al., 2015) or their impact in the workplace (DeVaney, 2015).

However there has not been ample enough evidence about – nor has specific research conducted on – the impact of millennials on the luxury market, and this appears to suggest that there may be a research gap in this field. This study aims to shed more light on how the millennial generation may influence the luxury market.

The role of social networks in luxury consumption

Society today is ever more connected and consumers rely increasingly on their mobile devices. Social networks provide not only social interaction and entertainment, but also new means of developing business activities.

Technology and luxury have been perceived as having a conflictive relationship in recent years, particularly as far as communication is concerned. Luxury firms have been reactive in their adoption of digital avenues, and even displaying prices on their own digital media has been a controversial topic over the last decade.

However this tendency has been changing and the last study by the IE Premium and Prestige Business Observatory, as well as other sources, have demonstrated the fundamental role of the internet and digital channels for luxury firms (IE Observatory, 2012).

Social media is a factor that is now capable of influencing a luxury firm's ability to create value, and influencing the perception of the company (Kim, 2012). In some cases this becomes a fundamental aspect of a company's strategy, for instance when dealing with a

change in consumers' perceptions of the brand, as in the case of Burberry (Michel et al., 2011).

The importance of social media for luxury firms has already been the subject of research. This aim of this particular study is to explore the topic further by gaining an understanding of the relationship between luxury consumption and social media. The study is based on a new type of consumer journey in which social media affects how consumers make decisions (Edelman, 2010). This is the reason why we have chosen to focus this study on the motivations for sharing content, the type of content shared and how luxury consumers use social media. Our objective is to contribute to published content by understanding the influence of social media on the luxury consumption journey.

Arguably, these two variables would not seem to be totally independent, as younger generations normally lead the way in the use and adoption of technology and social networks. This is why the main focus of our study is the millennial generation.

In conclusion, the goal of this study is to observe and in so doing to identify the aspects that will have an impact on the luxury market as we know it today. To achieve this goal, the study focuses on short-term consumption, looking at purchases made over the last three months. However, the goal of this study is not to quantify the Spanish market or the frequency of consumption, but to look at trends and the importance of the above mentioned factors.

By appraising attitudes towards luxury, the consumption process and the role of social media, we aim to discover new aspects that will enable us to better understand how consumers view and consume luxury.

In summary, the present study has two main objectives:

- ***To understand consumer attitudes towards luxury products and how younger generations, like the millennials, might differ from other segments in the market.***
- ***To understand the impact of social networks on the consumption process of personal luxury goods.***

Methodology

This study was conducted by means of online surveys. To gain access to the luxury consumer, this research has benefited from the Condé Nast network of readers and subscribers in Spain. Condé Nast is the editor of some of the most prestigious lifestyle, travel and fashion magazines, including Vogue, Glamour, GQ, Vanity Fair and Traveler.

The survey was active from 2 May until 30 June 2016 and the participants were approached in two different phases:

- **Phase 1** – Call for action through all of Condé Nast's social media pages (Facebook and Twitter), which have more than 8 million followers. The survey could also be accessed through Condé Nast newsletters and through displays in different Condé Nast sites.
- **Phase 2** – A reminder on social media (Facebook) to encourage participation (Vogue, Glamour, GQ, Vanity Fair and Traveler), along with a newsletter opt-in reinforcing each of Condé Nast's websites' messages. These were sent to a specific segment (around 270,000 registered individuals) out of the whole database.

Given the profile of Condé Nast's readers, this methodology ensures access to luxury consumers. Participants in the survey were not rewarded in any way, to guarantee credibility.

To identify luxury consumers from among the participant base, the study used a definition of a luxury price to set the boundaries of luxury consumption. The luxury price was defined based on the previous edition of this study (IE Observatory, 2012) and the expertise of the authors.

It should be borne in mind that defining luxury by its price is a complex matter; firstly, luxury cannot only be defined by its price and secondly, there is no clear limit in price that can differentiate a luxury product from a non-luxury product. However there is ample consensus that luxury requires a high level of expenditure and the price might therefore be a good approximation of this. Thus, while acknowledging the limitations involved, this study has adopted this approach as a reasonable metric for identifying luxury consumers.

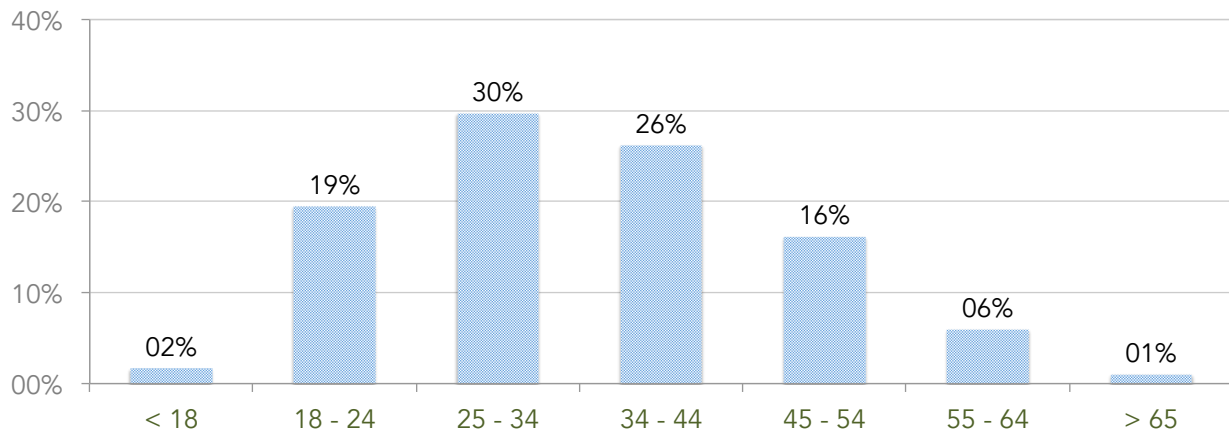
In this study, whenever we refer to luxury product, we mean the purchase of a product with a price higher than the set luxury price. Lastly, the luxury prices considered in this study are shown in the table below.

Personal Luxury Category	Luxury Price
Clothing	More than €600
Bags and Leather	More than €600
Shoes	More than €450
Watches	More than €5,000
Cosmetics and Perfumes	More than €150
Jewelry	More than €1,500

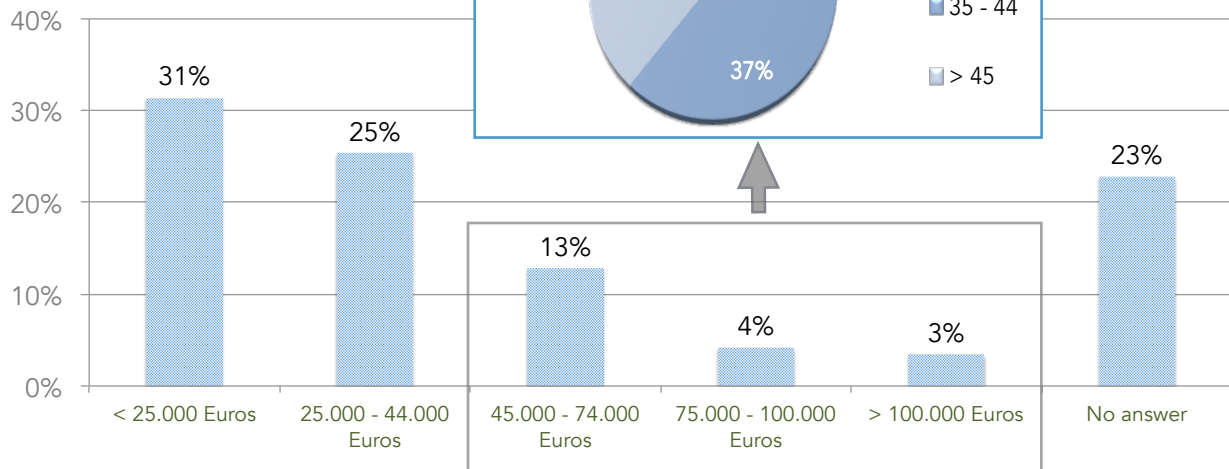
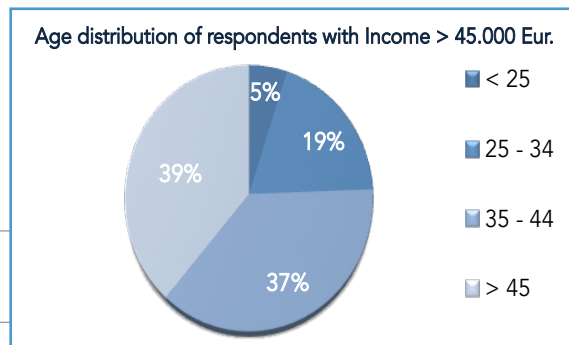
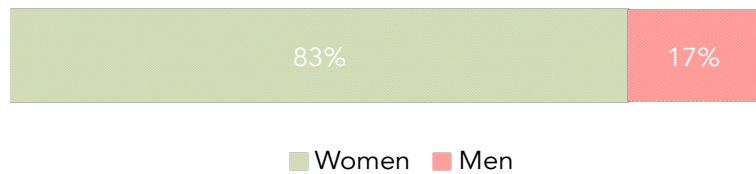
The Luxury Consumer

- The total sample provides an excellent base of almost 4.000 answers to evaluate luxury consumption.
- Out of the total sample, 1.611 respondents have purchased a luxury product; these respondents represent the luxury consumer group.
- Luxury consumption is directly related to income, under a similar pattern from that of 2012 study.
- Luxury consumption was not directly related to age, unlike in 2012. Generation X (35-44) dominates vs. the Baby Boomers (+45) in terms of number of consumers (not measured in terms of sales value or consumption frequency).

General aspects about the sample.



