Measuring and Managing Service Performance of Luxury Stores: Development of a Balanced Scorecard

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Customer satisfaction through service excellence has long been a neglected topic in luxury stores. Today, however, luxury firms need to differentiate themselves at the point of sale by reinventing and restructuring their service offers. An optimal and brand-consistent service performance can only be ensured by a structured management approach. This paper aims at developing a balanced scorecard for the optimal management of the service in luxury fashion stores. The findings are drawn from literature analysis and are empirically validated by industry experts. The presented scorecard builds the first scholarly performance management tool that is adapted to the particularities of the luxury market.

1. Introduction

A 2011 McKinsey study analyzing the luxury market concludes “delivering exceptional service in stores is critical; two out of three consumers are disappointed with the indifferent attitudes of salespeople” (Atsmon et al., 2011) and herewith stresses the crucial role of service quality in luxury retail which has long been neglected by luxury firms (Kapferer; Bastien, 2009a). Yet, the fight for customers has finally arrived in the market: new upcoming brands attract the established luxury brands’ clientele; society’s mind set has changed and “cheap” is no longer in disgrace by wealthier classes (Kapferer; Bastien, 2009a; n. a., 1996). When shopping luxury items the experience – rather than the product – is key.

The luxury market’s answer to these changes lies at the point of sale. Leading luxury companies such as Prada invest heavily in flagship store “temples” to offer a unique brand experience to customers (Bentley Hale, 2004). Additional services such as repairs, guarantees or product personalization are offered (e. g. Hermés, Louis Vuitton) and, finally, efforts to optimize overall in-store service quality can be observed throughout the market (Bengt, 2009).

While expenses for building new stores, renewing existing points of sale as well as for hiring and training personnel rise, shareholders of luxury conglomerates are calling for higher revenues (Hoynodoff et al., 2010; Capello; Ravasi, 2009). Thus, luxury companies need to bridge the gap between mass market settings, i. e. increasing cost pressure, an accelerated turnover of merchandise as well as increasing store sizes, and luxury market conditions, e. g. a highly labour-intensive selling procedure,
a feeling of exclusivity that has to be transmitted to the visitors of the store as well as individualized services (Han et al., 2010; Kapferer; Bastien, 2009b; Chevalier; Mezzalovo, 2008).

The dilemma of managing an increasing number of products and, more important, an increasing number of employees at an even higher quality level must be tackled by efficient store management. However, luxury retail is still deficient in holistic performance measurement and management tools such as the Balanced Scorecard (BSC), which are frequently applied in the manufacturing industry and by global retailers (Dobson, 2005).

Scholars agree that performance measurement and management systems
\(^1\) (PMS) have to obey to the laws of the respective industry (Fitzgerald et al., 1991) and that it is not only necessary to distinguish between service organizations and manufacturing organizations, but explicitly adapt management frameworks to the specifics of the market an organization is operating in (Denton; White, 2000). As a consequence, literature on performance management increasingly covers industry- and market-specific models, such as the healthcare (Dey et al., 2008), hospitality (Sainaghi, 2010) and banking (Avkiran, 1997) sector.

When it comes to the luxury industry, scholars refer to the “anti-laws” of managing luxury organizations (Kapferer; Bastien, 2009a) and herewith stress the particularities of the market that have to be incorporated into all management processes of luxury firms. Literature analyzing mechanisms of this market, however, mainly focuses on luxury brand management as well as luxury consumption. Controlling and managing processes at the point of sale have not been discussed at scholarly level yet. This paper closes that gap and intents to lay the groundwork for further research on retail performance management in luxury organizations.

This paper aims at conceptualizing and empirically validating a framework that includes quantitative as well as qualitative key performance indicators (KPI) for the effective and efficient management of luxury stores while adhering to the service standards of the segment.

### 2. Methodology

In order to conceptualize a PMS that is adapted to the mechanisms and specificities of the luxury market, a thorough literature review on luxury consumption and luxury brand management analyses the demand side of the respective market. Luxury store characteristics (LSC) are identified that describe the strategic imperatives the management of a store has to follow in order to meet the consumer’s idea of luxury and preserve the brand’s luxury image.

