

*Bachelor Thesis*  
*Marketing Department*

**LUXURY CONSUMPTION**  
**DURING**  
**ECONOMIC CRISIS**



---

Name : Linda Ni  
Anr : 947656

Subject : Economic Crisis and Consumer Behavior  
Supervisor : Jaione Yabar  
Study Program : Premaster International Business

## **Abstract**

As the effects of the worldwide economic downturn, the global luxury market has decreased by 10% in 2009. Why the financial crises largely slow down the luxury market in some countries? To understand this situation, it is interesting to find out why consumers buy luxury, what are the motivations or the drivers of luxury purchases and how consumers change their purchase behavior in the luxury market during the financial crisis.

This paper specifically investigates how global economic turbulences influence consumers' purchases behavior towards luxury products. The purpose of this paper is to examine whether there is a relationship between economic crisis and luxury consumption, mediated by uniqueness, materialism and social group influence, which are considered as three main drivers of luxury purchases. How luxury consumers will change their purchasing behavior because of the impact on three main drivers of luxury consumption during the times of economic downturn?

Previous research on consumer behavior during economic downturns has mainly focused on how consumers cope with economic restrictions in their everyday shopping habits. The relationship between financial crisis and luxury purchases has not been researched to our best knowledge. In the present research will show an integrated conceptual framework of three main drivers of luxury consumption and a clear explanation to answer the question of how global economic turbulences affects the purchases of luxury products, mediated by these main drivers of luxury purchases behavior.

# Table of Contents

Chapter 1: Introduction.....	4
1.1 Problem background.....	4
1.2 Problem statement.....	5
1.3 Research questions.....	5
1.4 Conceptual framework.....	6
1.5 Relevance .....	7
1.6 Thesis structure .....	8
Chapter 2: Mediating influences and luxury purchases.....	9
2.1 Luxury consumers.....	9
2.2 Uniqueness as a mediator.....	11
2.3 Materialism as a mediator.....	12
2.4 Social group influence as a mediator.....	13
2.5 Summary.....	15
Chapter 3: Economic crisis and luxury purchases.....	16
3.1 Effects of an economic crisis on luxury purchases.....	16
3.2 Uniqueness in an economic crisis.....	18
3.3 Materialism in an economic crisis .....	18
3.4 Social group influence in an economic crisis .....	19
3.5 Summary.....	21
Chapter 4: Conclusion and recommendations .....	22
4.1 Conclusion .....	22
4.2 Limitations and suggestions for further research.....	23
4.3 Managerial implication .....	24
References.....	26

# Chapter 1: Introduction

## 1.1 Problem background

The research estimated that the global luxury market was worth around \$86 billion in 1990 (McKinsey & Co., 1990). Luxury consumption is defined as the motivation to purchase specific brands of products, how these products are used and the meaning of those products behind the consumption (Wong & Ahuvia, 1998). Generally, value is considered as belief that influences the selection or evaluation of luxury products or purchases behavior (Schultz & Zeleny, 1999). With regard to luxury consumption, drivers of luxury purchases directly explain why consumers choose to buy the luxury goods and what influence their buying behavior (Sheth et al., 1991). Based on the work of Dubois and Laurent (1994), Mason (1992), Phau and Prendergast (2000), and Dubois et al. (2001) on luxury consumption, researchers developed a framework of four dimensions of luxury purchase behavior, including financial dimension, functional dimension, individual dimension and social dimension of luxury consumption (Vigneron & Johnson, 2004). In this paper, our model picks one important factor from each last three dimensions in order to enhance the current understanding of main drivers of luxury purchases in a comprehensive way. Three drivers of luxury consumption are defined in this paper as mediators covering uniqueness, materialism and social group influence.

The current global financial crisis radically affected the luxury market and changed consumers' behavior. Most of the consumers spend less during a crisis and purchase selected products (Ang, Leong, & Kotler, 2000). However consumer behaviors are also impacted according to the different circumstances and drivers of luxury purchases during the financial crisis (Amami, 2007). Sharma (1978) illustrated that consumers' motives, values and attitudes change during financial crisis. In particular, consumers consider more on their motives for buying a product, they examine their needs carefully and make decisions more cautiously (Brown, Demirdjian, & McKay,

1977; Cravens, 1974). Thus it is important for companies who want to successfully compete in the luxury market during economic downturns to have a more specific and better understanding of the main drivers of luxury purchases and how those drivers are impacted by the economic crisis which may lead to the final change of luxury consumption. This paper examines how does a financial turbulence impact luxury consumers' behavior under the mediating effect of uniqueness, materialism and social group influence. Researches illustrated that the three drivers of luxury consumption are actually interrelated (Wiedmann et al., 2009; Vigneron & Johnson, 2004; Roux & Floch, 1996; Dubois et al., 2001). But for the purposes of this paper, which in order to have a better understanding of the economic crisis impacts on luxury purchase, uniqueness, materialism and social group influence have to be understood as individual mediator judgments.

## **1.2 Problem statement**

Thus for exploring the luxury consumers' purchase behavior in the face of an economic recession, the problem statement for this paper is:

