

LUXURY PRODUCTS BUYERS' BEHAVIOUR

(PARTIAL INTERNET EDITION)

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Dr Irena Eris

THE LUXURY of DISCOVERING BEAUTY

COSMETICS · SKIN CARE INSTITUTES · SPA HOTELS

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INTRODUCTION

Over the millennia the purchase and consumption of luxury products used to belong to exclusively to small groups of social elites and wealthy individuals. Luxury has been ‘democratised’ through the processes of the so-called accessorisation (*accessorizzazione*)¹ of luxury over the period of the last few decades. As a result, the products marked with luxury brand logos have become accessible for a wider spectrum of customers. In 2013 luxury products were acquired by over 380 or 330 million people in the world according to the estimates made by BCG² and Bain & Company and Redburn³ respectively.

Until the 1950s the range of products marked with luxury brand logos, i.e. very expensive goods for the wealthiest customers, was highly specialized⁴. In the following years, primarily in the 1960s, brand extension became a common trend, especially with regard to such products as fragrance, cosmetics and fashion accessories (e.g. handbags, shoes, belts, wallets, ties, neckerchiefs, glasses etc.). Another common trend was downward line extension, i.e. completing the existing highly renowned exclusive product lines with their cheaper versions: cheaper fountain pens, cheaper watches, less expensive jewellery etc.

Thus, luxury accessorisation consists in:

- extending the already existing product lines of luxury brands, traditionally designed for the wealthy elites, by launching cheaper goods accessible to customers from the middle class;
- extending the existing range of products by introducing new lines of cheaper products in different unrelated product categories.

It should be emphasized that the concept of accessorisation means not only launching fashion accessories but also products which are generally cheaper, i.e. accessories in a broader sense: *accessori in senso ampio*⁵ (e.g. the aforementioned

¹ C. D’Arpizio, *Osservatorio Altagama sui Mercati Mondiali 2005*, Bain & Company, Milano 19 Ottobre 2005, p. 7, http://www.primaonline.it/wp-content/plugins/Flutter/files_flutter/1229952449file142243331263526.pdf, [last access: 01 February 2012].

² A. Achille, *True-Luxury Global Consumer Insight*, The Boston Consulting Group, January 2014, p. 12, download.repubblica.it/pdf/2014/.../slow-fashion.pdf, [last access: 14 October 2014].

³ C. D’Arpizio, F. Levato, *Lens on the worldwide luxury consumer*, Bain & Company, Milan, 14 January 2014, p. 7, <http://recursos.anuncios.com/files/598/20.pdf>, [last access: 14 October 2014].

⁴ In 1949/1950, Jacques Rouët developed a licence system aiming at extending Dior’s range of products.

⁵ C. D’Arpizio, *Monitor Altagama sui Mercati Mondiali 2006*, Bain & Company, Milano 25 Ottobre 2006, p. 14, <http://www.primaonline.it/2008/12/22/65151/osservatorio-sui-mercati-mondiali-2006/>, [last access: 1 February 2012].

eau de toilette, deodorants, cosmetics and also calendars, fountain pens, biros or lingerie).

Not every case of expansion of the range of luxury brand products may be called accessorisation. Launching new lines of expensive goods for the elites (e.g. very expensive jewellery by Louis Vuitton brand), which is a common trend in the process of luxury brand management, means moving the range of products upward, not accessorisation.

The magic of luxury proved so powerful that the middle class began to take advantage of acquiring cheaper and ‘accessorized’ products marked with luxury brand logos: the ‘democratisation’ of luxury began, i.e. a higher percentage of people in possession of such goods. At present, a few hundred million middle class people, called ‘the excursionists to the world of luxury’⁶ in the 1990s, are co-deciding about the sales and profits of the majority of industries and brands on the luxury market. At that time the excursionists to the world of luxury were defined as follows: “occasional consumers who desire to purchase luxury goods but can afford only few entry items among designer 2nd lines, beauty products and small accessories.”⁷ Presently, the middle class consumers in well developed countries are already regular buyers of goods marked with luxury brand logos⁸, and they may be considered ‘habitués au luxe accessible’ (accustomed to accessible luxury).