3918
Answers



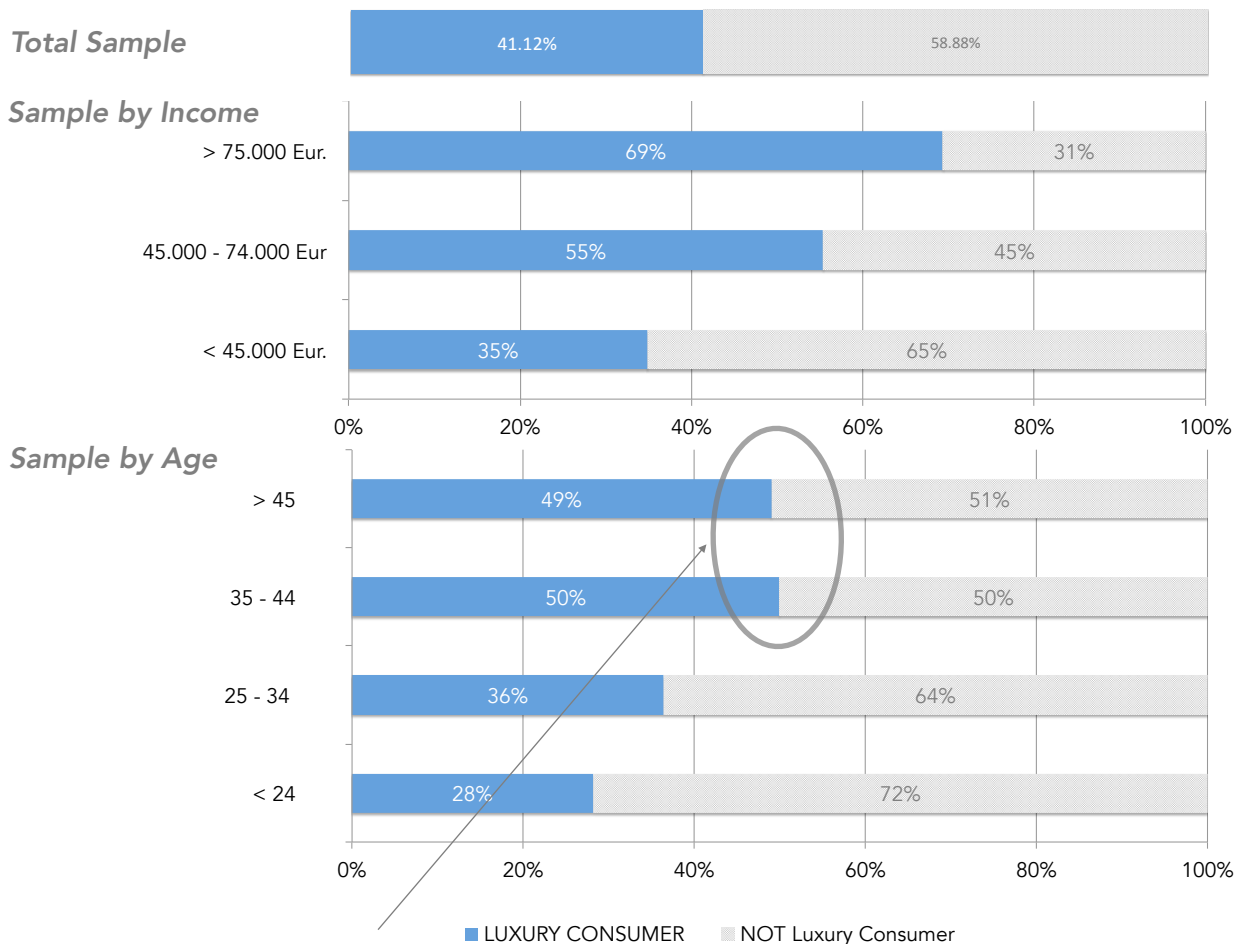
The sample does not have an equal balance as far as gender is concerned, which is consistent with the predominantly female database. Though a percentage of 20% of men provides a reasonable response, female respondents must be considered as having the predominant role in the sample.

Identifying the luxury consumer

This study defines a luxury consumer as an individual who has bought a product, in any category, at the luxury price in the last 3 months. Following this approach, 41.56% of the sample – a total of 1,611 participants – are luxury consumers.

1611
Luxury
Consumers

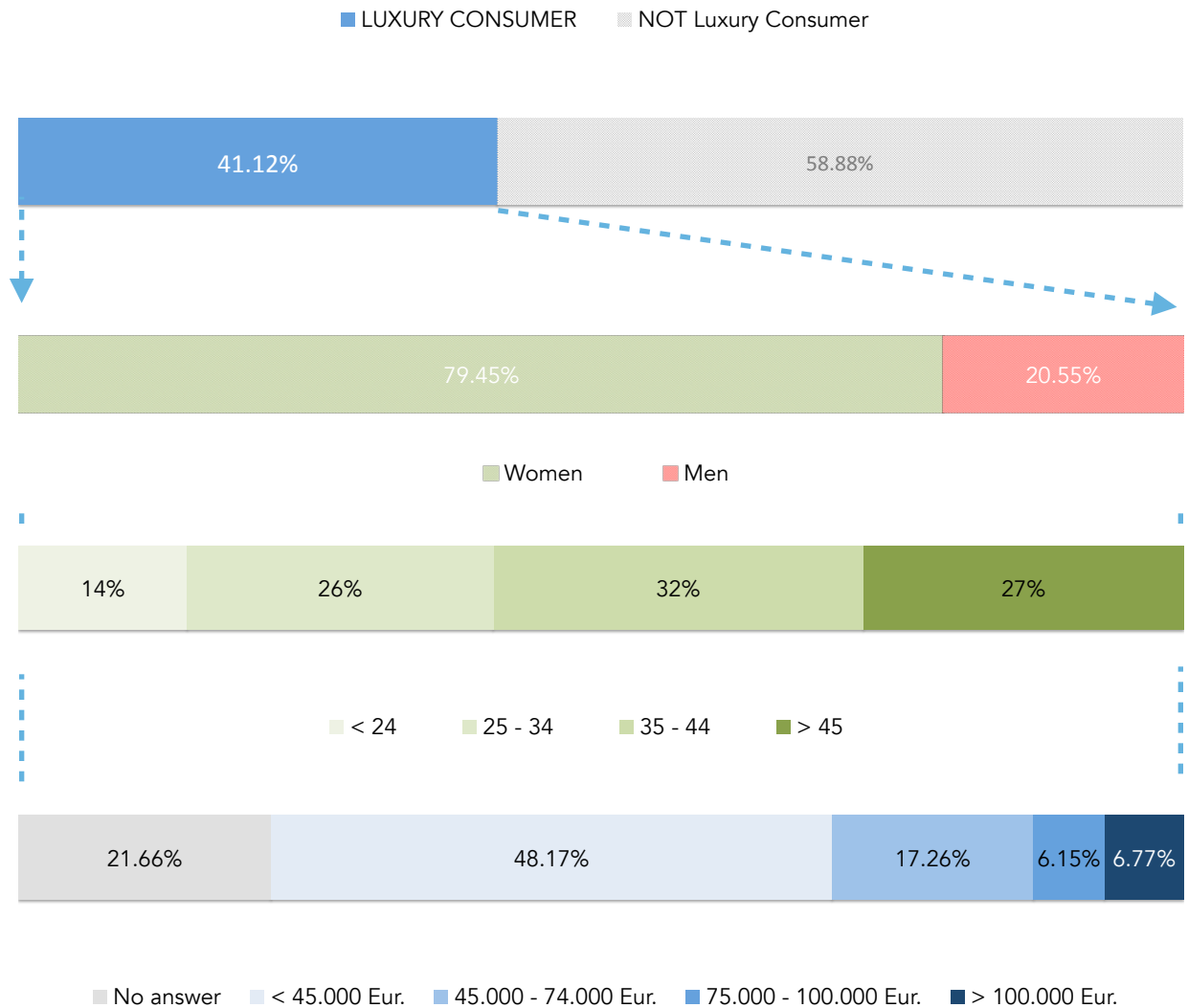
Note: In this study, Luxury Consumers refers to this group of 1611 respondents who have bought at least one product at the luxury price.



Unlike Income, Age distribution does not increase linearly and 35-44 (Gen. X) becomes the segment with more luxury consumers

Understanding the luxury consumer

This study focuses only on those participants who throughout this study are referred as luxury consumers. The fundamental demographic characteristics of the luxury consumer group can be seen in the following table.

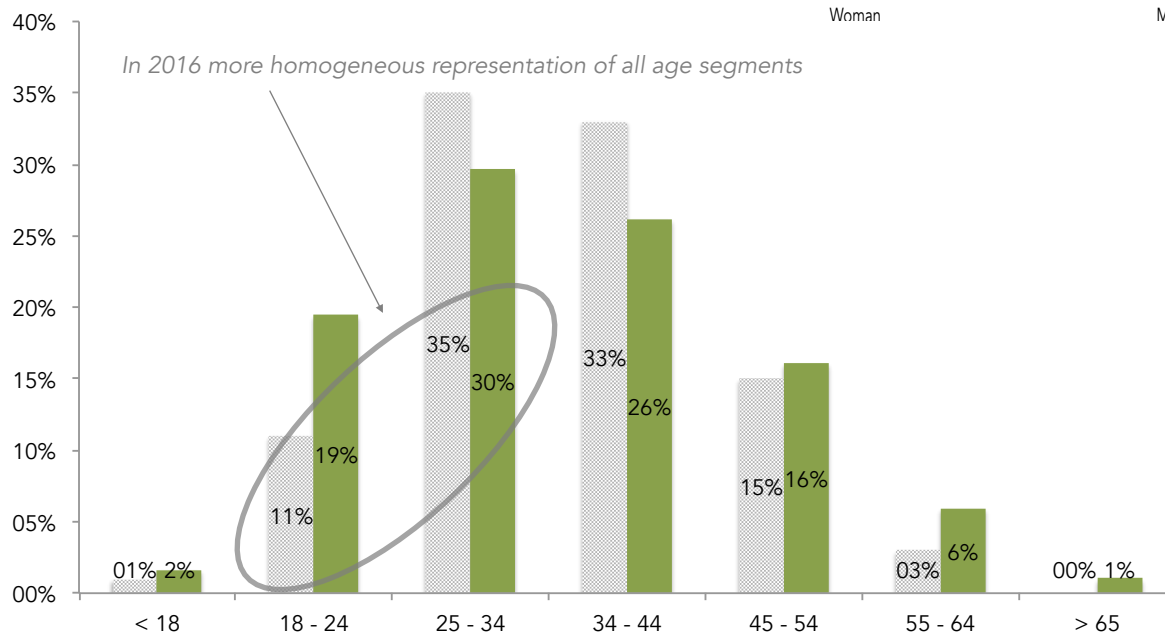
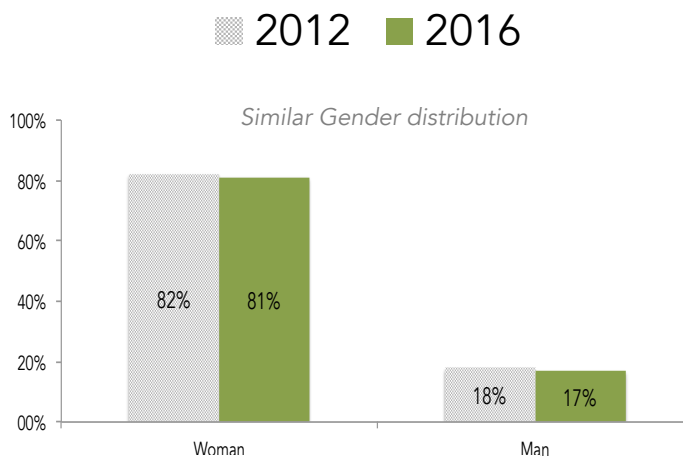