**How does an economic crisis impact consumers' purchases behavior towards luxury products?**

## **1.3 Research questions**

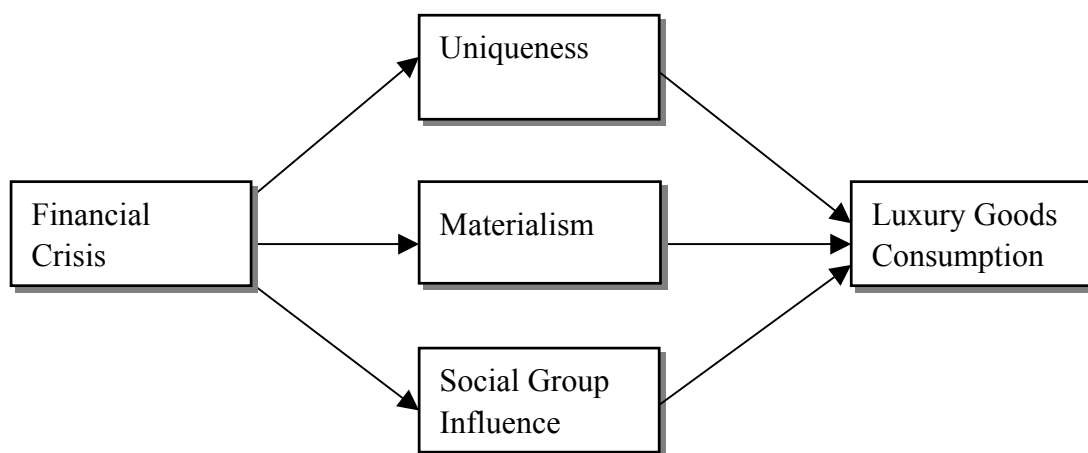
The following research questions will be addressed in order to answer the problem statement.

- Who are luxury consumers? What are main drivers of consumers' luxury consumption?
- What are the relationships between those drivers and luxury consumption?
- Does a financial crisis affect those drivers, and how does it lead to the changing of consumer behavior towards luxury purchases?

## 1.4 Conceptual framework

This paper seeks to examine the relationship between a financial crisis and consumers' behavior of luxury purchases. A conceptual framework of the relations between the constructs is shown as follows. This graphical representation provides a better understanding of the problem statement.

### 1.4.1 Graphical representation



By Uniqueness it means that the perceived specific and rareness of a limited product emphasizes the consumer's desire or preference for a brand (Verhallen, 1982; Lynn, 1991; Pantzalis, 1995).

By Materialism it is defined as the importance a consumer attaches to the possessions that provides the greatest source of satisfaction (Belk, 1985).

By Social Group Influence it means people may have different perceptions of luxury goods between cohort groups and people tend to behave similar within the group they belong (Hauck & Stanforth, 2007; Bearden & Etzel, 1982).

By luxury product it means goods for which the mere use or display of particular branded products bring prestige on the owner, apart from any functional utility (Phau

& Prendergast, 2000).

By luxury consumption it means the practice of which brands are purchased, motivations for purchase, how these goods are used, and the meaning of those goods to the people that consume them (Wong & Ahuvia, 1998).

#### 1.4.2 Construct of theoretical framework

“Luxury Goods Consumption” is the dependent variable in the research question. It will be mainly explained by the independent variable of financial crisis that would influence the purchase behavior of luxury goods. This change could be caused by influence the main drivers of luxury purchases. Uniqueness, Materialism and social group influence will be examined here as three main drivers of luxury purchases to mediate the relationship between financial crisis and luxury goods consumption (Vigneron & Johnson, 2004).

### **1.5 Relevance**

#### 1.5.1 Managerial relevance

On the one hand, in order to survive in the luxury market and maintain the wealthy consumers, it is necessary for those multi-national enterprises to tailor the specific strategies according to the different attitudes and motivations in the luxury market. Thus this literature study will find out the main drivers of luxury purchases and describe how those drivers mediating the relationship between financial crisis and luxury consumption. On the other hand, knowing whether and how the luxury market is affected by a fragile economic situation is crucial for luxury brand companies. In this sense, this paper will offer insights into the effect of an economic crisis on luxury goods consumption by analyzing the ways of how the crisis influence the mediators, which will help marketers design effective marketing strategies and provide new ideas

about how to stimulate spending during economic meltdowns.

### 1.5.2 Academic relevance

Earlier research provides information about the driver of consumer preference and usage of luxury goods (Dubois and Duquesne, 1993). Some other researches have been conducted in the past aim on explaining why some influential factors from social orientation and personal orientation would contribute to the different luxury buying behavior (Richins and Dawson, 1992; Vigneron and Johnson 1999, 2004; Bearden, and Etzel 1982; Brinberg and Plimpton 1986), while scarcely any research has been carried out to clearly defined what are the main drivers of luxury consumption. Some other reports have revealed insights about how the financial crisis affects the luxury market (James Kynge, 2006; He Qinglian, 1997). But rarely has explained how an economic crisis impacts the drivers of luxury purchases. This paper will try to clarify and close the gap between the mediating effect and the luxury consumption behavior under the impact of financial crisis.

### 1.6 Thesis structure

In the second chapter, information about general luxury consumers will be given in order to clarify luxury consumers' behavior. Then this chapter outlines the mediating influence of three main drivers of luxury purchases including uniqueness, materialism and social group influence. Finally chapter 2 outlines whether those three mediators positively or negatively related to the consumers luxury buying behavior. In chapter 3, the effects of financial crisis on luxury consumption will be explained. More specifically, this chapter will focus on how consumers, who hold different drivers, react to the economic downturn regarding their luxury goods consumption behavior. Finally Chapter 5 will highlight the conclusions of the present research, followed by the recommendations and future research possibilities.



## **Chapter 2: Mediating influences and luxury purchases**

The mediating influences of three main drivers of luxury consumptions will be illustrated in Chapter 2. The first section will give an idea about global wealthy consumers and how comes those three main drivers of luxury purchases. Section 2.2 will go into how uniqueness can mediate the effects that financial crisis can have on luxury consumption. Section 2.3 will discuss the mediating effect of materialism on luxury purchases and section 2.4 discusses how social group influence mediates the influence of financial crisis on luxury purchases. Finally a summary will be given at the end of the chapter.