A second literature analysis focuses on store image and derives luxury store attributes (LSA) that are relevant for building and preserving a luxury image. Whereas

\(^1\) Following Garvin’s statement “If you can’t measure it, you can’t manage it” (Garvin, 1993) the terms performance measurement system and performance management system are used synonymously in this paper.
LSC guide the strategic direction of a luxury store and are intangible in nature, LSA transfer these strategic guidelines into operative management goals, cluster these goals and allow for a clearer assignment of responsibilities within the organization.

LSC and LSA build the strategic and operative orientation of the BSC that is described in chapter 4 of this paper. The BSC comprises a great pool of KPI that are derived from literature on performance and service management. The authors resign from presenting and discussing the total number of KPI that have been compiled during the study due to the scope of the paper at hand.²

The validation of the KPI is carried out by an empirical analysis. Here, a quantitative investigation is not constructive due to the following reasons: First, only experts possess the necessary knowledge and insights regarding management by KPI. Since only a few luxury companies use KPI at all or use different terminology, interview questions will need to be adapted to the respective interviewee and the organization the interviewee is referring to. Further, the degree to which luxury retailers are structured differs from organization to organization, i.e. in some cases the store manager is not the main responsible for KPI surveillance and management. Those companies either employ Performance Managers, Retail Managers, operate with supervising Country Managers, or split the management of store processes between more than only one responsible party. Thirdly, only few luxury brands generate the majority of their revenues via company-owned monobrand stores³, despite the fact that literature and practice identifies this channel the retail format of the future for luxury brands (Kapferer; Bastien, 2009a). Thus, the number of experts available in the market is limited and will not suffice for a standardized quantitative study. Moreover, case study analysis is not possible due to the restrictive information policy luxury companies practice, a lack of comparability of results, and the limited KPI currently in use by organizations of the luxury market.

In conclusion, the authors conduct a qualitative study and use semi-structured interviews to question industry experts. The identification of experts calls for an intensive analysis of the organizational structure of the respective brand and interview questions are adapted to the interviewee’s position and area of responsibility within the organization. The unit of analysis is regionally limited to Germany, by sector (retail), to products (fashion⁴), and to a specific retail format (company-owned monobrand stores, i.e. flagship stores). Sampling is carried out by criterion (degree of luxury⁵, existence of flagship store) and the authors intend to interview representatives of all eight brands identified in the sampling process.

² So far, the authors have compiled more than 200 performance indicators which are currently evaluated by industry experts.
³ Even though luxury brands have been investing heavily into their store networks, many fashion brands still generate a great share of revenue via specialized multibrand retailers (n. a., 2011).
⁴ The product category “fashion” includes clothing, shoes, textiles, accessories and leather goods including luggage; this cluster corresponds to the general assortment of the leading fashion luxury firms (Brun et al., 2008).
⁵ The degree of luxury is determined mainly by product range, price range and exclusivity of retail channels.
3. **Understanding the Mechanisms of Selling Luxury**

3.1. **Determinants of a Luxury Good**

An explicit definition of the term “luxury” cannot be given due the fact that luxury has always been and still is a sociological phenomenon which is closely related to the political and economic development of a country and, more important, to the morals of a society. Scholars, therefore, approximate the concept of luxury by distinguishing an object-oriented and a behaviour-oriented perspective (Lasslop, 2005). The latter refers to the phenomenon of social stratification and the distribution of wealth (Leibenstein, 1950). The object-oriented view attempts to define luxury goods and brands by deriving universally valid characteristics a luxury object has to feature (Nuendo; Quelch, 1998). A great majority of scholarly and other publications covering the topic of luxury refer to Dubois’ studies in which he analyzed customers’ attitudes towards the concept of luxury (Dubois et al., 2001; Dubois; Duquesne, 1993; Han et al., 2010). Dubois offers six determinants an object has to encompass in order to be perceived as a luxury good.

The first determinant of a luxury good is the **quality** of the item. Here, the quality level has to be perceived as considerably higher than the quality level of comparable goods. This determinant refers to all aspects of a product, i. e. materials used are the best of their class, the manufacturing process meets the highest standards of the industry and the accompanying services are excellent (Nuendo; Quelch, 1998). With regard to the fashion industry, products are mainly handcrafted and pass strict quality controls before being offered in the store (Lasslop, 2005).