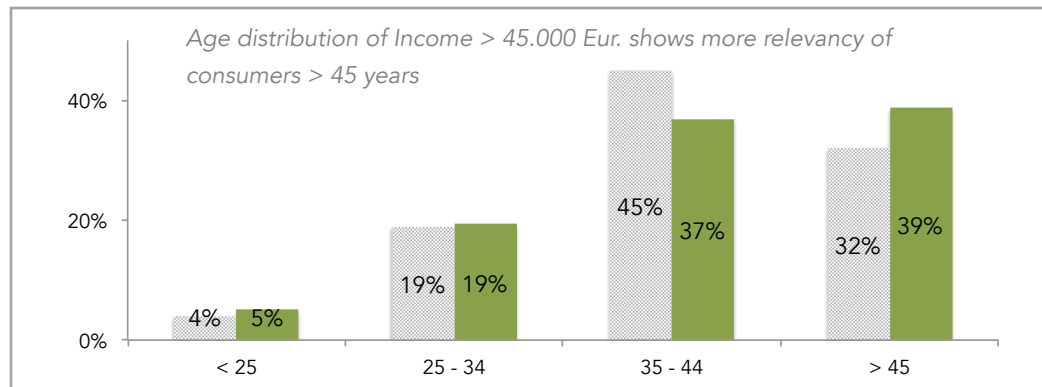
Evolution from the previous edition of the study: 2012 vs 2016.

This is the second edition of this study, and it is therefore interesting to compare the differences between them. The two studies, from 2012 and now 2016, have been carried out according to the same methodology and have had access to the same population – Condé Nast readers.

Total sample: the total shows a similar distribution in the principal metrics.

TOTAL SAMPLE
More representivity with
doble population size:
2012 - 1805 Answers
2016 - 3918 Answers





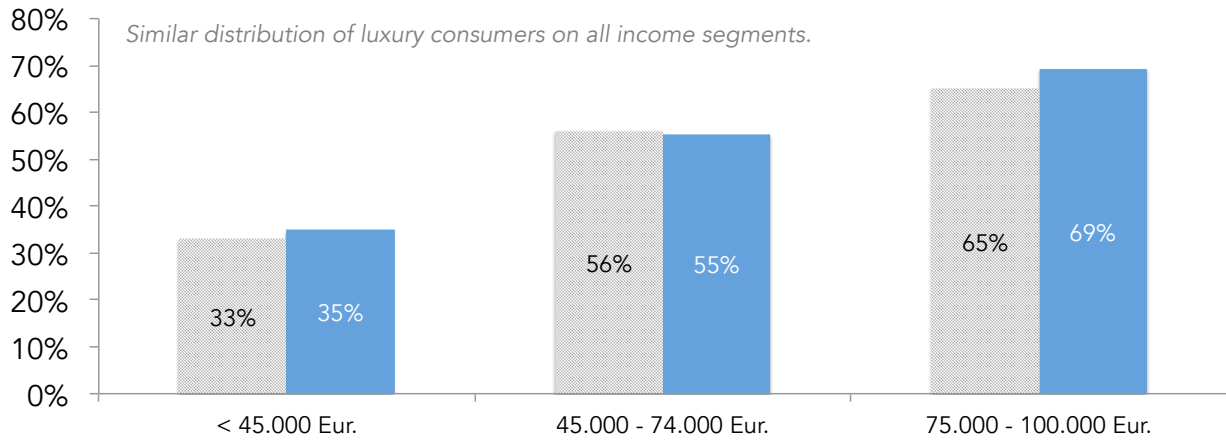
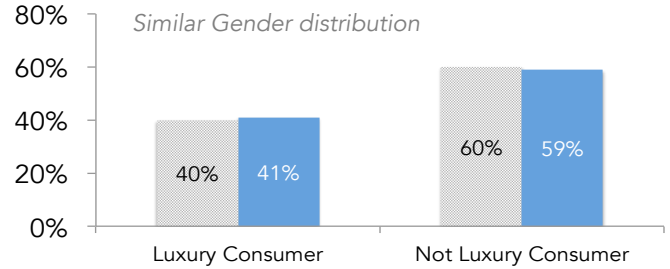
Luxury consumers. In the 2016 study the luxury price in certain categories was increased. The **2016 version takes a more exclusive approach to luxury consumption and therefore no direct comparison can be drawn between the luxury consumer groups in 2012 and 2016.**

That being said, one interesting difference that can be highlighted. The gender and income distributions of luxury consumers are similar to those of the 2012 study, although the age distribution in 2016 displays a different pattern. The age segment where we find the most luxury consumers is 35-44 years old (Generation X) and not the over 45s (Baby Boomers) as in 2012.

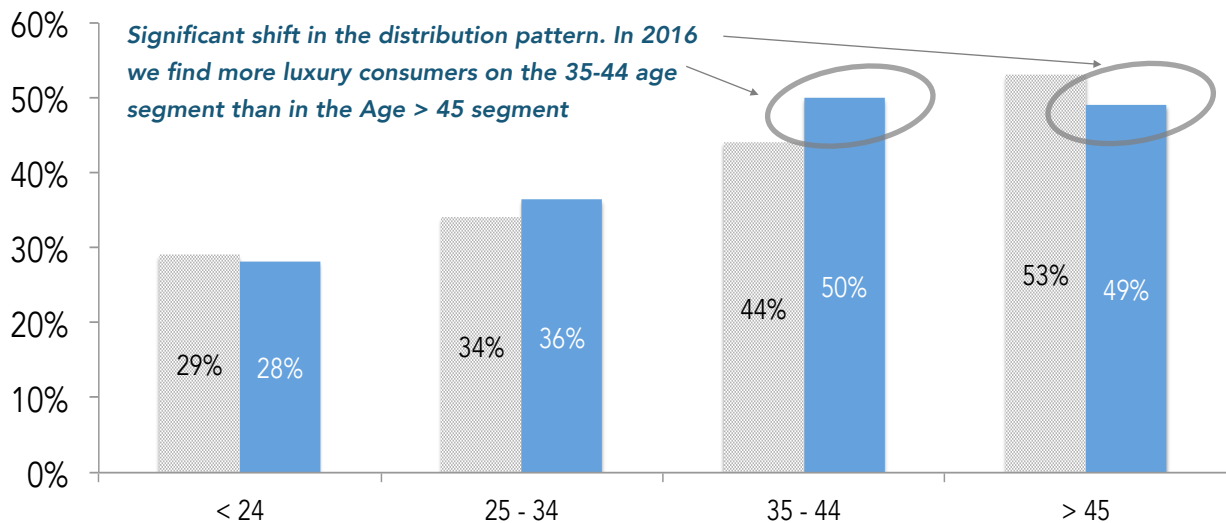
While no quantitative conclusion can be drawn from this, as mentioned before, **it might nevertheless signal a growing interest in luxury by the Generation X category. This finding would be consistent with other global studies in the field, such as the one by Altgamma (Altgamma & Bain, 2016), indicating the growing importance of Generation X.**

LUXURY CONSUMER
More representativity of luxury consumers:
2012 - 720 Answers
2016 - 1611 Answers

2012 2016



Note to read the graph: 35% of the total population with Income > 45.000 Eur are luxury consumers in 2016



Note to read the graph: 50% of the total population with Age 35-44 are luxury consumers in 2016

Luxury Consumption. Retail vs. Online

Total Consumption:

- After cosmetics and perfumes (with the lower entry price), fashion becomes a top category on personal luxury.
- 45% of luxury consumers has bought luxury Fashion over the past 3 months.
- 30% of luxury consumers has bought luxury Bags&Leather and 29% luxury Shoes over the past 3 months.

The role of Online Channel:

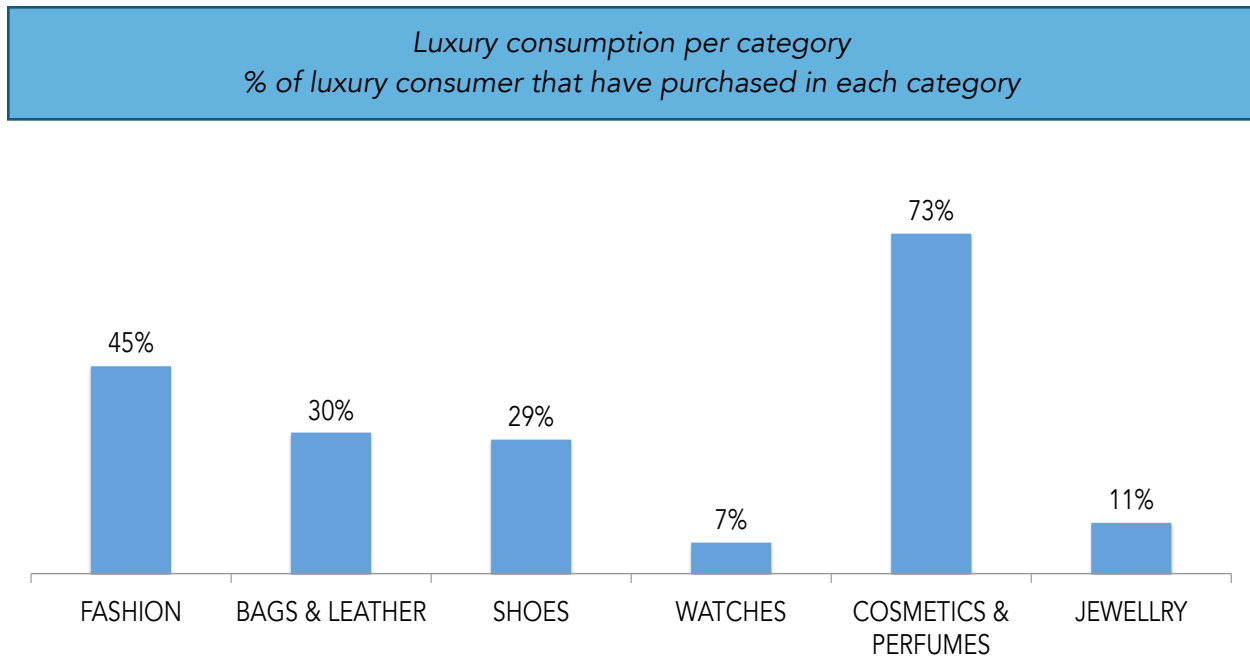
- 29% of luxury consumers buy luxury online.
- The strongest category for online purchases is shoes; 27% of luxury shoes consumers purchase online.
- Fashion, at 25%, and bags & leather and cosmetics & perfumes at 21%, are the categories with the next biggest online channel.