### **2.1 Luxury consumers**

#### *Segmentation of luxury consumers*

According to a report released by the World Luxury Association (Chung, 2010), Japan takes up 30% shares in the global luxury market as the largest luxury market, China counts for 18% has surpassed the US to become the world's second largest luxury market, US and Europe take up 16% shares each which ranked as the third and the fourth in the world. Three world's largest wealthy households are ranged as US, Japan, and UK in 2008 (China Daily, 2008). Moreover, more than half of the wealthy consumers have the overseas education, living or working experiences. They are more or less influenced by the cosmopolitan trends and lifestyles. These people are luxury's best friends and they buy luxury products regularly and frequently. Researches also show that in the mean time, an increase of emerging new rich class and middle-class became luxury goods proponents and contribute a lot to the luxury goods (KPMG, 2007). These classes are dominated by younger generations who are more inclined to spend than save. Segmentations like demographic, psychographics and behavioral variables are important to help marketers getting to know more about luxury consumers and better satisfy their needs. Under certain conditions there is a greater similarity in the attitudes of customers from different countries than amongst different

customers in the same countries (Anderson and He, 1998). Therefore it is important to find out the effective way to segment luxury consumers. Research shows that luxury consumers are divided into two groups “the luxury newcomers” and “the established luxury consumers”, which identifies with consumers a affinity to luxury products (KPMG, 2007). “The luxury newcomers” are the consumers who with lower affinity. They are more superficial to believe a person that possesses a luxury product is successful. They want to show their money and differentiated themselves from the mass. The popular and well-known brands are extraordinary attractive to them (KPMG, 2007). However, “the established luxury consumers” are those who with higher affinity to luxury products. They are wealthy, successful and experienced consumers. Luxury is not a show-off attitude for them but a life attitude (KPMG, 2007). Nevertheless, even this group of consumers start to pay attention on special offers if possible.

#### *Drivers of luxury consumers*

From a survey conducted among 1,800 affluent consumers all over the world, some findings can help us to figure out the main drivers of wealthy consumers' behavior. Firstly, survey points out that 30 percent of luxury consumers demonstrate the most popular collection of luxury products should be rare and scarce (Consumer Research Center, 2007). Secondly, survey also shows 26 percent of luxury consumers strongly agree that luxury product is more about the experience it brings, a sense of happiness and satisfaction rather than only the material aspect (Consumer Research Center, 2007). Last but not least, it also illustrates that respondents tend to agree that luxury-buying decisions are interrelated with their families, friends and social group members, and they acknowledge that luxury goods are purchased to show or extend their personal identity and symbolize their social identity within their community or the whole society (Consumer Research Center, 2007; Vickers & Renan, 2003). The drivers of luxury purchases should be decided from functional needs, personal aspects and social orientation (Sheth et al., 1991; Vigneron & Johnson, 1999). Thus uniqueness, materialism and social group influence could be concluded as three main

drivers of luxury consumers buying behavior. The next section describes the arguments for this choice and the mediating effect of these three drivers on luxury purchases.

## **2.2 Uniqueness as a mediator**

Uniqueness is origin on functional effect and it takes personal and emotional desire into consideration when consumer buying the luxury goods (Leibenstein, 1950; Mason, 1992). Research shows that products are in limited supply enhance the desire and preference of consumers for a specific brand (Verhallen, 1982; Lynn, 1991; Pantzalis, 1995). Furthermore, research illustrates that uniqueness of goods has a bigger effect on demand when the goods are also perceived as unique and expensive (Groth & McDaniel, 1993; Verhallen & Robben, 1994). These arguments are consistent with psychologists who point out that uniqueness of a luxury product helps individual to express a need for uniqueness (Snyder and Fromkin, 1977). Thus, the more uniqueness of a product, the higher value the product becomes (Verhallen & Robben, 1994). Therefore, luxury consumers pursue to be differentiated and exclusive can only be satisfied when a product or service is scarce and not easily available and affordable by everyone, otherwise the product or service is not considered as a luxury goods (Leibenstein, 1950).

Big proportions of the luxury newcomers are snob consumers who are willing to buy luxury goods because the high price and scarcity that make them feel superior and unique (Leibenstein, 1950; Mason 1981; Vigneron & Johnson, 1999). Furthermore, research also shows that the luxury newcomers are not tend to buy a particular product specially when it is consumed by the general mass of people (Mason, 1981). Rare products exert respect and prestige (Solomon, 1994). From a social aspect, consumers pursue a unique item because they think this could differentiate themselves from other individuals (Festinger, 1954). In addition, research reveals that if consumers perceive a product as unique, scarcity and expensive which will lead to a

great effect on demand. Thus, this leads to the first hypothesis:

H1: Higher level of product uniqueness will have a positive relationship to luxury goods consumption.

### **2.3 Materialism as a mediator**

Materialism is defined as the importance a consumer attaches to the possessions which provides the greatest source of satisfaction (Daun, 1983; Bredemeyer & Campbell, 1960; Rassuli & Hollander, 1986; Belk, 1985). Consumers always measure their success and their social status through possessions, which means materialistic acquisition (Belk, 1985). Materialists view themselves as successful to the extent on how many they can possess the products that help them to complete their desired images (Belk, 1985). Therefore, if a consumer achieves higher level of materialism, the more likely the consumer is to acquire possessions, to have positive attitudes toward acquisition. Furthermore, the more materialism of a consumer, the more time and energy he would like to put to luxury product related activities in order to gain possessions and acquisition (Belk, 1985). Research also shows that materialism consumers rely also on external signal in public place, they believe luxury products serve as a way of communication to others for impression of their social position and status (Douglas & Isherwood, 1979; Belk, 1985). Another theory addresses that materialism serves as the value that the importance of acquiring and owning possessions and those products and possessions reflect the owner's inner self (Richins & Dawson, 1992).

Additionally because of the different segmentations of luxury consumers, surveys find that there is a decrease in egoistic materialism along with the age increases (Belk, 1985). Moreover, under the period of financial crisis, it could be proposed that the luxury newcomers seem to have higher level of materialistic. The established luxury consumers tend to be less materialism, but they more go for the love of family, the

reward of achieving work, and keep of a balanced lifestyle. But both of the luxury newcomers and established affluent consumers emphasis a lot on material acquisitions as a signaling success and status signify. As luxury consumers, they are especially motivated to consume luxury products in order to create and assert their social status (Chadha & Husband, 2006; Danziger, 2005; Debnam & Svinos, 2006; Thomas, 2007). Research also found that more materialistic consumers would buy more luxury goods (Belk, 1985). Thus based on the discussion above, the following hypothesis is given:

H2: Higher level of materialism will have a positive relationship to luxury goods consumption.