The second determinant is derived from the behaviour-oriented definition of luxury and refers to the symbolic or demonstrative function of a good; i. e. the higher the price of a product, the supposedly greater is the wealth of the person who purchases that item. Therefore, luxury goods are characterized by a higher **relative price level** than goods that are comparable in form and function. Furthermore, in the eye of the consumer a high price often stands for high quality – a perceived relationship that is often used to justify expensive purchases (Bagwell; Bernheim, 1996). Finally, a high price also serves a consumption barrier for the less wealthy and ensures that luxury products are mainly consumed by a solvent clientele.

This latter price function leads to the third characteristic of luxury products, namely **exclusivity**. Exclusivity refers to a general scarcity of luxury products. The origin of this scarcity can be natural, i. e. natural resources such as diamonds or exotic leathers are scarce and the number of qualified craftsmen to convert these rare resources into a unique piece is limited. This scarcity can also originate artificially when producers intentionally limit their production volumes. In addition to the product volumes available, Kapferer stresses the fact that the exclusivity of luxury products roots in the manufacturing process and that these products are mainly handcrafted or semi-handcrafted. Finally, exclusivity also refers to the chosen channel strategy (Dubois et al., 2001).

The fourth determinant Dubois found in his study is called **aesthetics and polysensuality**. Here, polysensuality describes the look, smell, touch and feel of a product or store environment (Dubois et al., 2001). With regard to aesthetics, a luxury product is often attributed to be tasteful, elegant or fashionable. Thus, luxury goods fulfil an ad-
ditional function for the consumer. For example, wearing a Hermès handbag identifies the person who carries the item as elegant, since the brand is known for its French chic and elegant designs. Polysensuality refers to the material of the product and, especially, the point of sale where the customer wants to experience the exclusivity with all human senses (e. g. Peck; Wiggins, 2006).

Consumers strongly link luxury products to the brand’s history and tradition (Nueno; Quelch, 1998). A long company history or a prominent personality of the firm’s founder procure the luxury brand with a unique market positioning that cannot be copied or caught up with by other or younger companies. This determinant is closely related to the quality characteristic. Products that have been handcrafted from exclusive materials for many decades without undergoing major changes in design or function are expected to last longer and to be of higher quality than mass products. Dubois states that customers expect luxury goods to be “immortal symbols of human creativity and intelligence” (Dubois et al., 2001). Nevertheless, innovation must not be neglected by producers of luxury goods and combined with the luxury house’s tradition and values (Lasslop, 2005).

Finally, superfluousness builds the last of the six determinants of luxury goods. It describes the non-necessity of luxury goods, i. e. the abundance that is incorporated in the material, the way the product is manufactured or even wrapped and, increasingly important, the way the product is displayed and served at the point of sale. The majority of the authors agrees that function is hardly ever the reason for the purchase of a luxury product (Belz, 1994).
Figure 1 depicts the six determinants of luxury goods. Respectively, a luxury good is defined as a good that fulfills all six of the elaborated characteristics to the same or varying degree.

3.2. Attributes of Store Image

Since the 1950ies scholars have been concerned with the question of store patronage, i.e. with analyzing the crucial factors of consumers’ store choices. The term store image was coined and described as “the way in which the store is defined in the shopper’s mind” (Martineau, 1958). The image of a store influences the image the shopper has of a brand which he buys at this particular point of sale (Pettijohn et al., 1992). Thus, luxury stores have to transmit the identity of a luxury brand, so that the image the customer has of this brand is affirmed by each store visit. In line with the concept of brand image, which is defined as “perceptions about a brand as reflected by the brand associations held in consumer memory” (Keller, 1993), a person’s image of a store is determined by certain attributes. In his conceptual analysis Lindquist derived nine store image attributes which have been confirmed by a number of studies (e.g. Burt; Mavrommatis, 2006; Zimmer; Golden, 1988) and, thus, build the conceptual framework for the underlying paper (Lindquist, 1974).