Both processes, the accessorisation and democratisation of luxury, have positively affected the volume of turnover on the luxury market which, within five industries: watches and jewellery, apparel, fashion accessories, tableware as well as perfume and cosmetics, increased from €72 billion in 1994⁹ to €170 billion in 2007, and after the decline to €153 billion in 2009 during the crisis of 2008–2009, it reached €173 billion in 2010¹⁰. According to the 2015 estimates, the sales of luxury goods in these industries may have reached €253 billion¹¹.

After accounting for other products, such as luxury cars and other means of transport, remaining durable goods (e.g. furniture) and services (e.g. hotels), it was estimated that the value of sales on the luxury market may have reached €1,044 billion in 2015¹² (i.e. more than €1 trillion).

⁶ B. Dubois, G. Laurent, *The Functions of Luxury: A Situational Approach to Excursionism*, “Advances in Consumer Research” 1996, vol. 23, pp. 470–477.

⁷ C. D’Arpizio, F. Levato, *Lens on the worldwide luxury consumer*, op. cit., p. 10.

⁸ Bellaïche J.-M., A. Mei-Pochtler, D. Hanisch, *The New World of Luxury, Caught Between Growing Momentum and Lasting Change*, The Boston Consulting Group, December 2010, pp. 5–6.

⁹ C. D’Arpizio, *Ossevatorio Altgamma sui Mercati Mondiali 2005*, op. cit., p. 2.

¹⁰ *Luxury Goods Worldwide Market Study, 2011, 10th Edition*, Bain & Company and Fondazione Altgamma, 2011, p. 2, <http://recursos.anuncios.com/files/455/78.pdf>, [last access: 1 February 2012].

¹¹ C. D’Arpizio, *Altgamma 2015 Worldwide Markets Monitor*, Milan, 29 October 2015, p. 2, <http://www.italy24.ilsole24ore.com>, [last access: 20 December 2015].

¹² *Ibid.*, p. 3.

The rapid increase in sales on the luxury market was accompanied by the strengthening of positions of luxury brands on the list of one hundred most valuable brands rated by Interbrand. Their significance increased both in terms of quantity and value as the number of brands in the Interbrand ranking of 2000¹³ (for the year 1999) amounted to 14, and in the ranking of 2009¹⁴ (for the year 2008) to 20. The joint value of luxury brands in this ranking compared to the value of the top five brands, increased from nearly 27% in the Interbrand ranking of 2000 to over 51% in that of 2009¹⁵.

The luxury market is not a niche market; it ceased to be one already in the 1960s. However, scientists started to regard the behaviour of luxury products buyers as a research area with a few decades of delay, and the results of the first significant series of research begun thanks to the initiative of the RISC Institute, were not published until 1990. Nevertheless, it does not change the fact that the current knowledge of the area of consumer behaviour has not reached maturity yet. The fragmentary research has a unique and disparate theoretical framework in each research project. Moreover, there are still numerous research gaps.

The present publication is the first monograph in the world devoted to the buyers of luxury products. Although, there are several dozen books entitled *Marketing of luxury products or brands*, these publications are addressed to managers and the scientific discourse did not take much space there (at least until 2013). The present publication discusses the results of the research conducted so far, it comprises the model of behaviour of luxury products buyers based on the analysis of empirical evidence of attitudes to luxury and declarations of spending on luxury products; it also indicates the direction of further research. The author attempted to use available databases related to the subject of this book. All analyses were made on the basis of secondary data (primarily information derived from Bain & Company, Euromonitor and Prince & Associates), database obtained from weekly magazine "Wprost" and database developed as the result of the author's own research¹⁶.

This book was written as a result of the author's personal interests in the issue as well as a two-cycle model of academic career in Poland. The first one is to write a PhD thesis and defend it (the author's PhD thesis entitled: *Les attitudes et*

¹³ *The 100 top brands. Our first ranking of the world's most valuable brands*, "BusinessWeek" 6 August 2001, pp. 60–64, <http://faculty.fuqua.duke.edu/~moorman/GeneralMills/Section1/Section1Documents/0132-toprank.pdf> [last access: 1 February 2012].

¹⁴ <http://www.interbrand.com/en/best-global-brands/best-global-brands-2008/best-global-brands-2009.aspx>, [last access: 1 February 2012].

¹⁵ T. Sikora, *Rynek dóbr luksusowych na świecie*, "Marketing i Rynek" 2010, issue no. 5, p. 6.