#### **2.4 Social group influence as a mediator**

A great amount of literatures show that a person's social group affects their purchasing behavior. Research reveals that consumers tend to conform to the majority opinion of their social group members when collecting ideas (Fesetinger, 1954). Bearden and Etzel support this idea by illustrate that people tend to behave similar within the group they belong (Bearden and Etzel, 1982). Brand or purchasing decisions vary relate to consumers different group influence (Witt, 1969). Since the luxury goods could reflect a person's value, and this may attract people in the same social group to buy similar luxury products (Cole-Guiterrez, 2006). It can be explained that consumers attract similar people who share the same lifestyle if they hold the same attitudes and motivation of luxury purchasing. Thus, when analyzing consumers' behavior of luxury consumption, social group influence appears to be important.

Moreover, the conspicuous consumption has been found to relate to group influence. Publicly consumed luxury goods can be used as a way to impress others in the reference group (Bearden and Etzel, 1982). Thus conspicuous consumption can lead the individual luxury consumer to buy a prestige brand in order to achieve social

objective. Researchers demonstrate that social group affects attitudes and decisions of members in three ways: first, endorsements change consumers' perception of a luxury product about its social desirability; second, a social group increases visibility of a buying behavior; third, it exerts a great impact on personal outcomes such as a transfer of meaning (Fisher & Price, 1992). Consumers seeking a higher status in society and try to achieve a specific position in their socioeconomic groups can conspicuously show wealth by purchasing luxury products.

Furthermore, researches point out that consumers are persuaded more by interpersonal information sources than external information sources such as retailer or salesperson in store in the purchase of luxury goods (Midgely, 1983). The attitudes and motivations toward luxury is different rely on who the consumer is and which social group the consumer belongs (Hack and Stanford, 2007). Rolf-Seringhaus supports this stance by explains that luxury consumers could be divided into several types such as "Connoisseurs", "Nouveau Riche", and "Spirituals". They all have different attitudes and motivations toward buying the luxury goods (Rolf-Seringhaus, 2002). It seems that some are less affected by information sources and some are more affected. Age and social status are negatively related to information search. When the consumer is less confident with the luxury product of its social risk, he will prefer more information search. Therefore, the luxury newcomers are distinguished by the diffusion of tastes, style and trends. Thus it can also be predicted that the luxury newcomers are more influenced by internal reference group information sources than the other consumers. Furthermore, research also found that consumers more influenced by the social groups tend to buy more luxury products (Hauck & Stanford, 2007). Thus based on the assumptions above the hypothesis is offered as follows:

H3: Higher level of social group influence will have a positive relationship to luxury goods consumption.

## **2.5 Summary**

In Chapter 2, it explained why uniqueness, materialism and social group influence are regarded as three main drivers of luxury consumption and the mediating effect with luxury purchases. All these three mediators foster a positive relationship toward luxury products and it is predicted to lead a higher propensity to purchase luxury products.

## **Chapter 3: Economic crisis and luxury purchases**

Chapter 3 outlines the relationship between financial crisis and luxury goods consumption. Section 3.1 will give an introduction about the economic crisis and effects of economic crisis on luxury consumption. The effects of a financial crisis on uniqueness, materialism and social group influence are described respectively in section 3.2, 3.3 and 3.4 to examine the relationship between crisis and luxury goods consumption. A summary will be provided at the end of the chapter.

### **3.1 Effects of an economic crisis on luxury purchases**

#### *Economic crisis*

The current global economic crisis occurs from 2007 to the present is characterized by a liquidity shortfall in the banking system caused by the overvaluation of assets, collapse of large financial institution, the bailout of banks by national governments and downturns in stock markets all over the world (Shiller, 2008). Research shows that most people negatively affected by the financial crisis (Shama, 1978). A financial crisis will lead to the problem of unemployment and decreased income. This will lead to the uncertainty of consumers and this uncertainty will lead to a change in consumer behavior regarding the decreasing of their consumption expenditures (Kellely & Scheewe, 1975; Dreze & Modigliani, 1972). Estelami, Lehmann and Holden (2001) support the arguments that consumers are more price sensitive in an economic downturn. The change in this state of the economy will affect businesses, governments and consumers. In this thesis the focus will be on the effects on consumer behavior of luxury goods.

#### *Effects of an economic crisis on luxury consumption*

An amount of researches show a global impact of financial crisis on luxury market due to the decrease of luxury people's spending and confidence level (Bain, 2009). Research shows that there is a decline of 2% short in sales of global luxury market in



2008 compare to the previous year. The shrinking sales appear to be more apparent in 2009 which analysts predict a decrease of around 8% (McKinsey, 2009). Researches also point out consumers are more sensitive to prices in the changing of economic turbulence. They are reluctant to spend more on the premium products in general and there is a shift from brand to value also has been observed (Pam Danziger, 2009). The people with mortgages, loans and school-age children also found out to have shifted their buying behavior. There are around 50 percent of luxury consumers assert to be more price sensitivity in the current economic situation (McKinsey, 2008). The mature markets will be influenced more dramatically, such as a decrease of 16% in North America and a short of 59 billion euros in European luxury market.

But survey also illustrates that the economic fragile has influenced some segments of consumer behavior more than others. There is a phenomenon occurs that the poor consumers are getting poorer and the richer are getting richer (Raj Kumar, 2008). This means for lower-income consumers with less job security and less income have changed their behavior more dramatically than higher-income consumers, while the affluent consumer felt less suffering from the economic pain. Moreover, research indicates that the luxury market tends to be stable caused by the slowly growing of consumer confidence, and based on the consumption data that consumers are willing to spend money again (McKinsey, 2010). In addition, consumers' motives, values and attitudes change during economic crisis (Sharma, 1978). Specially, consumers pay more attention on their motives for purchasing a product (Brown, Demirdjian, & McKay, 1977; Cravens, 1974). Thus it is interesting to find out how luxury consumers' main motives or drivers change during financial crisis and which kind of consumers could help luxury market avoided the plight brought by economic downturn? Now let's take a further step on how the financial crisis is likely to generate different effects on luxury consumption, depending on different mediators.