Lindquist names merchandise as the first pivotal attribute of store image, which includes quality, the assortment, the style offered, guarantees, and pricing. More recent work confirms Lindquist’s findings and lists product variety, product quality, merchandise price, merchandise fashion and style as well as merchandise selection (Burt; Mavrommatis, 2006; Birtwistle et al., 1999) as components of store image.

Salesclerk service, the ease of merchandise return, delivery service, the credit policies of the store as well as the service in general account for the second attribute category. Martineau particularly stresses the influence of the sales personnel, which he calls “the biggest single factor in the store” that affects the shopper’s attitude towards a store regardless of the service-intensity of the respective retail format (Martineau, 1958).

Store personnel and service offered are directly linked with Lindquist’s third attribute category, the clientele. Here, the store personnel has to reflect the self-image of the store visitors, e.g. by appropriate apparel and grooming as well as an adequate way of expression, since the “shopper seeks the store whose image is most congruent with the image she [!] has of herself” (Martineau, 1958).

Further, the physical facilities of a store have to be taken into consideration. Darden et al. even found that the physical attractiveness of store facilities has a higher impact on store patronage than product quality, assortment and pricing (Babin; Darden, 1995). While amenities specified by Lindquist – elevator, lighting, air condition, and washrooms – became a matter of course, contemporary literature discusses amenities like sound and smell or concentrates on the analysis of store personality traits, that are influenced by the store layout and architecture, rather than a mere discussion of physical store layouts (Brengman; Willems, 2009).

The fifth store image attribute is convenience which comprises three sub-categories: convenience in general, locational convenience, and parking (Lindquist, 1974). Ma-
zursky and Jacoby also name locational convenience as one important factor influencing store image (Mazursky; Jacoby, 1986).

Sales promotions, displays, advertising as well as symbols and colors are summarized in the attribute category **promotions** (Lindquist, 1974).

**Store atmosphere** builds the next store attribute and is defined as “atmosphere-congeniality”, i.e. “a customer’s feeling of warmth, acceptance, or ease” (Lindquist, 1974).

The reputation and reliability a store has in the eye of a consumer also influences the overall store image. Lindquist counts all factors connected to reputation and reliability to the category of **institutional factors**.

Finally, store image is affected by the **post-transaction satisfaction** of a customer which comprises returns and adjustments offered and the general customer satisfaction with the purchase and the store.

4. **Developing a Balanced Scorecard for Luxury Stores**

4.1. **Managing Services in Luxury Retail**

The effective and efficient management of luxury stores holds complexity in various aspects. First, measuring the quality of intangible goods such as services is a difficult and broadly discussed topic itself. Second, in contrast to producing industries, the personnel of service shops⁶ are in direct contact with the customer and close the transaction. Despite being trained in product know-how and selling procedures, sales persons are rarely familiar with customer-orientated strategies that the organizations focus on. Therefore, achieving and maintaining highest service standards is difficult (Fitzgerald; Moon, 1996). Third, the nature of selling luxury goods shows strong correlations with the nature of professional services rather than that of service shops, i.e. the contact time with the customer is generally long and intensive (Nueno; Quelch, 1998) and, additionally, the degree of customization is high and getting more and more important (Atson et al., 2011).

**Figure 2** depicts Fitzgerald’s **Service Classification Scheme** indicating the characteristics of each category with regard to the number of customers processed. As illustrated, increasing transaction rates per day are opposed to the clientele’s demand for customization and individual services in luxury stores.

Luxury firms need to tackle this growing complexity by implementing KPI which do not only measure the performance of organizational processes, but also support the management of luxury stores and ensure a consistent quality level of in-store ser-

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⁶ Service shops represent one of three categories Fitzgerald differentiates in his “Service classification scheme” which consists of mass services, service shops, and professional services (Fitzgerald; Moon, 1996).
Rather than applying detached KPI in the complex environment of luxury services, these indicators have to be aligned to the corporate strategy of the organization (Kapferer; Bastien, 2009a) and “need to be translated into some system of performance measures used throughout the whole organization, recognising [] that what gets measured gets managed” (Fitzgerald; Moon, 1996).

Fig. 2: Luxury Stores within Fitzgerald’s Service Classification Scheme
Source: Adapted from Fitzgerald; Moon, 1996.