¹⁶ Author's own research was conducted thanks to, among others, the funds from the grant by Ministry of Science and Higher Education.

connaissances vis-à-vis du luxe des personnes nouvellement enrichies en Pologne was defended at the HEC School of Management in Jouy-en Josas, now HEC Paris, in March 2000), the next step is to write a Habilitation thesis (without any supervision), publish it and next defend at a Habilitation colloquium. The Habilitation thesis *Zachowanie nabywców produktów luksusowych* *Luxury Products Buyers' Behaviour* was published in December 2012 and June 2013 by the Publishing House of the Warsaw School of Economics (SGH): Oficyna Wydawnicza SGH (the book is still available, unfortunately only in Polish).

In compliance with the rules of correctness of the language applied in marketing and in particular in the research of the behaviour of buyers, i.e. the major area of the present work, the subject of the book should be referred to as 'luxury products' as the concept category includes both goods and services. However, due to the language tradition, the terms 'goods' and 'products' will be considered here as synonyms. The authors of the majority of publications within the field of economics exclusively use the term 'luxury goods'. The present work applies the term 'luxury products' mostly in the titles and subtitles of chapters, whereas in the content both terms are used interchangeably.

The title *Luxury Products Buyers' Behaviour* situates this study in the area of the behaviour of buyers (or consumers as it is often synonymously said), which belongs to marketing though it is autonomous and multidisciplinary. The interchangeability of the two terms in the literature should be underlined: the textbooks on similar subjects are entitled *Consumer behaviour* or *Buyer behaviour*, even though it is logical that a buyer does not have to be a consumer, and a consumer may not be a buyer. The term 'buyer' is used in the title of this work because the presented analyses concern the phenomenon of buying luxury goods and not the manners, forms or processes of their use and consumption which follow the purchase.

The publications regarding the research on the behaviour of buyers emphasize its very close relationship with marketing. The differences of opinions concern the problem of whether or not the behaviour of buyers is an independent scientific discipline or a marketing subdiscipline.

According to D.J. MacInnis and V.S. Folkes, it is not an independent scientific discipline but a subdiscipline of marketing (which also includes strategic marketing and the development of marketing models), and what makes it different from other disciplines, is the analysis of the role of an individual as a consumer, especially with regard to the processes of acquisition, consumption and disposal of material goods, services and experiences. The authors admit that there have been tendencies to isolate behaviours of buyers from marketing motivated, for example, by the desire to mark the independence of research programmes from their usefulness for practitioners, especially those in big business, and also by the desire to analyse

the negative impact of advertising and other marketing activities on a consumer. However, when discussing their stance in detail, D.J. MacInnis and V.S. Folkes admit that the behaviour of buyers constitutes a part of marketing. Firstly, they underline individual or personal relations between these disciplines, i.e. conducting research on behaviour of buyers mainly by lecturers and researchers within the area of marketing. Secondly, they underline the institutional involvement, i.e. the employment of lecturers specialising in the behaviour of buyers in universities' marketing departments and the alternating publishing of the results of their research in scientific magazines dealing with both areas¹⁷. The remarks made above may be completed with the fact that chapters named *Behaviour of buyers* are customarily included in books entitled *Marketing*, and publications on behaviour of buyers usually become, due to the publishers' decisions, parts of series concerning marketing¹⁸.

In the late 1960s, the research concerning behaviour of buyers obtained a status of a subdiscipline, to a certain extent autonomous in relation to marketing. "The Journal of Consumer Affairs" was created in 1967, and in 1970, as a result of debate during the workshop organised in 1969, the Association for Consumer Research¹⁹ was established from the funds granted (according to D.J. MacInnis and V.S. Folkes) by the American Marketing Association²⁰.

A very complex definition of consumer behaviour was proposed by G. Antonides and W.F. van Raaij (2003), according to whom it is a "mental and physical behaviour together with the motives and reasons pursued by individuals and small groups and concerning the orientation, purchasing, using, maintaining and disposing of a product (consumption cycle) as well as household production (DIY), which allow the consumer to operate, to reach goals and pursue values and thanks to it, gain satisfaction and prosperity, accounting for short- and long-term effects as well as individual and social consequences"²¹.