Evolution from 2012:

- Growing importance of the categories of fashion, bags & leather and shoes (measured qualitatively).
- Growing importance of the online channel for fashion, bags & leather, shoes and cosmetics & perfumes (measured qualitatively).
- Online channel becoming more important (measured qualitatively).

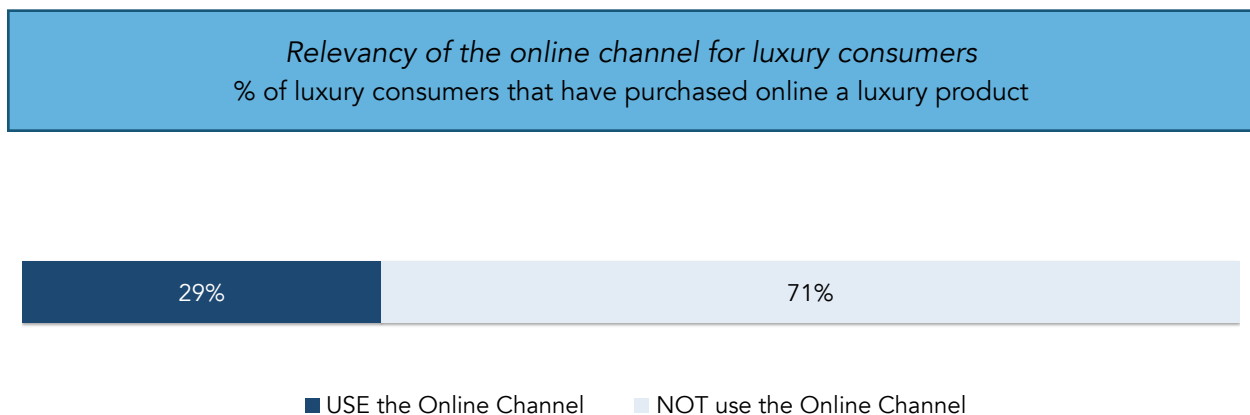


FIGURE 1. Luxury consumption per category.



Note to read the graph. 45% of the total luxury consumer group have bough luxury fashion.

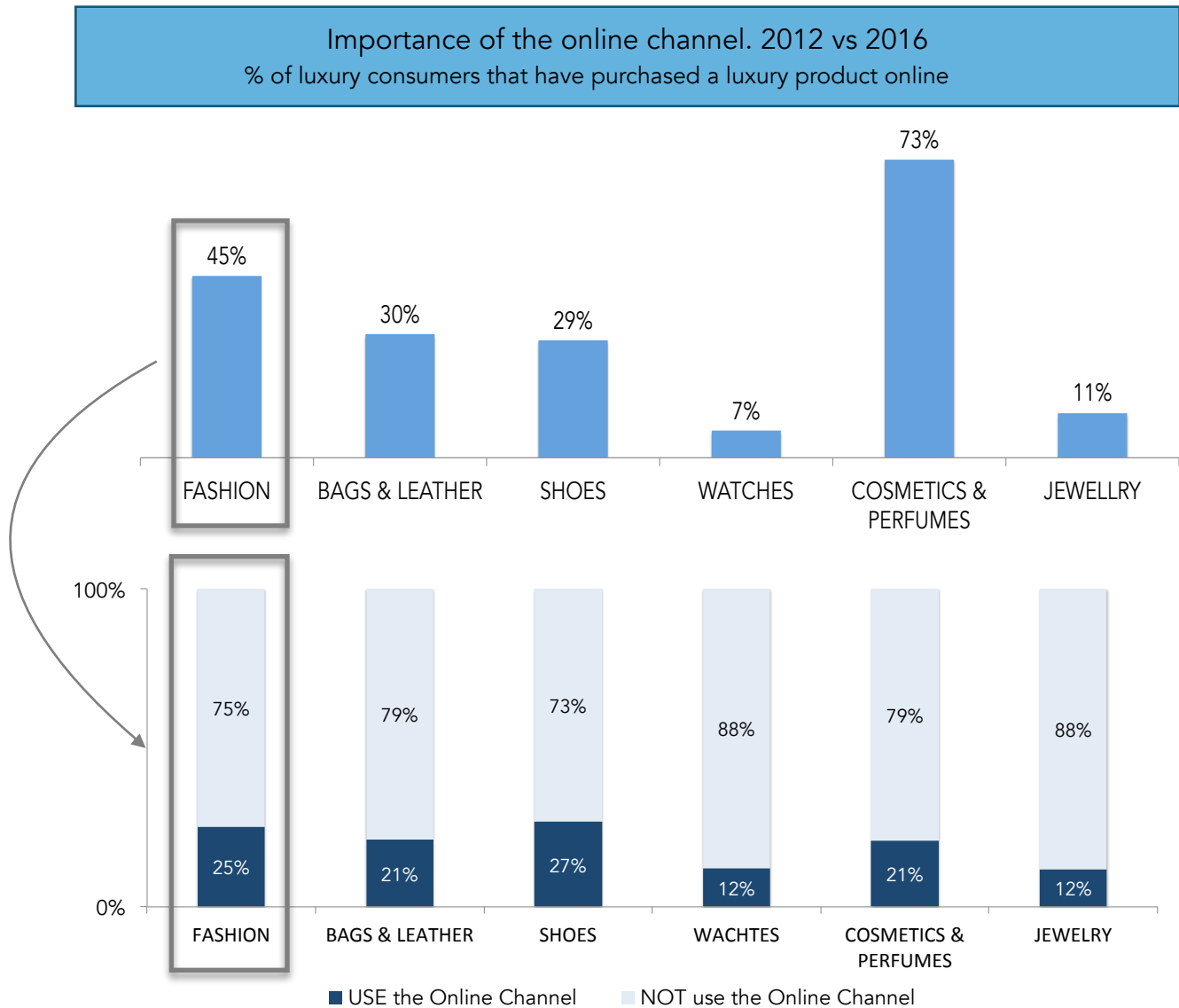
FIGURE 2. Importance of the online channel for luxury consumers



Note to read the graph. 29% of the total luxury consumer group have bough luxury though the online channel.

Note: This is a sound metric to observe how relevant the online channel is to consumers. Please note that this is not represented in terms of frequency or value of sales, since consumers were asked about if they used the channel, but not how often or how much they spent.

FIGURE 3. Importance of the online channel per category



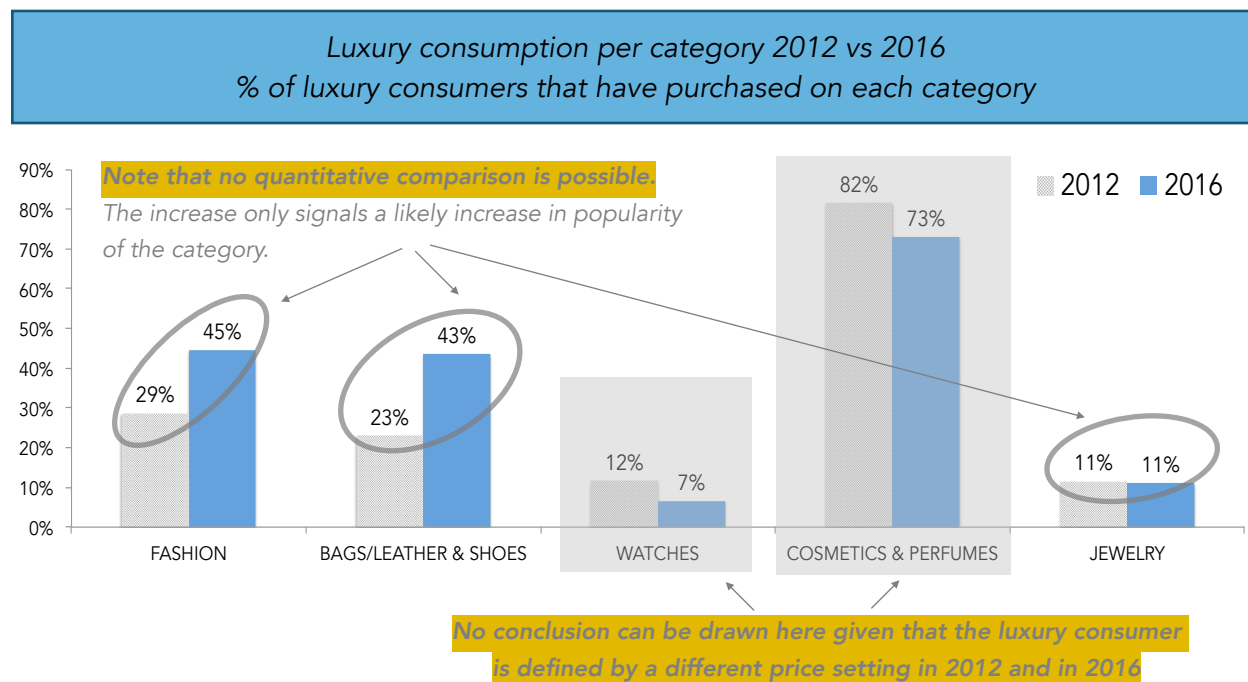
Note on the graph. 25% of luxury fashion consumers have bought luxury fashion online.

Note: This is a sound metric to observe how important the online channel is to consumers in each category. Please note that this is not represented in terms of frequency or value of sales, since consumers were asked if they used the channel, but not how often or how much they spent.

Comparison with the previous study: 2012 vs 2016.

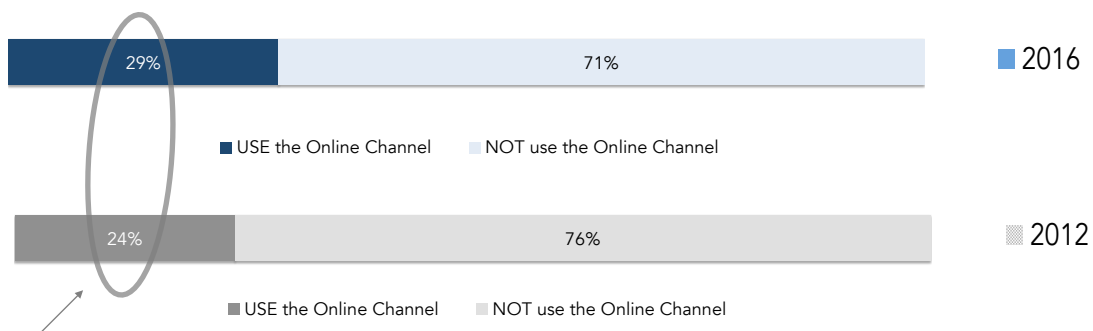
As mentioned earlier, **the higher luxury price used in the 2016 study does not permit a direct comparison between the two studies.** Taking this into account, when a given metric increases, some important aspects can be identified. In the case of a decrease this study is uncertain about the reasons (lower pricing in 2012 or less interest in the market) and therefore no conclusion can be drawn.