### **3.2 Uniqueness in an economic crisis**

The primary attraction of a luxury item may lie in the brand value (Sekora, 1977; Mason, 1981; Berry, 1994). However, during the times of tough economics, consumers pay more attention on the functional value such as quality and usability value (Gentry et al., 2001; Fennel, 1978). Furthermore, research also points out that the great interchangeability of luxury products is the reason that for consumers to easily change to more ordinary brands during financial crisis (McKinsey, 2008). According to the research of Sharma (1981) and Ang, Leong & Kotler (2000), consumers make their purchase decisions more cautiously, consumers start to buy cheaper goods and they pay attention on the functional aspect in order to search for the best value rather than the motive of uniqueness. Though, there are still a small group of consumers who enjoy buying the luxury products in order to make them stand out from mass taste and ordinary consumption hold the positive attitude toward luxuries during crisis. Most of the luxury newcomers are the people who pursue the exclusive products that are unattainable for most people make them stand out, however, on the other hand, reports illustrate that the luxury newcomers are likely to be heavily affected by the crisis (William H. Overhold, 2010). Thus it is predicted as follows based on H1:

H4: The financial crisis negatively affects the driver of uniqueness that will lead to a spending decline on their luxury goods consumption.

### **3.3 Materialism in an economic crisis**

Materialism is defined as the importance a consumer attaches to the acquisition as pursuit of happiness and also as possession-defined success (Richins & Dawson, 1992). Thus this makes more interesting to find the deeper relationship between luxury goods and consumers' potential awareness of luxury brands. Research shows that people with higher level of materialism tend to achieve feelings of insecurity and deny the needs of safety (Kasser and Kanner, 2004). Furthermore, experiment

indicates that consumers with higher level of materialism-oriented score low on their happiness and satisfaction with life during financial crisis (Belk, 1985; Ahuvia & Wong, 1995; Dawson, 1998). Surprisingly, it shows bigger adjustments of materialism consumers than less materialism consumers. They are more careful with spend money, downgraded their shopping behavior more to the normal brands and neighborhood shops, take a more cautious attitude towards purchase, and bought more do-it-yourself products (Swee Hoon Ang, 2000).

On the one hand consumers are affected economically by reduced employment and lower incomes (Fiszbein, Giovagnoli, & Thurston, 2003). On the other hand consumers are psychologically affected by uncertainty and frustration that means a largely decline of happiness (Sharma, 1981; Sharma, 1978). Surveys reveal that consumers may force themselves to indulge and avoid spending on living expenses under certain circumstances (Kivetz and Simonson, 2002). The World Wealth Report illustrates that only a round 20% of affluent consumers demonstrate that they are not heavily influenced by the worldwide financial crisis and made it possible for them to stay wealthy. These luxury-oriented consumers have high affinity to luxury goods and show the willingness to spend money due to their success socioeconomic status (KPMG, 2007). The evidence showed that only these luxury consumers would continue to purchase non-essential items, although they will be more price sensitive (MasterCard Worldwide, 2007). Thus, we could conclude based on H2:

H5: The financial crisis negatively affects the driver of materialism that will lead to a spending decline on their luxury goods consumption.

### **3.4 Social group influence in an economic crisis**

On the one hand, luxury consumption has changed over the years especially in mature market. Although price is often considered as the threshold to luxury items, luxury consumption still becoming a highly individual perception due to the other

characteristics of goods and the increasing social status assumed by intangible values (Nielsen, 2009). Survey shows that luxury consumers demonstrate they prefer more a high value goods with unobtrusive style and 80% of them think that it is not necessary to show off (Corneo, 1997). This opinion is equally accepted by both men and women luxury consumers. Additionally, this survey also points out that conspicuous consumption and ostentatious demonstrations of wealth are considered to be inappropriate and unacceptable in social group (KPMG, 2007).

On the other hand, research states an economic crisis stimulates the communication within families, friends and social groups, which alleviates the negative feeling towards crisis and improves personal crisis management (Martin, 1998). By stimulating the communication, there are more flows of information transfer and it will become more effective between social group members. By doing so, problems of uncertainty and misunderstanding, which emerge because of the financial crisis, will be lightened on some degrees (Martin, 1998). Furthermore, respondents indicate that the term "luxury" seems too flatulent during the period of crisis and does not guarantee any truly value (KPMG, 2007). Thus ways of communicating luxury brand values appear to be important. Survey shows that only 25% of the luxury newcomers and 16% of the established luxury consumers pay attention on the luxuries' advertising (Nielsen, 2009). Then words of mouth come to be especially important among the social group members during a financial crisis (Misner, 1999). The other two researchers supported this idea by illustrating that words of mouth is a honest and credible source of information when it comes from a friend because there is no direct association of the person with the company or product (Reingen & Kernan, 1986). Thus during the plight of a financial turbulence, because luxury consumers need more realistic and credible information, words of mouth of promotion within social groups have proven in the past to be highly useful and efficient (Forrester, 2005). By using this way of communication, consumers feel more safe and secure about the luxury goods. Additionally, another researcher takes a bit different view to aspect financial crisis by stating that crisis may also give indication to people transfer to "here and

now” behaviors (Hans, 1978). Thus based on the discussion above, the following hypothesis is given based on H3:

H6: The financial crisis strengthens the driver of social group influence that will have a positive relationship to luxury goods consumption.

