

## Chapter 37

# Online Private Sales Clubs: An Emerging Model of Fashionable E-Commerce at Promotional Prices

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### INTRODUCTION

Considering the advantages of the Internet for commercializing a vast array of products and services (Steinfeld and Whitten, 1999; Webb, 2002), it is little wonder that more and more companies have decided to offer a broad array of products online (Jiménez, 2005). Some companies even have chosen to use the Internet as the exclusive channel for selling products and services. When they follow this route, one of the most successful sales models has been the online private sales club, a multibrand outlet format that relies on a strong, free-flowing relationship among the company, the supplier, and the consumer (B2B2C). The model also adopts an attractive and innovative (relational,

emotional, holistic) marketing strategic orientation that combines the attractiveness of traditional marketing elements, including prestigious brands, sales promotions, and exclusive distribution, with marketing elements specific to virtual markets, such as viral communication, intensive customer relationship management (CRM) systems, and secure payment methods.

Companies that adopt these strategies (e.g., **BuyVip**, **Vente-Privée**, **Secret Sales**) enjoy growth rates of up to 200% that ensure them high numbers of registered users (e.g., BuyVip counts 2 million users registered in different European countries) and elevated sales volumes (e.g., Vente-Privée earned 350 million Euros in 2007). In turn, traditional investors such as **Bertelsmann Digital Media Investments**, **Molins Capital Inversión** and **Summit Partners** consider them solid investment opportunities.

DOI: 10.4018/978-1-61520-611-7.ch037

By analyzing the sales model adopted by those companies, we attempt to identify some of the keys to success, as well as the growth opportunities associated with this particular business model.

### **THE BUSINESS MODEL: ADAPTATION OR INNOVATION OF THE OUTLET?**

The outlet business model and online private sales clubs offer several similarities that may induce some doubts about the origin of the latter model. A priori, it might seem that online private sales clubs simply represent an adaptation of the traditional outlet model to virtual markets. However, the presence of certain strategic and tactic elements, particularly of this commercial format, prompts us to argue instead that online private sales clubs are innovative instead of adaptive.

#### **Outlet Model**

The outlet model grew out of conventional markets in the United States and reached Europe during the 1980s and 1990s (Figueras, 2004). Its business formula is quite simple: An outdated or defective product frequently produced by a prestigious or high-quality brand, ships to outlet stores that sell the product at a lower **price** than is usual in traditional retail stores (Barthélemy, 2006).

The benefits for both the producer and the client are clear. The producer earns revenues from obsolete or faulty products and can sell excess stock and collections of samples without damaging its image. Many firms therefore recognize the outlet format as an ideal complement to selective or exclusive sales systems. Because producers must renew their offers frequently, especially in fashion industries, they need a system that enables them to sell seasonal excess adequately and quickly. The advantages for the client derive from the ability to acquire various products (e.g., apparel, designer

objects, sports articles) from famous and popular brands at discounted prices.

The success and expansion of this commercial format has been extensive; in some commercial markets, traditional outlet stores have evolved from small storefronts located in the city surroundings (Figueras, 2004) to vast stores located in city centers and malls, including in some cases entire centers dedicated solely to outlet stores. Thus, in the same arena, consumers can find outlet stores that sell different brands. The ambience and services offered often do not differ from those provided by traditional stores. However, the disposition and display of products may be less visible.

#### **Innovation in the Model: Radical or Incremental?**

Attempts to apply proven business models from conventional markets to the Internet arena have prompted some firms to use the Internet as either a complementary sales channel that represents an extension of their physical channel or an exclusive market for clients (Vilaseca et al., 2007).

According to Kim and Galliers (2004), online private sales clubs constitute a real innovation of the multibrand outlet model that is marked by interactivity and connectivity. The Internet's inherently high interactivity enables firms to intensify their relationships with customers through more direct communications that are adapted to individual needs, characteristics, and behaviors. Furthermore, the Internet's open and global nature provides greater connectivity in the form of a shared global space for communications and commercial exchanges.