FIGURE 4. Fashion and accessories signals an increase in popularity.



Note to read the graph. 45% of the total luxury consumer group have bought at least one luxury fashion product in 2016.

FIGURE 2. Importance of the online channel for luxury consumers.

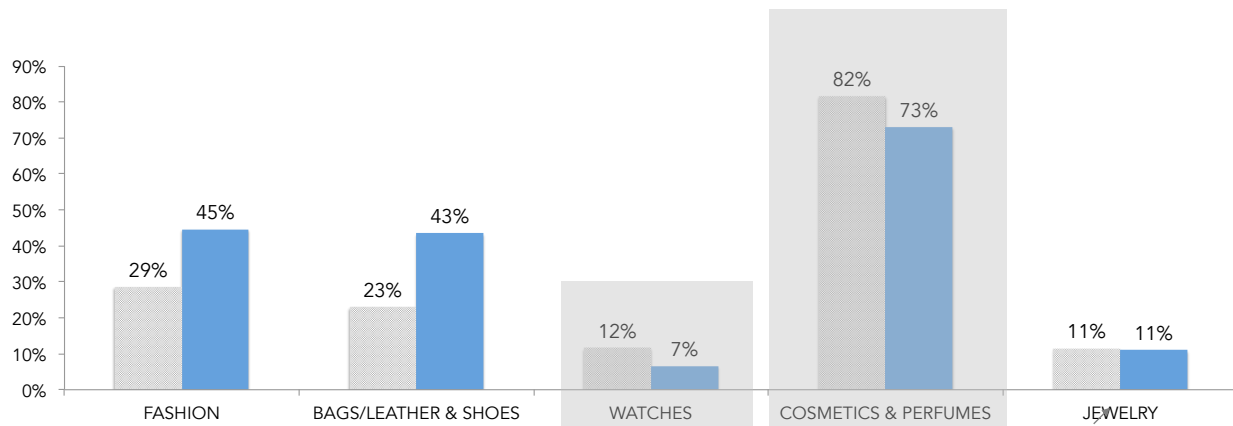


Note that no quantitative comparison is possible.

The increase only signals a likely increase in the relevancy of the channel.

FIGURE 5. Likely impact of the smartphone. Online increase (qualitatively) identified is consistent with drivers of online consumption.

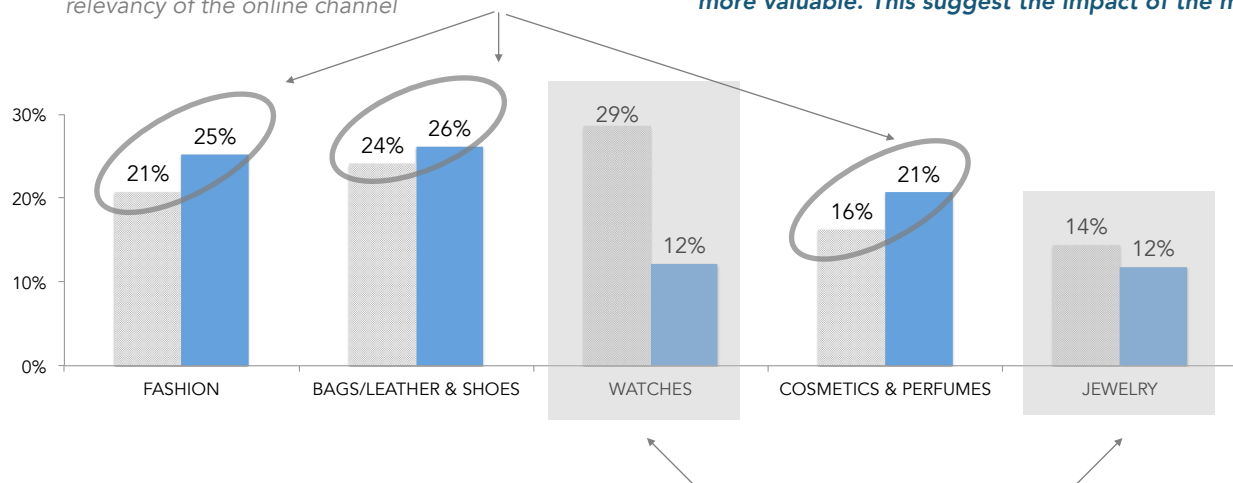
Importance of the online channel. 2012 vs 2016
% of luxury consumers that have purchased a product online in each category



Note that no quantitative comparison is possible.

The increase only signals a likely increase in the relevancy of the online channel

Increase in categories where consumption is more continuous and therefore convenience might be even more valuable. This suggests the impact of the mobile



No conclusion can be drawn here given that the luxury consumer is defined under a different price settings in 2012 and in 2016

Note to read the graph.

FASHION: 25% of luxury fashion consumers has bought luxury fashion online in 2016.

21% of luxury fashion consumers has bought luxury fashion online in 2012

Attitudes, values and consumption motivations towards Luxury

Attitudes and values

- No significant differences in the attitudes towards and values concerning luxury across the different generations.
- Slight leaning towards expressive benefits for millennials, although not a main consumption motivation.
- Corporate Social Responsibility (CSR) perceived as a strategic area for luxury firms across the different generations.

Consumption motivations: Customer Journey

- Physical retail format still predominant as the consumption channel for all generations.
- Use of mobile phones dominates in an era where multi-platform is the norm for all generations.
- Personal experience and official media dominates as the means of accessing information and weighing up a purchasing decision.
- Online consumption is driven by convenience for all generations. For millennials, choice is also a top motivating factor.
- Traditional retail consumption is driven by the in-store experience (touching and feeling, and the experience of shopping).
- Top drivers for online and traditional consumption do seem complementary rather than substitutive.



FIGURE 6. Attitudes towards luxury products does not signal a major shift.

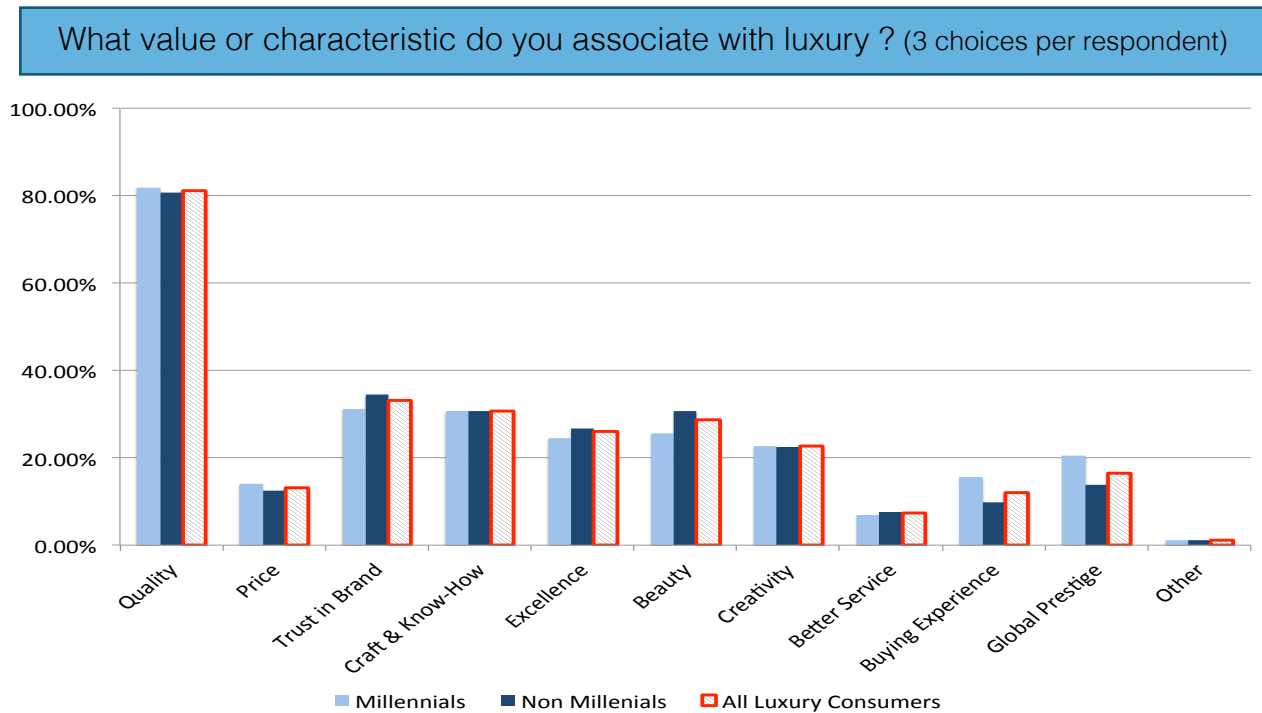


FIGURE 7. Top motivations are homogeneous. Differences appear in expressive driven motivations.

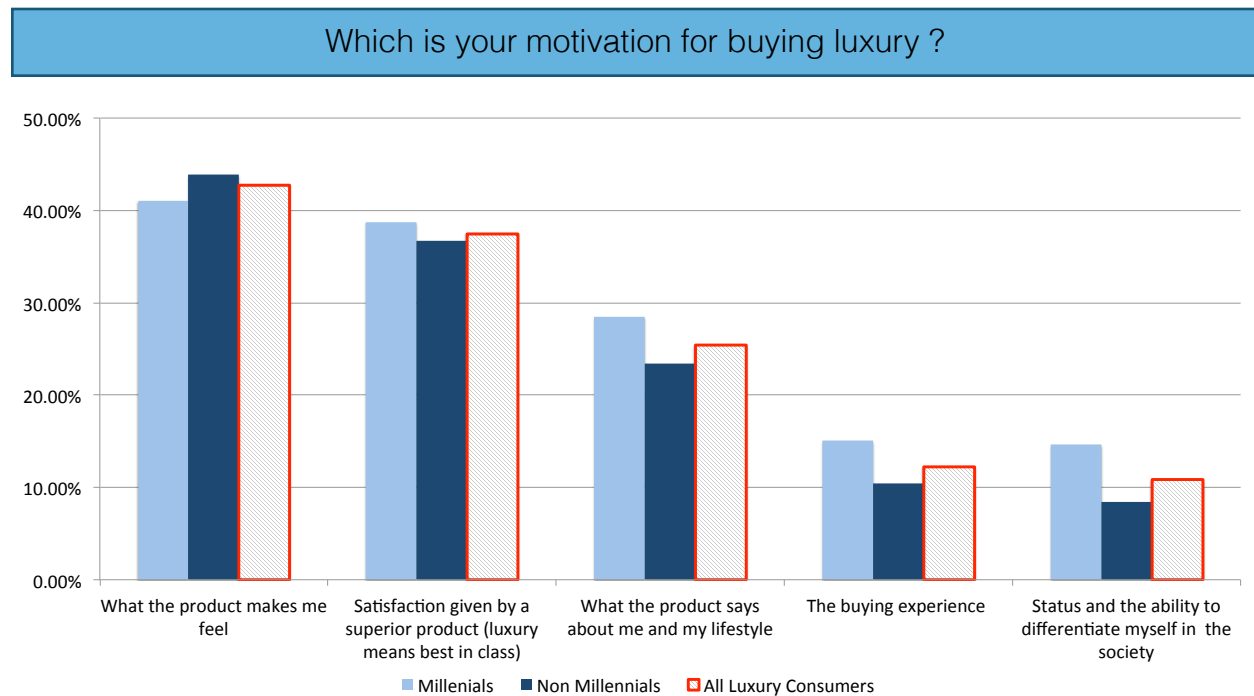


FIGURE 8. The majority of consumer perceive CSR as a strategic issue.