### **3.5 Summary**

First, general information about effects of an economic crisis on luxury purchases is given, which separated in effects on luxury consumers and effects on luxury consumptions, both show a negative relationship with luxury purchases. The effect of a financial crisis on three drivers where discussed here to examine the relationship between crisis and luxury goods purchase behavior. The financial crisis have both negatively affects on the drivers of uniqueness and materialism which lead to a shrink of luxury purchases. However, the crisis strengthens the social group influence factor that may lead to a positive relationship on luxury consumption.

## Chapter 4: Conclusion and recommendations

The last chapter will summarize all the literature study. The conclusions, limitations, recommendations for future research possibilities and managerial implication will be given. The first section will show the conclusions that can be drawn from the academic paper. Section 5.2 will deal with the limitations of this study and will give some suggestions about the future researches. And then section 5.3 will discuss the managerial implication of this literature study.

### 4.1 Conclusion

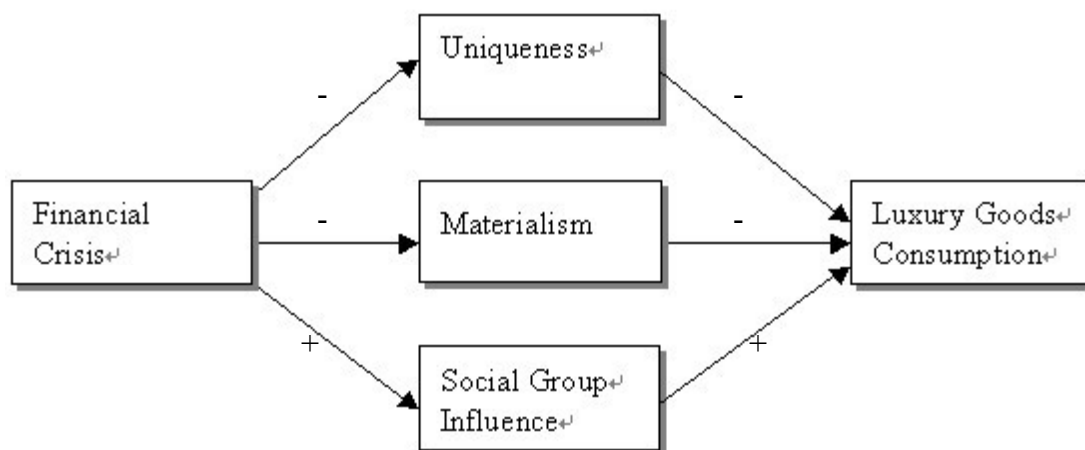
The problem statement formulated in this paper is: *How does an economic crisis influence consumers' purchases behavior towards luxury products?*

The relationship between an economic crisis and luxury consumption, mediated by uniqueness, materialism and social group influence, is examined in this paper.

In chapter 2, information about segmentation of luxury consumers, what factors and why those factors are picked up in this paper as drivers of luxury consumers are given. Then the mediating effect of uniqueness, materialism and social group influence on luxury consumption are illustrated respectively. It was concluded that all three mediators have positive effects toward luxury consumption.

Chapter 3 provides the information about how financial crisis impacts on those three mediators and then leads to the changing behavior of luxury purchases. The economic downturn did affect the buying behavior of luxury consumers according to the different drivers consumer holds. From uniqueness perspective, this paper points out that because consumers pay more attention on functional aspect of luxury goods such as quality and usability during the crisis. The financial crisis may lead to less pursuit of uniqueness that foster a spending decline on the luxury goods. From materialism

perspective, materialism-oriented consumers tend to be less security and more uncertainty during the period of financial turbulence. This group of people also showed a bigger adjustment and become more careful towards their luxury consumption. Thus the negative effect financial crisis has on the materialism motivation will lead to a decrease on their luxury consumption. Finally from social group influence aspect, it is found that people tend to communicate more within the groups. Words of mouth are preferred and show a more effective advertising on luxury goods due to the credibility of information. Thus we conclude here that the financial crisis exerts a positive relationship towards social group influence which may stimulates the purchases of luxury products. In sum, the conclusion led to the development of the conceptual model below:



#### 4.2 Limitations and suggestions for further research

In this paper the focus was limited to the three drivers of luxury purchases. But there are a lot of other important drivers such as quality, status seeking or factors like age, income, geographic, occupation, and social class of consumers have not been incorporated in this paper. Another limitation is that materialism and social group influence could go deeper when explain the level of the relationship between an economic crisis and luxury consumption. There are also more aspects like the luxury

product category and the need cognition, which might influence the moderating effect of financial crisis on luxury consumption that have not been included in the model.

For future research it is suggested that negative effect of financial crisis on the driver of uniqueness and luxury consumption could be tested to see if it indeed holds for different category of luxury goods. Also the influences of financial crisis on materialism and social group have not been adequately illustrated clearly in this paper towards the luxury consumption. And finally, a last suggestion for further research is to look into the effect of conspicuous consumption and how financial crisis influence the relationship between conspicuous consumption and luxury purchasing behavior. The distinction of the luxury buying motivation and how the financial crisis impacts on those motivations will further enhance our understanding towards the luxury buying behavior during the period of financial turbulence.

### **4.3 Managerial implication**

As explained in this literature, two segmentations of luxury consumers, which are defined as the luxury newcomers and the established luxury consumers, may lead to the taste differentiation (KPMG, 2007). These differences have clear marketing implications. The established luxury consumers have more mature and thoughtful ideas about luxury goods, they pay more attention on the functional aspect in general and the newcomers probably pay more attention on the design and craftsmanship. Thus when the foreign luxury fashion brand plans to survive during the crisis time, in order to maintain its customers, it should consider the way of demonstration on how to show and emphasize the product quality and craftsmanship.