Despite the benefits of this new model though, firms must recognize that potential and existing clients move in both real and virtual markets simultaneously. Thus, "electronic clients" can access goods online with a click while also obtaining impartial information. To guarantee the success of the online sales private club model, firms must

combine strategic and tactical elements that are particularly adapted to this new medium.

## **KEYS TO SUCCESS**

The success of online private sales clubs depends on their ability to provide an attractive, diverse array of products and services that offer value to consumers. This new strategic orientation, along with tight bonds with suppliers and clients, represents a key element of the new commercial formula.

### **New Strategic Marketing Approach**

In a traditional outlet, the marketing strategy features two key elements: a prestigious brand and an attractive price. For online private sales clubs, these elements remain, but firms also are characterized by a higher customer orientation level.

To satisfy clients continuously, organizations must establish a triple orientation within their marketing strategies: relational, emotional, and holistic. According to Palvia (2009), strategies associated with online private sales clubs include tight, stable relationships with clients. Within these relationships, brands play a key role as attractions. For example, selling exclusive brands such as DKNY, Pepe Jeans, or Thomas Burberry increases client interest in buying, which thereby initiates the relationship. However, if the objective is to consolidate the client relationship in the long run, online private sales clubs also need to enrich their marketing mix with additional elements that will guarantee the generation of emotional bonds with the firm.

Value, equity, trust, commitment, satisfaction, and loyalty determine the stability and strength of a client–firm relationship (Chiu, 2004; Awad and Ragowsky, 2008). Thus, with the objective of developing strong relationships, online private sales clubs enrich a traditional relational

marketing orientation with two additional orientations: emotional and holistic. By combining these orientations, this model attempts to enrich the client–firm relationship through the provision of content, proximity, and personality. An emotional marketing orientation focuses on the experiential dimension of consumption, whereas a holistic marketing orientation seeks to know and understand clients by integrating them into a relationship based on direct and bidirectional communication (Zineldin, 2000).

### **Company Relationships with Suppliers and Clients**

Carpinter (2001) and Chakraborty et al. (2003) argue that the success of a firm online depends on its ability to (1) create relationship networks, (2) highlight the client as the “star” of the business, (3) provide transparent and accessible information, (4) make the firm available on the Internet, (5) establish global relationships, and (6) guarantee privacy and security. It seems evident that firms that employ the online private sales club model also must have these capacities, perhaps to an even greater extent.

As retailers, online private sales clubs maintain close relationships with their suppliers and end clients. Their position in the value chain means that the success of their relationship with clients (B2C) depends not only on the value that the relationship offers but also on the value that other agents add to it and on their relationships with suppliers (B2B). The key rests in the flow of the integral relationship, which we refer to as B2B2C.

### **Characteristics of the B2B Relationships**

To satisfy the client, all the agents in the value chain must participate in the process of creating value. Therefore, a close relationship between the supplier and the distributor constitutes a key for the success of the business model. To offer prestigious

brands at attractive prices, the retailers need not only the cooperation but also the complicity of suppliers (Jeannet et al., 2008).

The selection of suppliers depends, in principle, on finding brands that have an excellent image, though as the model becomes more consolidated, alternative brands may benefit from cross-trust effects. Thus, online private sales clubs may offer suitable platforms for manufacturers to test new offers and brands.

The products sold through online private sales clubs often are search products that consumers can evaluate easily and objectively from the information that the channel provides. But some clubs also offer experience goods, which the client might have acquired previously through physical channels. That is, a customer might know his or her preferred size and quality, which reduces the risk of making a purchase error. In either case, clients have detailed information about the items' sizes, colors, and so on, as well as communication systems that help them resolve their potential doubts about the purchase act (e.g., FAQ sections, virtual assistants).

Finally, online private sales clubs make significant and efficient use of information and communications systems that connect the firms and suppliers. In turn, two of the key model features are as follows:

- The role of the cybermediaries, which do not keep suppliers' products in stock but act as intermediaries between the supplier brand and the end client.
- The efficacy of the logistics process that makes the product available to the consumer rapidly and securely, as well as in the required condition.