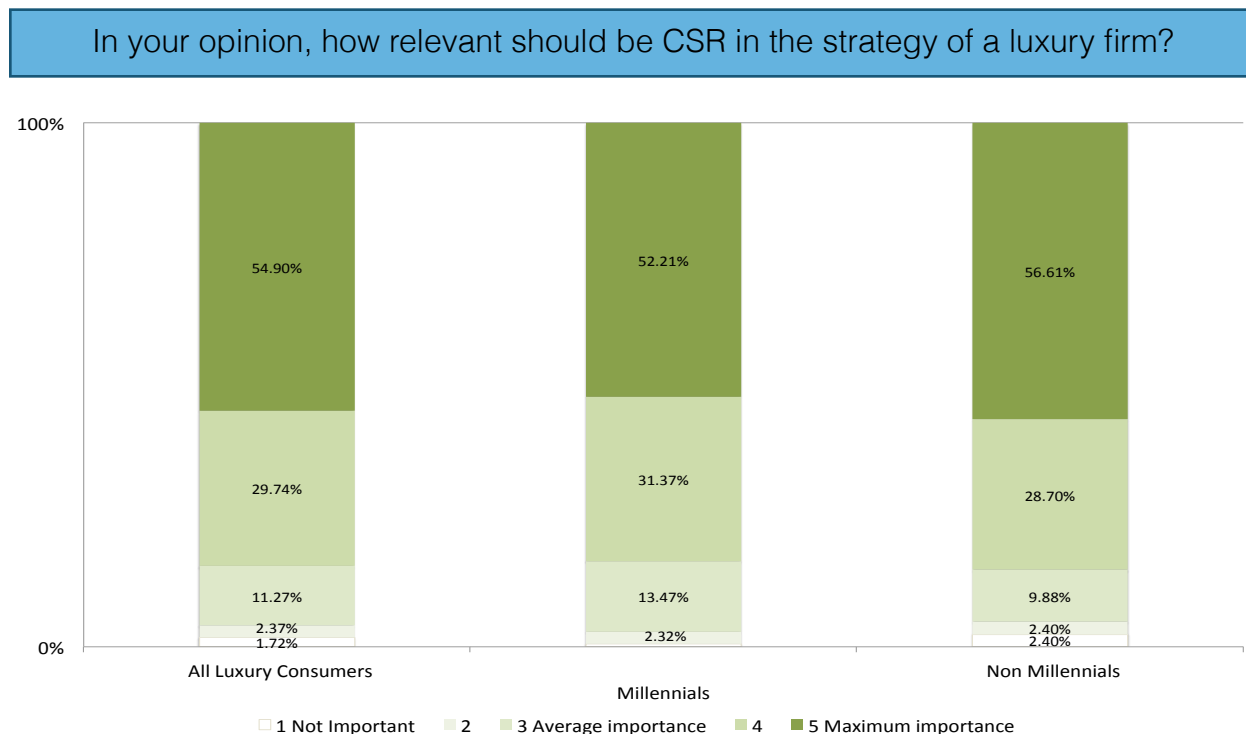


FIGURE 9. In gathering information, experience and official media dominates. Social media is more relevant for Millennials, but still is not a top driver.

The consumer journey: Step 1 - Searching for Information
 How relevant are these channels for getting INFORMATION before making your luxury purchase ?



FIGURE 10. When taking the decision, experience and official media dominates. Social media is more relevant for Millennials, but still is not a top driver.

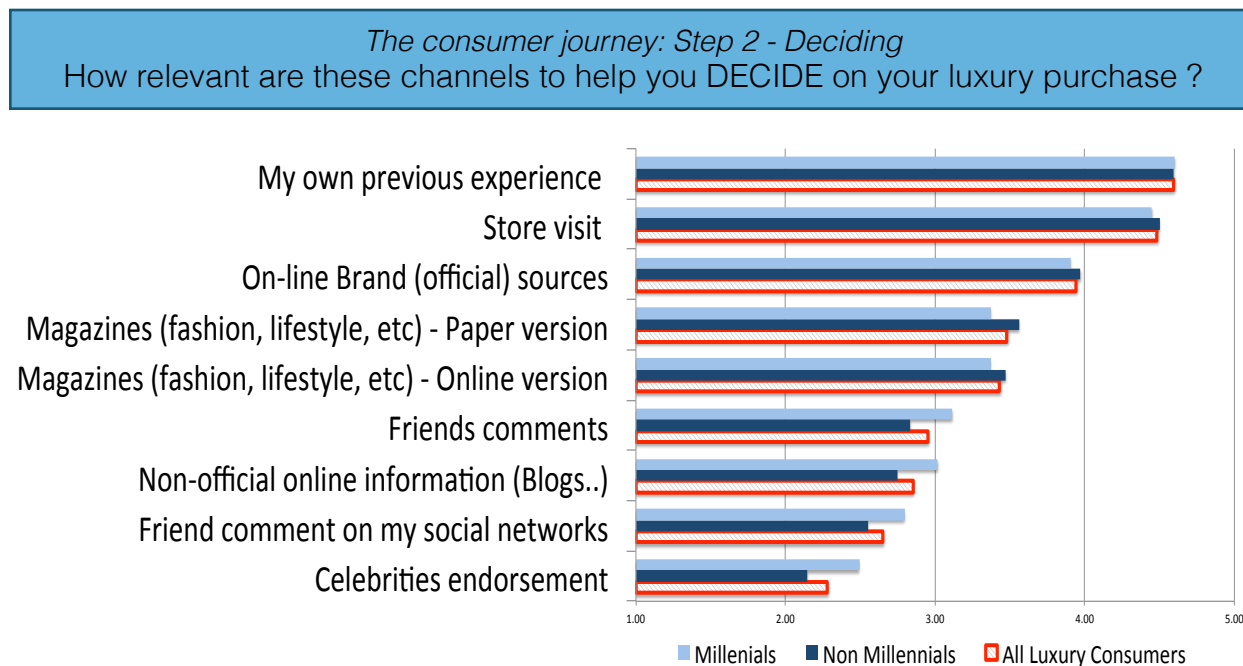


FIGURE 11. Retail format still dominates across all generations. No significant preference of online formats for Millennials vs Non-Millennials

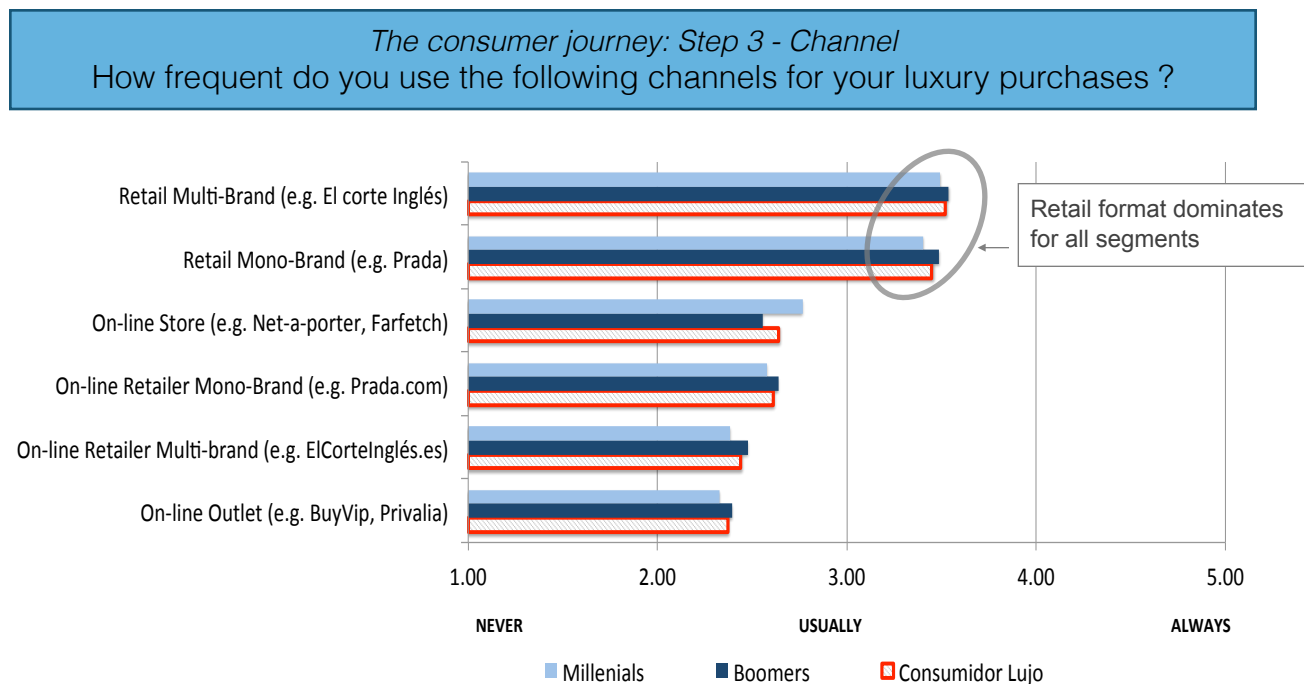


FIGURE 12. Online consumption shows different meanings. Convenience dominates for all, but product scope characterises Millennials consumption.