4.2. A Balanced Scorecard for the Management of Luxury Stores

Since the beginning of the scholarly discussion about performance measurement in the 1980ies, a number of different performance measurement frameworks has been developed, of which the BSC by Kaplan and Norton is the most commonly accepted tool by scholars as well as by practitioners (Thakkar, 2007).

The BSC translates the mission and strategy of an organization into company goals and from these goals, specific measures can be derived in order to achieve the set goals.

Historically, KPI originate from the field of accounting and controlling and were primarily used as a financial measurement tool. Today, performance measurement includes a variety of KPI that are derived from different business dimensions (Dobson, 2005).

Fitzgerald et al. developed a determinants and results matrix for measuring the performance of service firms (Fitzgerald, 1991); Lynch and Cross elaborated the SMART performance pyramid (Lynch; Cross, 1991); Neely et al. extended the reference group of performance measurement and derived a stakeholder-orientated performance prism (Neely et al., 2002).
targets (Kaplan; Norton, 1992). It is a flexible framework that has been adapted to industrial as well as service organizations over the last two decades (Dey et al., 2008). The BSC comprises quantitative as well as qualitative aspects, which is vital in service environments (Fitzgerald; Moon, 1996). Kaplan and Norton’s system also pays tribute to interdependencies and causalities between the KPI (Kaplan; Norton, 1992). Moreover, the BSC is not a rigid but a flexible tool, that can be adapted to the respective organization and, finally, it allows for a holistic view on the organization as a whole (Evans, 2005).

The BSC distinguishes four dimensions that are interrelated with each other and build a line of cause and effect (Fitzgerald; Moon, 1996). The fourth perspective “Innovation and Learning” describes the knowledge and development of members of an organization and, thus, influences the quality of the processes within the firm. These processes are measured within the third dimension the “process-oriented” or “internal” perspective. Through effective processes high quality is delivered leading to customer satisfaction which is the focus of the “customer-oriented” perspective. Finally, the BSC measures financial indicators within the “financial” dimension (Kaplan; Norton, 1992). Additionally, the four measurement categories are not only linearly related, but are also interdependent from each other (Evans, 2005).

The four perspectives are aligned to the company’s strategy (Kaplan; Norton, 1992) and each dimension is broken down into specific goals and the respective KPI. Additionally target values and measures to achieve these targets can be added. Figure 3 illustrates the four perspectives of the BSC framework.

![The Balanced Scorecard](source: Adapted from Kaplan; Norton, 1992.)
4.2.1. Luxury Store Characteristics as Strategic Alignment

A brand’s identity, and thus, its image\(^9\) is transmitted via all associations the consumer has with this brand (Aaker, 1997). Therefore, a retail brand’s attention has to lie particularly on the point of sale, as it is the first and generally the only physical touch point between the consumer and the brand – besides the product itself. Applying this reasoning to the management of luxury stores, it has to be concluded that the strategy for managing such a point of sale must incorporate the image of luxury in order to be perceived as a luxury store. Figure 4 illustrates the correlation between brand identity, brand image, brand associations and the influence of store attributes as described in chapter 3.2.

![Diagram](source)

Fig. 4: The influence of brand associations on brand image
Source: Own illustration.

Chapter 3.1 comprised the six characteristics a good, respectively, a brand has to fulfil in order be perceived as luxury.\(^{10}\) Based on these luxury characteristics the fol-

\(^9\) Following Kapferer’s understanding of brand identity, the authors define brand identity as the brand’s self-image whereas brand image describes the associations the consumer has with that brand (Kapferer, 1992).

\(^{10}\) In their study Dubois et al. describe the six “Visions of Luxury” as characteristics of luxury goods. In scholarly discussions following Dubois authors also apply these determinants to luxury brands (Dubois et al., 2001; Brun et al., 2008; Lasslop, 2005).
lowing paragraphs attempt to derive Luxury Store Characteristics (LSC) which build the strategic framework for managing luxury stores and which must be followed in order meet the customer's idea of luxury and preserve the brand's luxury image.