In this sense, online private clubs adopt a cost leadership competitive strategy (see Porter, 1988) but also enjoy the value of shortages in terms of quantities and the time limits on the offer. In the act of purchasing, the client knows exactly how

many units are available (often quite few), as well as the deadline for the offer (e.g., from hours to a few days); these factors add to the perceived value and can incite impulse buying.

## Characteristics of the B2C Relationship

An exhaustive analysis of some European companies that have adopted this new e-commerce format reveals the key elements that appear to characterize their marketing mix strategies. As we will see next, some companies have combined traditional and online marketing elements whereas others have only adopted exclusive marketing online elements.

These companies employ unique procedures and operate in different markets. Specifically, Secret Sales relies mainly on British capital, Vente-Privée is primarily French, and BuyVip, though a Spanish company, has stockholdings in German, British, and Latvian companies.

The results of our analysis reveal several features that constitute the central axis of strategic and tactical marketing strategies relative to their marketing mixes.

### (1) Product

The range offered usually focuses on new fashion articles, original designs, and items acquired from manufacturers or distributors located in the countries in which the company has its headquarters. Moreover, the brands are very prestigious and tend to pursue exclusive, high-quality positioning. To reinforce this brand positioning, clients must become members of the private sales clubs, by registering online, to acquire the products.

### (2) Price

The sale price is remarkably lower than the regular cost of the items in conventional physical establishments. This price generally includes VAT and other taxes, as well as shipping expenses,

which appear itemized separately from the sale price of the product.

All payments are made by credit card, and payment security is totally guaranteed. As part of this security guarantee, online private sales clubs usually employ a payment system that features platforms developed by financial entities (e.g., Banco Popular for BuyVip) or popular online payment systems such as PayPal.

### (3) Communication

Of the various communication tools the online private sales clubs use, sales promotions, advertising, direct marketing, and viral marketing are particularly important.

One of the most important incentives used to promote the sale of items is the discount price. For a short period of time—usually two to five days—online private sales clubs offer discounts of 20–80 percent off their regular prices. In addition, the clubs advertise products and services and thereby provide information about their characteristics. Although the information initially offered is that provided by the suppliers, some virtual outlets repackage the information to make it representative of the particular Web site; for example, a specific site might create videos that emphasize the exclusivity and quality of the offer.

The direct marketing strategy invites clients and potential associated customers, by e-mail, to participate in the online sales. The e-mails emphasize the exclusivity of the brand and sale, as well as their limited time characteristics. Viral marketing is another representative feature of online private sales clubs, in that recommendations from existing users are the only means to access the offers. A member who invites others likely feels that he or she is enabling friends to enjoy a special kind of consumption experience. The invited friend in turn should feel flattered and experience a lesser sense of risk in the new environment (e.g., Golan and Zaidner, 2008; Sivera, 2008).

### (4) Distribution

Because of the limited availability of the products offered by these virtual outlets to a limited public (i.e., members), we assert that online private sales clubs employ an exclusive distribution strategy. The club is of use to the client only after an order gets placed. During this process, the client receives detailed information about the stages that precede their receipt of the order.

If the buyer rejects the item after receiving it (e.g., because of damage to the item, evidence that it was opened during transportation), she or he can claim a refund. Thus, online private sales clubs offer the possibility of returning orders within determined time limits and in certain conditions.

### (5) Service to the client: Security and protection of online purchases

One of the main challenges of e-commerce is guaranteeing the security of transactions and ensuring that users perceive such security. Private sales clubs therefore offer a series of legal protection guidelines, compiled in their general privacy, use, and sale conditions.

All the virtual outlets we consider are governed by legislation regarding data protection in the markets in which they operate. These outlets therefore maintain files with information about members that they may use to determine informative or advertising messages, but they must commit to avoiding the loss, misuse, or unauthorized access to this information by third parties.

With regard to the sales conditions, the clubs provide similar conditions and guarantees to those offered in traditional purchase outlets, which partly determine some features of their marketing mixes.