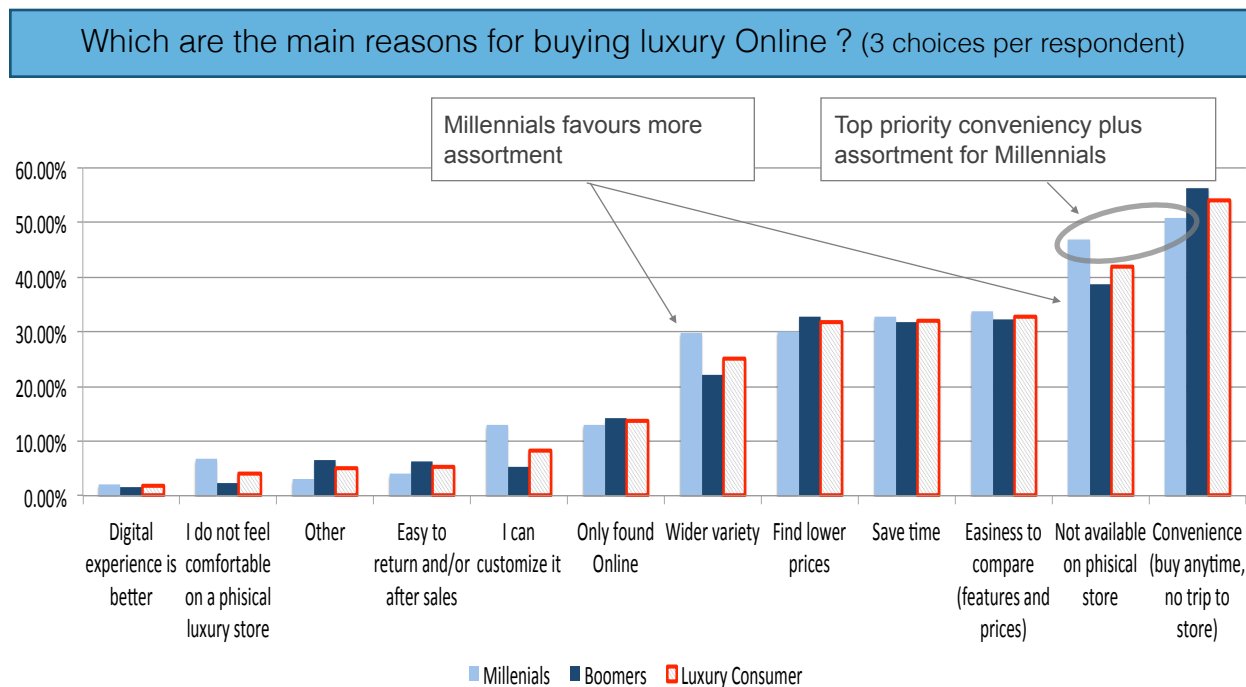


FIGURE 13. Retail consumption driven by experience though all generations. Millennials more concern with shipping.

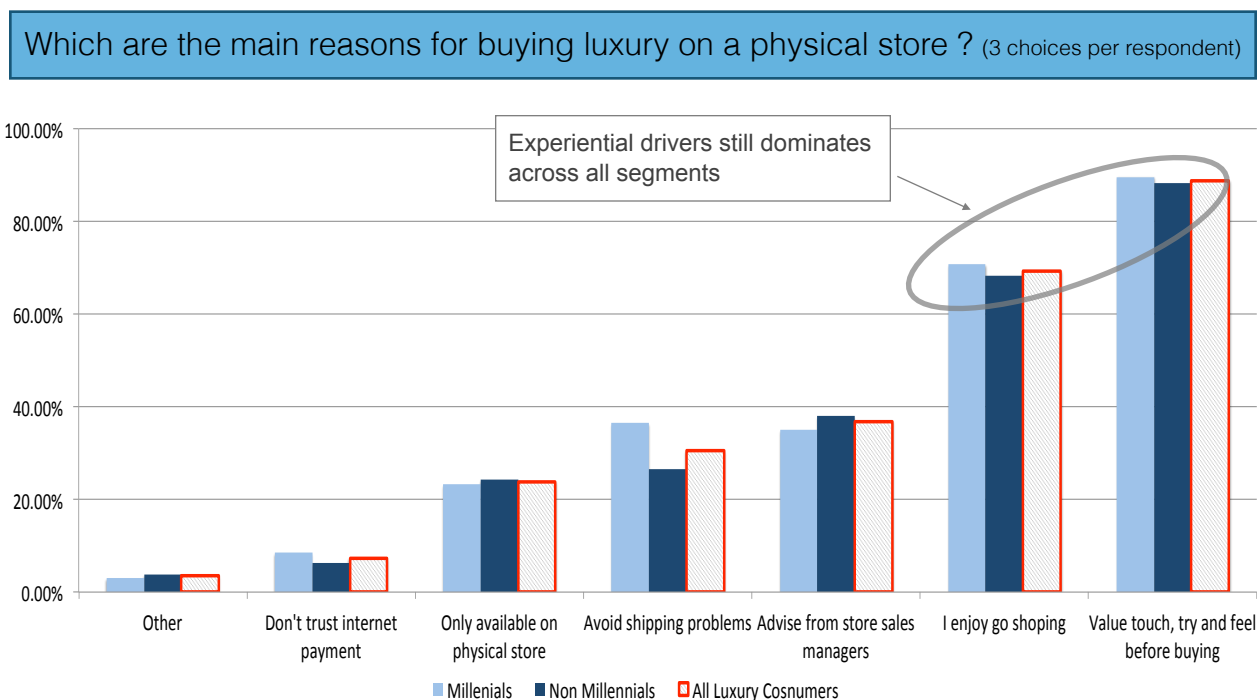


FIGURE 14. Retail format is still the cornerstone of the luxury business model for all generations. Millennials are more influenced by their online search.

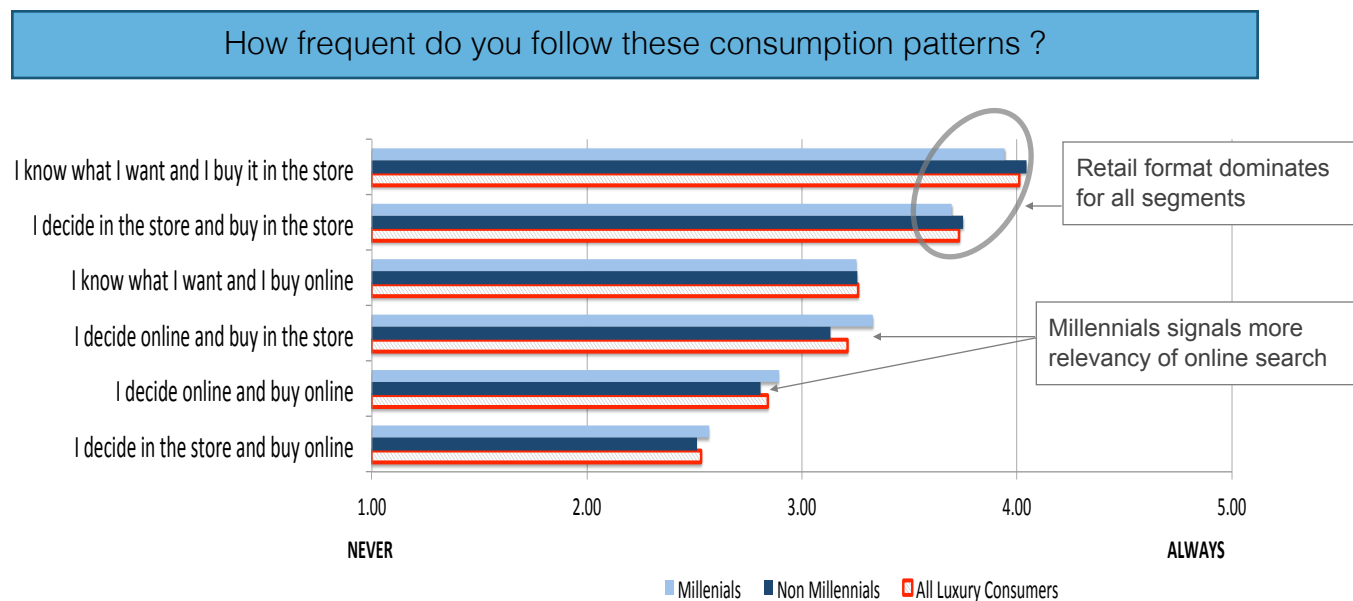
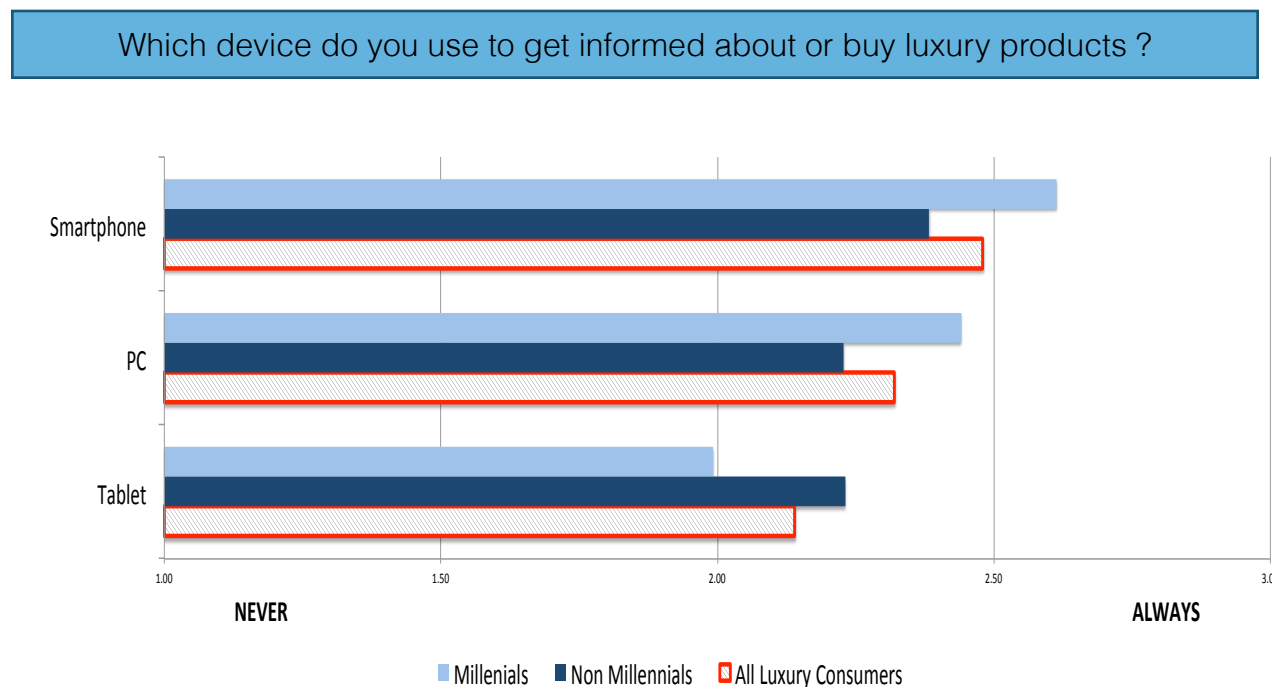


FIGURE 15. Multi-device web access. Mobile phone dominates all categories. PC still relevant for Millennials, Tablets for Non-Millennials.