In line with the first characteristic of luxury products excellen in the service at the store and after the purchase has to be ensured. Luxury purchases can be regarded as high involvement purchases. Involvement describes the degree of motivation and interest in the product as well as in all product-related information the consumer shows (Kapferer; Laurent, 1985; Puccinelli et al., 2009). The higher the interest, the longer the time a consumer spends in the store and the more intensive the selling procedure (Lueg et al., 2006). With regard to the service processes, the luxury firm has to ensure in-depth knowledge about product materials and manufacturing, care instructions and additional services (personalization, care instructions, etc.) as well as product design and history. Since most luxury firms serve an international clientele, each store has to ensure the employment of personnel that are capable of serving in the languages demanded. And, since this international clientele shops in diverse point of sales of one brand, the service procedure has to be standardized globally. Further, the store personnel have to be trained to build relationships with the customers, e.g. actively call customers when new products arrive, invite clients to store events, and send greetings to the customer's birthday. With regard to after sales standards, luxury brands commonly offer a range of services such as delivery, repair and adjustment, and customization services.

At the point of sale the criterion of exclusivity takes shape with regard to stock availability. Whereas in other retail segments product availability is a key success factor, luxury consumers are not deterred from the brand in case of out of stock situations (Kapferer; Bastien, 2009a). Up to a certain threshold of time, the rule is: the longer a customer waits for a product, the more desirable the brand (Chevalier; Mezzalovo, 2008). With regard to the service and stock management luxury brands have to efficiently manage waiting lists; i.e. before opening waiting lists for limited products, preferred customer groups – according to their customer lifetime value – have to be informed and offered the opportunity to be listed for the special editions (Brun et al., 2008).

Aesthetics and polysensuality are reflected in the third LSC, the aesthetic appeal of the point of sale. One the one hand, the physical facilities of the store have to be in line with the brand’s aesthetics and must transfer the criterion of exclusivity and superfluousness. On the other hand, the service personnel are subject to these aesthetic standards, too. This in turn influences recruitment processes and, particularly, the management of the staff in the store. Generally, personnel at luxury stores are equipped with uniforms and must obey to strict grooming guidelines, such as wearing the brand’s own lipstick, styling the hair in a prescribed way, and not wearing flashy jewellery.

Especially companies with a long history openly communicate about their heritage and ensure that this heritage – often in combination with design innovation – is made visible to the customer at the point of sale. Younger luxury firms try to convey a certain lifestyle to the consumer and demonstrate this lifestyle in the physical facilities of the store as well as via the service personnel. The transmission of the brand’s history, tradition and lifestyle is summarized as conveyance of the brand’s competence.
The fifth LSC mainly applies to the layout of the store, its architecture as well as the service in the store. With regard to store management, an architectural feeling of plethora is of importance in terms of renovations and minor works in the store. With regard to service processes, a feeling of plethora can be transmitted e.g. by serving drinks or offering opulent gift wrapping.

Despite the fact that Dubois et al. name price as an important criterion of a luxury product, pricing is not included in this discussion of LSC due to several reasons. First and foremost, pricing in luxury companies is never organized at store level, but at country level or a higher hierarchy level. Second, even though the price might be the determining factor of conspicuous consumption (Han et al., 2010), a status consumer does not wish to be approached actively with the cost of the products at the point of sale. The price should be mentioned when demanded by the customer, discretely displayed in the store windows, and be attached inconspicuously to all products available in the store.\footnote{German law strictly regulates the display of prices in the \textit{Preisangabenverordnung (PAngV)}.}

In conclusion, LSC build the strategic framework for all four dimensions of the BSC for the management of a luxury store. These five characteristics are interlinked with each other and – in line with the six characteristics of luxury – are effective as a whole for the strategy of luxury stores.

4.2.2. Luxury Store Attributes as Management Goals

After the derivation of the overall strategic alignment of the luxury store and the elaboration of the five rather intangible LSC, this chapter focuses on condensing the Luxury Store Attributes (LSA) through which the strategic specifications can be implemented into tangible store goals.

