

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

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