By analyzing the impact of financial crisis on the uniqueness aspect, it points out that consumers pay more attention on the quality, usability and price of the luxury goods during the crisis, affordable luxuries are a considerable market to be explored for those seeking luxury lifestyle while have dilemma financial situations (Gentry et al.,



2001; Fennel, 1978). The emerging group of the luxury newcomers also means that the marketers must catch up with the pace of affluent consumers. Since half of the wealthy consumers were not rich four years ago. Thus spending structure and habits also dramatically changed with the fast growing economy. Since the taste of this group of people is not yet mature, companies could do a lot to shape the newer luxury buyers' taste, spending habits and loyalty.

Financial crisis has exerted different level of influence on their luxury consumption depending on different motivations (Sharma, 1978). According to this segmentation, marketers could know more about how to target and shape their strategies more adaptive to meet the different needs and attitudes toward luxury consumption during economic downturn. The social group influence tends to be strengthened during the financial crisis, and words of mouth are found to be an effective way of advertising. For reaching wealthy consumers, companies could also use Internet ads, online channels, put more efforts on communicating brand values and how to create positive buzz. Furthermore, as we mentioned before, there are around 20 percent consumers demonstrate that they will not change their luxury goods purchase during the financial crisis (Ruder Finn, 2009). Out-of-home entertainment of luxury consumers still remains largely compared with normal consumers. Thus luxury companies could hold marketing events in bars or clubs frequently. And the affluent consumers could also embrace different kinds of sports sponsorships more.

## References

Ahuvia, A. C., & Wong, N. (1995). Materialism: Origins and implications for personal well-being. *European Advances in Consumer Research*. Copenhagen, Denmark: Association for Consumer Research, 2, 172-178.

Ammi, C. (2007). Culture and Diversity: A new approach of management. *Global Consumer Behavior*, 3, 53-65

Anderson, Patricia M. & He, X.H. (1998). Price influence and age segments of Beijing consumers. *Journal of Consumer Marketing*, 15(2), 152-169.

Ang, S. H., Leong, S. M., & Kotler, P. (2000). *The Asian apocalypse: Crisis marketing for consumers and businesses*. Long Range Planning, (33), 97-119.

Bearden, W.O. & Etzel, M.J. (1982). Reference Group Influence on Product and Brand Purchase Decisions. *Journal of Consumer Research*, 183-193.

Belk, R. W. (1985). Materialism: Trait Aspects of Living in the Material World. *Journal of Consumer Research*, 12(5), 265-280.

Berry, Christopher J. (1994), *The Idea of Luxury: A Conceptual and Historical Investigation*, New York: Cambridge University Press.

Bredemeier, Harry C. & Jackson Toby. (1960). Social Problems in America: *Costs and Casualties in an Acquisitive Society*. New York: Wiley.

Brinberg, David & Linda Plimpton. (1986). Self-Monitoring and Product Conspicuousness on Reference Group Influence. *Advances in Consumer Research* 13. Association for Consumer Research.

Brown, S., De mirdjian, Z. S., & McKay, S. E. (1977). The consumer in an era of shortages. *MSU Business Topics*, (25), 49-53.

Chadha, R. & Husband, P. (2006), *The cult of the luxury brand - Inside Asia's love affair with luxury*, London: Nicholas Brealey International, 326.

Chung, O. (2010). China's global luxury brand workshop. *Global Luxury Report*. World Luxury Association Press.

Cole-Gutierrez, C. (2006). *Consumer attraction to luxury brand products: social affiliation in terror management theory*. CA: California State University.

Corneo, G. and Jeanne, O. (1997), Conspicuous consumption, snobbism and conformism, *Journal of Public Economics*, 66, 55-71.

Cravens, D. (1974). Marketing management in an era of shortages. *Business Horizons*, (17), 79-85.

Daun, Ake. (1983). The materialistic life-style: Some socio-psychological aspects. *Consumer behavior and environmental quality*. Eds. L. Uusitalo. St. Martins, New York, NY, 6-16.

Dawson, S. (1998). Trait materialism: Improved measures and an extension to multiple domains of life satisfaction. *AMA Winter Educators Conference Proceedings*, 478-481, Chicago, American Marketing Association.

- Debnam, N., & Svinos, G. (2006). *Luxury brands in China*. Hong Kong: KPMG.
- Douglas, Mary & Baron Isherwood. (1979). *The World of Goods, Basic*. New York.
- Dreze, J. H., & Modigliani, F. (1972). Consumption decisions under uncertainty. *Journal of Economic Theory*, 35-308.
- Dubois, B. & Duquesne, P. (1993). The market for luxury goods: Income versus culture. *European Journal of Marketing*, 27(1), 35-45.
- Dubois, Bernard & Gilles Laurent. (1994). Attitudes toward the concept of luxury: An exploratory analysis. *Asia-Pacific Advances in Consumer Research*, 1(2), 273–278.
- Dubois, Bernard, Gilles Laurent, G., & S. Czellar. (2001). Consumer rapport to luxury: Analyzing complex and ambivalent attitudes. *Consumer Research Working Paper, 736*, HEC, Jouy-en-Josas, France.
- Fennell, Geraldine G. (1978). Perceptions of the Product-in-use Situation. *Journal of Marketing*, 42(2), 39-47.
- Festinger, Leon. (1954). A Theory of Social Comparison Process. *Human Relations*, 7(1), 117-140.
- Fisher, R. & Price, L. (1992). An Investigation into the Social Context of Early Adoption Behavior. *Journal of Consumer Behavior*, 19, 477–486.
- Fiszbein, A., Giovagnoli, P., & Thurston, N. (2003). *Household behavior in the presence of economic crisis: Evidence from Argentina, 2002*. IBOPE.
- Gentry, James W., Sanjay Putrevu, Clifford Shultz, & S. Commuri. (2001). How now

Ralph Lauren? The separation of brand and product in a counterfeit culture. *Advances in Consumer Research*, 28, 258–265.

Groth, John and Stephen W. McDaniel. (1993). The exclusive value principle: The basis for prestige pricing. *Journal of Consumer Marketing* 10(1), 10–16.

Hans S. Falck. (1978). Crisis Theory and Social Group Work. *Social Work With Groups*, 1(1), 75-84.