Lindquist held service and post-transaction satisfaction responsible for building store image. With regard to store management, sales service and after-sales service are crucial levers for setting store management goals.\footnote{In line with Fitzgerald’s reasoning of determining and resulting KPI, post-transaction satisfaction is regarded as an effect of adequate sales and after-sales service rather than a cause and, thus, does not qualify as LSA (Fitzgerald et al., 1991).} Whereas Lindquist includes the ease of merchandise return and delivery service into his service-attribute, all value added services are counted among after-sales services as well as repairs, adjustments, personalization services, and complaint handling.

The third LSA refers to the store’s clientele and is strongly linked with Lindquist’s clientele category, in which the congruence of the customer’s self-image with the store’s image is described. When it comes to luxury, shopping motives are mostly of hedonic nature (Kapferer; Bastien, 2009a; Bäckström, 2006). Luxury consumers shop in order to indulge themselves and to reward themselves for an achievement (Babin et al., 1994). Today shopping is also seen as a leisure activity (Bäckström, 2006) and shopping luxury goods often involves shopping for gifts (Chevalier; Mezzalovo, 2008). Additionally, shopping for fashion items is a very personal and individual occasion.\footnote{Clothes have three major functions: the protection function, i.e. clothes protect a person from environmental influences; the shame function by covering up the naked body; the decorating function. By} Thus, shopping for luxury clothes is particularly delicate and calls for

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\end{footnotesize}
a discrete and individual service. Therefore, all KPI clustered within the clientele category must aim at a long-term client-relationship.

**Store architecture** constitutes the fourth LSA. Here, store management has to ensure that LSC, such as the conveyance of the brand’s competence as well as a feeling of plethora, have been accounted for in the general layout of the store. During day-to-day business minor works and the constant maintenance of store facilities have to be taken into account. Additionally, when stock or packaging volumes change considerably or more staff is employed, stock as well as staff areas need to be adapted in order to ensure efficient work flows.

Finally, **store atmosphere** describes the overall feeling of comfort. Whereas Lindquist defined store atmosphere as the customer’s feeling of warmth and acceptance, luxury customers want to feel unique and exclusive. Thus, the number of visitors in the store and the number of sales persons are indicators that account for a feeling of privacy and uniqueness which should be the goal when it comes to store atmosphere in luxury environments.

With regard to Lindquist’s store attributes accounting for a store’s image, four attributes have not been included as LSA. First, **institutional factors** were eliminated since reputation and reliability are attributes that are reflected in the sales and after-service as well as in the brand itself, and thus, do not require separate consideration. Second, **convenience** is not applicable in the luxury market since it is diametrically opposed to the criterion of exclusivity. Luxury customers accept and even call for high transaction costs when buying luxury goods, e.g. the price, a long journey to the next store, and a long waiting time until the arrival of a limited item. Similarly, **promotions, displays, and advertising** in the store are opposed to the concept of luxury. Luxury firms such as Louis Vuitton and Hermès never reduce prices, promote sales, nor give any other rebates. Visible advertising in the store complies with the overall brand image and is generally directed by global visual merchandising departments rather than by the store management itself. Finally, **merchandise** is excluded due to similar reasons than price was excluded as LSC. Store management has no or hardly any influence on the merchandise offered in the respective store. As mentioned before, luxury firms operate globally and must ensure a strict product policy in order to build on their brands’ strengths (Nueno; Quelch, 1998). Therefore, the product offer is strictly regulated and varies only in volume but not in styles, models, sizes, etc. from store to store.

### 4.2.3. Key Performance Indicators and Target Values

Deriving universally valid KPI for the stores of all luxury brands is, of course, impossible due to each brand’s particularities regarding product categories, channel policy, and brand specificities. However, a large number of KPI should be applicable to the majority of luxury brands since the core of these brands, namely the concept of luxury, holds true for all firms operating in the luxury market.

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decorating the body with certain clothes or jewels the wearer sends a message to his environment. By dressing in a certain way, a personal assimilates to a particular group and demonstrates dissimilarity to other groups (Solomon; Rabolt, 2009; Sommer; Wind, 1991). Thus, clothing is directly linked to the personality of an individual.
Table 1 shows the two dimensions of the BSC, the customer-oriented perspective and the innovation and learning perspective, and exemplary KPI attributed to the respective LSC and LSA.