Luxury consumption and social media

- The approach to social media reveals significant differences across generations.

Reasons to share content

- **Intensity** – the millennial generation displays a much more intensive use of social networks across all the different reasons for sharing content.
- Millennials are driven by personal image and social interaction when sharing content.

Type of content shared

- Millennials also characterized by intensity as they share more content
- Non-Millennials driven by distributor role: content shared is official and for informative purposes.
- Millennials driven by distributor role, but also by a creator role: content shared is created by themselves (own images, videos and opinions).

Media used to share content

- Millennials follow multi-platform approach (led by Instagram, WhatsApp and Facebook).
- Non-Millennials characterised by a more concentrated use of WhatsApp.



FIGURE 16. Significant disparity. Millennials driven by personal image and social influence.

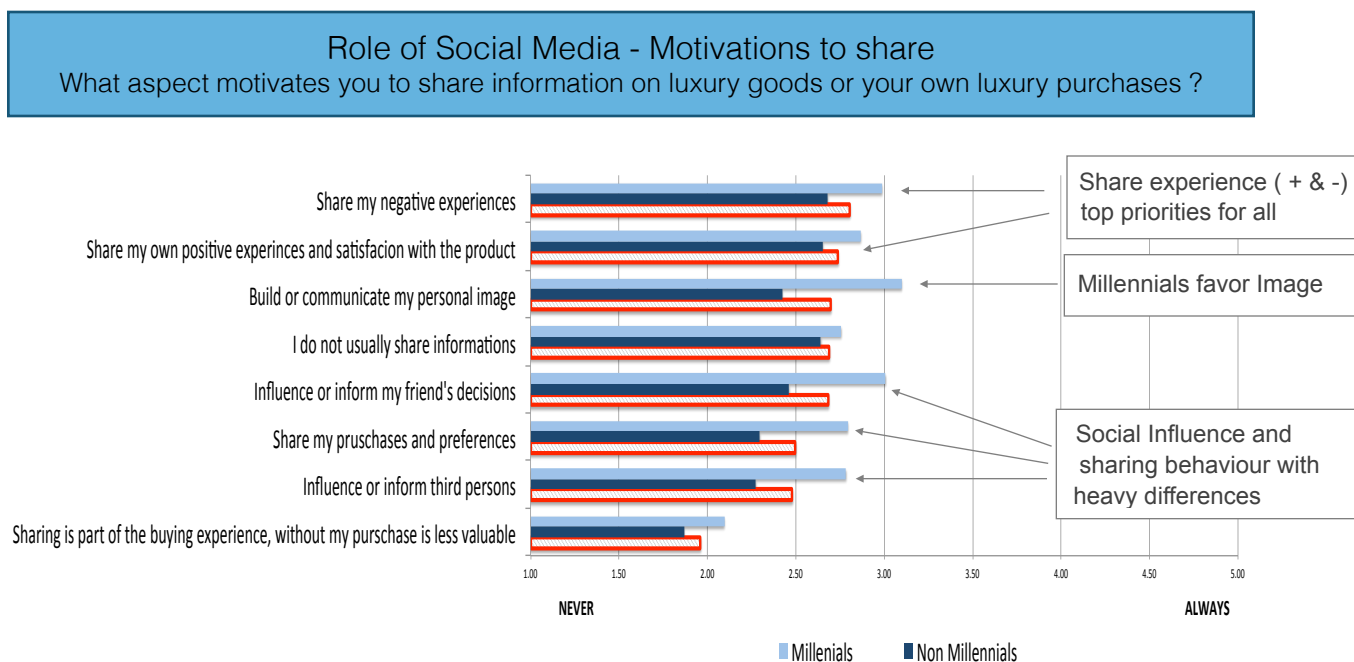


FIGURE 12. Significant disparity. Millennials follow a generator role, while Non-Millennials follow a distributor role.

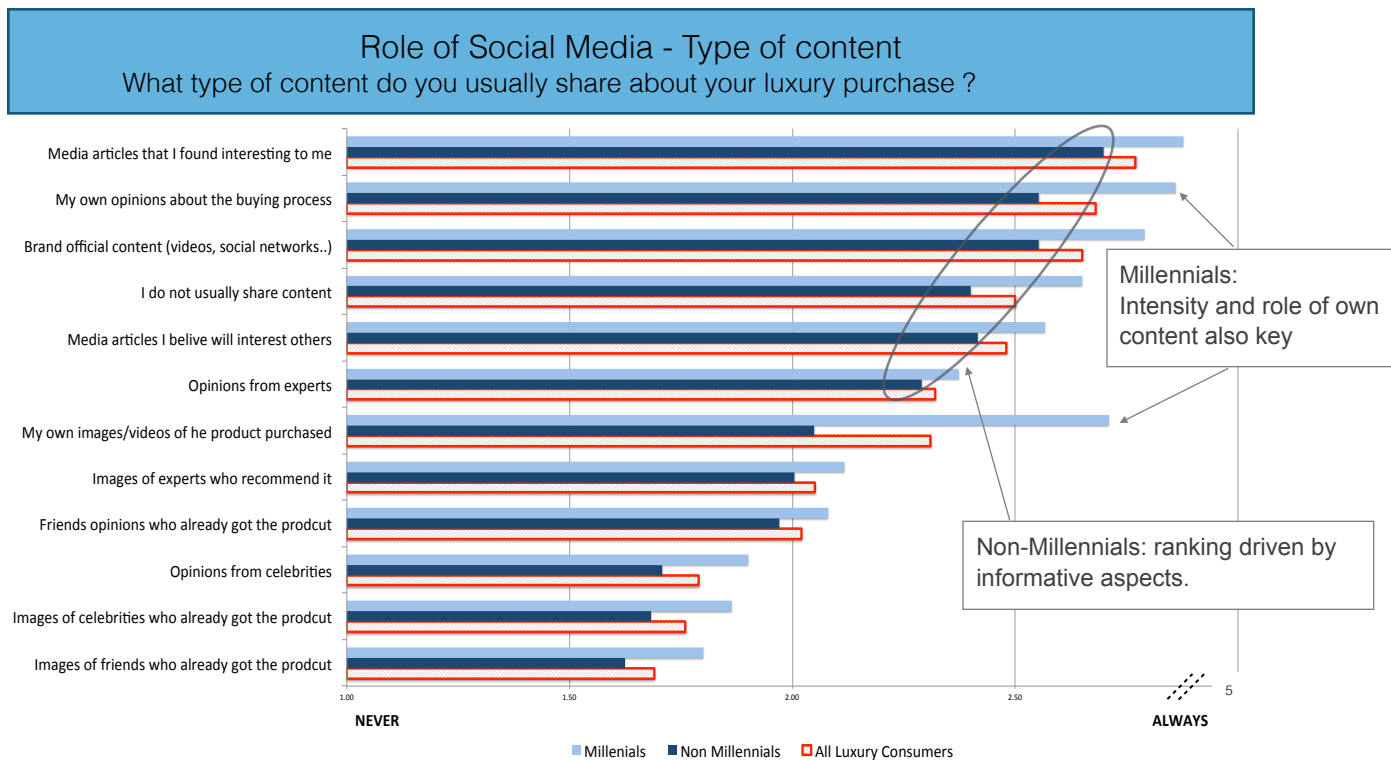
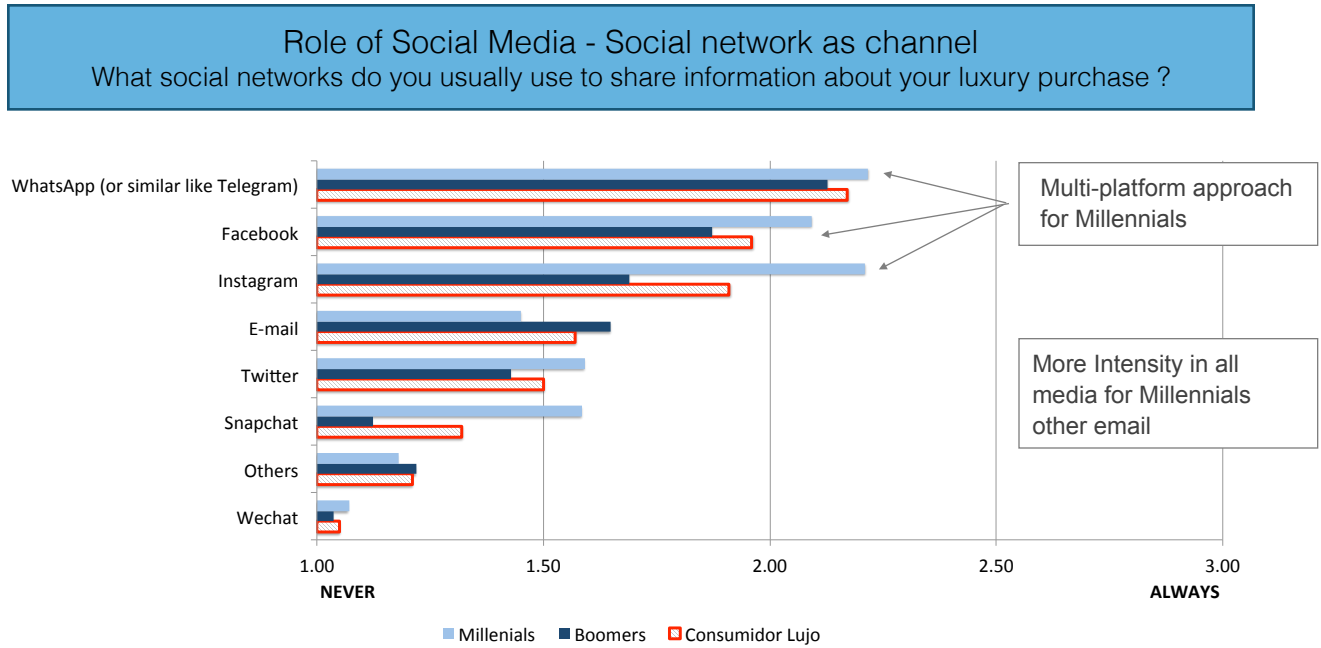


FIGURE 13. Significant disparity. Multi-platform and intensity characterises Millennials.



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