Hauck, W.E. & Stanforth, N. (2007). Cohort perception of luxury goods and services. *Journal of Fashion Marketing and Management*, 11(2), 175-188.

He, Q.L. (1997). China Faces Financial Crisis at the Turn of the Century. Issue No. 6.

Kasser, T. & A. Kanner. (2004). *Psychology and Consumer Culture, the Struggle for a Good Life in a Materialistic World*. Washington, D.C., American Psychological Association.

Kelley, E. J., & Scheewe, L. R. (1975). Buyer behavior in a stagflation/shortage economy. *Journal of Marketing*, (39), 44-50.

Kivetz, Ran & Simonson, Itamar (2002). Self-Control for the Righteous: Toward a Theory of Pre-commitment to Indulgence. *Journal of Consumer Research*, 29(2), 199-219.

Leibenstein, Harvey. (1950). Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand. *Quarterly Journal of Economics*, 64, 183-207.

Loosermore, Martin. (1998). The influence of communication structure upon management efficiency. *Construction Management and Economics*, 16(6), 661-671.

Lynn, Michael. (1991). Scarcity Effects on Value: A Quantitative Review of the Commodity Theory Literature. *Psychology and Marketing*, 8(1), 45-57.

Mason, Roger S. (1981), *Conspicuous Consumption*, New York: St. Martin's Press.

Mason, Rogers S. (1992). Modeling the demand for status goods. *Department of Business and Management Studies*. University of Salford, UK, St Martin's Press, New York, NY.

McKinsey China (2009). One Country, Many Markets: Targeting the Chinese Consumer with McKinsey ClusterMap. *2009 Annual Chinese Consumer Study*. McKinsey Insights China.

Midgley, D. (1983). Patterns of Interpersonal Information Seeking for the Purchase of a Symbolic Product. *Journal of Marketing Research*, 20(1), 74-85.

Pantzalis, Ioannis. (1995). *Exclusivity strategies in pricing and brand extension*, unpublished doctoral dissertation. University of Arizona: Tucson, AZ.

Phau, Ian & Gerald Prendergast. (2000). Consuming luxury brands: The relevance of the rarity principle. *Journal of Brand Management*, 8(2), 122–138.

Rassuli, Kathleen M. & Stanley C. Hollander. (1986). Desire - Induced, innate, insatiable? *Journal of Macro Marketing*, 6(2), 4–24.

Reingen, P.H., & Kernan, J.B. (1986). Analysis of referral networks in Marketing: Methods and illustration. *Journal of Marketing Research*, (23), 370-378.

Richins, Marsha & Scott Dawson. (1992). A consumer values orientation for

materialism and its measurement: Scale development and validation. *Journal of Consumer Research*, 19(2): 303-316.

Rolf-Serिंगhaus, F. H. (2002). Cross-cultural exploration of global brands and the Internet. *Paper presented at the 18th Annual IMP Conference*, Dijon, France.

Roux, Elyette & Jean-Marie Floch. (1996). Gérer L'Ingérable: La Contradiction Interne de toute Maison de Luxe. *Decisions Marketing*, 9(2-3), 15-23.

Schultz, P. Wesley & Lynnette C. Zelezny. (1999). Values As Predictors of Environmental Attitudes: Evidence For Consistency Across 14 Countries. *Journal of Environmental Psychology*, 19(3), 255-265.

Sekora, John (1977), *Luxury: The Concept in Western Thought, Eden to Smollett*, Baltimore, MD, John Hopkins University Press.

Shama, A. (1978). Management and consumers in an era of stagflation. *Journal of Marketing*, 43-52.

Sheth, Jagdish N., Bruce I. Newman, & B. I. Gross. (1991). Why we buy what we buy: A theory of consumption values. *Journal of Business Research*, 22(1), 159–170.

Shiller, R. J. (2008). The subprime solution. *How today's global financial crisis happened, and what to do about it*. Princeton University Press.

Snyder, Charles R. & Howard L. Fromkin. (1977). Abnormality as a Positive Characteristic: The Development and Validation of a Scale Measuring Need for Uniqueness. *Journal of Abnormal Psychology*, 86(5), 518-527.

Solomon, Michael R. (1994). *Consumer Behavior*, (2nd ed.), Boston, MA., Allyn and

Bacon.

Swee Hoon Ang. (2000). Insights from the Asian Economic Crisis: Personality Influences on Consumption. *Journal of International Consumer Marketing*, 13(1), 5-20.

The Conference Board. (2007). *Luxury Consumers: What counts are experiences, not things, the conference board*. MarketingCharts.

Verhallen, Theo M. (1982). Scarcity and Consumer Choice Behavior. *Journal of Economic Psychology* 2(2), 299-321.

Verhallen, Theo M. & Henry S. Robben. (1994). Scarcity and preference: An experiment on unavailability and product evaluation. *Journal of Economic Psychology*, 15 (June): 315–331.

Vickers, J.S. & Renan, F. (2003), The marketing of luxury goods: An exploratory study - Three conceptual dimensions. *The Marketing Review*, 3(4), 459-478.

Vigneron, Franck & Lester W. Johnson. (1999). A review and a conceptual framework of prestige-seeking consumer behavior. *Academy of Marketing Science Review*, 1999(1), 1–15.

Vigneron, Franck & Lester W. Johnson. (2004). Measuring perceptions of brand luxury. *Journal of Brand Management* 11(6), 484-506.

Wiedmann, Hennigs, & Siebels. (2009). Measuring Consumers' Luxury Value Perception: A Cross-Cultural Framework. *Academy of Marketing Science*. Institute of Marketing and Management.



Witt, R. E. (1969). Informal Social Group Influence on Consumer Brand Choice. *Journal of Marketing Research*, 6, 473-477.

Wong, N.Y. & Ahuvia, A.C. (1998). Personal Taste and Family Face: Luxury Consumption in Confucian and Western Societies. *Psychology & Marketing*, 15(5), 423-441.