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<td>Service Excellence</td>
<td>Sales Service</td>
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<td>Exclusivity</td>
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<td>Av. cost of personal customer gifts</td>
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<td>Aesthetic Appeal</td>
<td>Store Architecture</td>
<td>Av. cost of works per sqm</td>
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<td>Brand Competence</td>
<td>Store Atmosphere</td>
<td>Av. cost of additional personnel (wrapping, doorman, stock room, etc.)</td>
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<td>Feeling of Plethora</td>
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<td>Service Excellence</td>
<td>Sales Service</td>
<td>Av. personnel productivity (sales/personnel)</td>
</tr>
<tr>
<td>Exclusivity</td>
<td>Clientele</td>
<td>% of customer data completed</td>
</tr>
<tr>
<td>Aesthetic Appeal</td>
<td>Store Architecture</td>
<td>Av. size of dressing rooms</td>
</tr>
<tr>
<td>Brand Competence</td>
<td>Store Atmosphere</td>
<td>Av. waiting time to be served</td>
</tr>
<tr>
<td>Feeling of Plethora</td>
<td>After Sales Service</td>
<td>Av. time of repair</td>
</tr>
</tbody>
</table>

Table 1: Exemplary KPI for the management of luxury stores.

5. Implications, Limitations and Further Research

This paper aimed at conceptualizing and empirically validating a framework for the effective and efficient management of luxury stores and should be seen as a work within the field of applied research that covers a current and most relevant issue the luxury retail industry is currently facing. For the first time in scholarly literature, strategic imperatives for the management of the point of sale in the luxury segment were derived (LSC) and combined with store attributes (LSA) that are significant for building the luxury store image. With this framework, luxury firms are able to structure their KPI that are already in use and enlarge their operative management by additional KPI in order to ensure a holistic management of their stores.

The results of the ongoing interview phase prove the practical relevance of this paper: all of the – so far – seven interviewees strongly support the need for a holistic performance management tool in luxury retail; two interviewees confirmed that their
companies are currently working on the development of KPI for the measurement of store performance. Additionally, nearly all derived KPI were validated, with a strong trend towards the financial dimension as a whole and service KPI throughout all four dimensions. Furthermore, the majority agreed on after-sales measures as being the future focus of store management.

The developed PMS is mainly based on three scholarly works. First, the LSC are drawn from Dubois et al. who analyzed the “visions of luxury”. Despite an intensive literature research on luxury brand management, major critique on these study’s findings could not be identified. To the contrary, recent publications frequently cite Dubois et al. and herewith stress the relevance of these findings (e.g. Han et al., 2010). Second, LSA are based on the conceptual and empirical work of Lindquist and his store attributes which influence store image. These attributes have been both questioned and affirmed since the publication of Lindquist’s work. Zimmer and Golden emphasise that these nine attributes need to be adapted to specific retail formats (Zimmer; Golden, 1988); the authors of the paper at hand agree and have incorporated these points of criticism by eliminating non-applicable attributes (institutional factors, convenience, promotions, merchandise). Third, the paper is based on the BSC, which has been criticised for various reasons. Neely explains the BSC is linear and static whereas organizations operate in a dynamic environment (Neely, 2005). Reality shows, however, that organizations value the BSC as a management tool and, ultimately, the aforementioned advantages of the BSC outperform alternative tools quantitatively as well as qualitatively (Thakkar, 2007). In addition, the authors of this paper do not include a discussion about the implementation of performance management tools due to the scope of the paper.

As stated before, this paper intends to lay the groundwork for further research on retail performance management in luxury organizations. It combines three fields of interest – luxury brand management, retail management and performance management – and herewith aims at fostering research focusing on strategic and operative retail management in the luxury market. When management by KPI has intensified within the luxury market, the findings of this underlying empirical validation should be consolidated by quantitative or qualitative analyses on a broader scale. In addition to an inside-out perspective, the demand side should be empirically analyzed. Consumers’ motivations to shop luxury as well as their perceptions of luxury might have changed since 2001, when Dubois et al. published their study. Additionally, conducting case studies or consumer queries pre- and post-implementation of a PMS can be aimed at as soon as PMS are implemented on a larger scale in the future.
References


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I agree that the submitted paper is published as Working paper

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