## **DISCUSSION: GROWTH OPPORTUNITIES AND FURTHER RESEARCH**

The object of this investigation has been to analyze an emergent e-commerce business model, whose fast proliferation makes its study interesting from a marketing perspective.

Starting with an innovation of the traditional multibrand outlet model and adopting a novel marketing orientation, online private sales clubs maintain close relationships with their suppliers and end clients, such that their positions in the value chain demand successful relationships with clients (B2C), as well as cooperative interactions with suppliers to add value to the offer (B2B). The key thus may be the fluidity of the integral relationship we propose, namely, B2B2C. On the basis of these cordial relationships with suppliers and the advantages offered to end clients, we propose a means to understand the success of online private sales clubs.

Our detailed analysis of dominant European companies that operate in this new electronic commerce format highlights some of the key elements that characterize their strategies, in terms of relationships with both suppliers and clients. The strategies focused on suppliers demand careful selection methods, which help ensure cooperative relationships. Strategies associated with end consumers also center on strong and emotionally based relationships. Therefore, in addition to employing communication tools such as sales promotions, direct marketing, and viral marketing, online private sales clubs make effective use of services and guarantees to clients. The importance of such guarantees is great enough in this context that it emerges as a fifth element of the marketing mix strategy of these companies.

However, when designing their business strategies, online private sales clubs must recognize that any of these factors can alter their relationships with suppliers and clients. Therefore, additional study of these factors represents an important

line of further research. With suppliers, the firm needs strong relationships to achieve competitive advantages. In this sense, Kandampully (2003) points out that this relationship can increase firm efficiency, in that it favors rapid and secure communication and exchanges, which minimize costs, improve customization, and enhance value.

With regard to clients, online private sales clubs should consider the impact of consumer culture and Web features (e.g., e-atmospherics) on purchasing behaviors toward a specific brand or establishment. Some empirical evidence indicates that online business development requires the consideration of possible cultural and ethnic differences. In this sense, Luna et al. (2002) and Singh et al. (2006) show that consumer responses to a Web site improve when the site offers greater adaptation to the users' culture. Furthermore, some functional aspects of e-atmospherics have noticeable influences on purchasing habits. Ker-venoael et al. (2007), who define e-atmospherics as the creation, shape, and evolution of Web site design, argue that these features can enhance site stickiness and thus encourage consumers' final decision to purchase, as well as promote positive postpurchase evaluations.

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## KEY TERMS AND DEFINITIONS

**Brand:** A word, name, symbol, or combination of these elements that identifies the goods and services of a person or firm and distinguishes them from those of competitors.

**Business-to-Business (B2B):** Trading between firms (not between a business and end consumers), characterized by (1) relatively large volumes, (2) competitive and stable prices, (3) fast delivery times, and (4) often deferred payments.

**Business-to-Consumer (B2C):** Activities that commercial firms develop to reach end clients or end users directly, including electronic media.

**Cybermediaries:** Intermediaries that act in electronic markets to bring together buyers and sellers or those with particular information or service needs.

**E-Atmospherics:** The creation, shape, and evolution of Web site designs to enhance site stickiness, encourage final purchase decisions, and promote positive postpurchase feelings.

**Emotional Marketing:** A marketing orientation that tries to attract clients by using feelings and emotions that should bond the client to the firm in the long-term.

**Holistic Marketing:** “Holistic marketing is the design and implementation of marketing activities, processes, and programs that reflect the breadth and interdependencies of their effects. Holistic marketing recognizes that “everything matters” with marketing –customers, employees, other companies, competition, as well as society as a whole –and that a broad, integrated perspective is necessary” (Keller and Kotler, 2006: 300).

**Outlet:** A commercial establishment specializing in the sale of goods of popular brands, often obsolete or faulty goods.

**Paypal:** A firm in the electronic commerce sector that enables the transfer of money between users with e-mail accounts. It offers an alternative to traditional payment methods. PayPal also processes payment requests in electronic commerce and other Web services and earns a percentage of the amount transferred in each interaction.

**Viral Marketing:** A broad array of word-of-mouth strategies designed to encourage both online and peer-to-peer communication about a brand, product, or service.