M.R. Solomon offers a more concise definition of consumer behaviour (using the definition of 'marketing' developed by the American Marketing Association as template): "It is a study of the processes involved when individuals or groups select, purchase, use, or dispose of products, services, ideas or experiences to satisfy

¹⁷ D.J. MacInnis, V.S. Folkes, *The Disciplinary Status of Consumer Behaviour: A Sociology of Science Perspective on Key Controversies*, "Journal of Consumer Research", April 2010, vol. 36, pp. 899–914.

¹⁸ e.g.: J.F. Engel, R.D. Blackwell, P.W. Miniard, *Consumer behaviour*, 5th edition, The Dryden Press, New York 1986, series: Marketing.

¹⁹ W.L. Wilkie, *Consumer behaviour*, 2nd edition, John Wiley & Sons Ltd., New York 1990, pp. 7–9.

²⁰ D.J. MacInnis, *The Disciplinary Status*, op. cit., p. 900.

²¹ G. Antonides, W.F. van Raaij, *Zachowanie konsumenta*. Podręcznik akademicki, 1998 John Wiley & Sons Ltd., translated by M. Zagrodzki, Polish edition: Wydawnictwo Naukowe PWN S.A., Warsaw 2003, p. 24.

needs and desires”²². M.R. Solomon indicates that contributions to this discipline come from: experimental psychology, clinical psychology, microeconomics, ecology, social psychology, sociology, macroeconomics, semiotics and literary studies, demography, history and cultural anthropology (also providing application examples omitted in this list)²³. With regard to the aforementioned issues, the bibliography as well as the research conducted by the author of this work refer mainly to the tradition of the research on the issues of luxury and to the variables used to explain the behaviour of buyers of products of this category, without indicating any specific privileged area.

This book consists of six chapters and is an updated version of the Polish book published in June 2013 (the Internet edition does not include subjects related specifically to Poland and Polish luxury products buyers).

Chapter 1 presents the meanings of the terms *luxury* and *luxury product*, discusses various attempts to define them and enumerates the features of a luxury brand. The author proposes two definitions of luxury products: the products which belong to the category of inaccessible luxury, and the products which belong to the category of accessible luxury. All the features which make these two categories different vary except for the brand. This approach is different from any other presented so far. Previously, the authors have either tried to develop the definition of luxury products which would cover the entire concept, or they have divided luxury products into levels of different ‘intensity’ or degree of occurrence of the same features.

The concept and theories of conspicuous consumption, considered to be the most important single factor inducing customers to buy luxury products, are presented in the second Chapter, which also refers to the insufficient research on the relation between the attitudes to the conspicuous consumption (measured by multi-item scales) and:

- behaviours which indicate pursuing such a form of consumption (identified as or differentiated from the consumption of status symbols),
- desires to improve or maintain one’s own social status (one of the components defining conspicuous consumption),
- buying (and not just preferring or appreciating) products which are status symbols and/or luxury products.

Chapter 3 analyses the dynamics of the turnover and structure of the luxury product market, as well as the data regarding the number and segments of buyers. The author seems to have compared and discussed, for the first time in the world

²² M.R. Solomon, *Consumer behaviour. Buying, having and being*, Prentice-Hall International, Inc., 5th edition, Upper Saddle River, New Jersey 2002, p. 5.

²³ *Ibidem*, p. 29.

literature published to date, the detailed data (in the industrial and geographical dimensions) from various sources on the sales value on this market, and estimated the participation of Poles' spending in luxury products, and also the participation of the luxury products' sales in Poland in the sales value of such products worldwide (data regarding Poland are excluded from the online edition; they are included in the Polish print edition of this book and will be included in the future English print edition).

Chapter 4 contains the review of selected research concerning buyers of luxury products in the world and in Poland. The first part of this Chapter analyses the usefulness of general models of behaviour of buyers in the research of behaviour of buyers of luxury products. The second part discusses the results of research in relation to wealthy elites in the world. On the basis of reports by Prince & Associates the author of this study analysed the structure and the change in demand and the planned spending on luxury products before and during the crisis of 2008–2009 among the buyers regarded by the authors of those reports as wealthy, rich and very rich. The purpose of this analysis was to evaluate whether the demand for luxury products, based on the declarations of planned spending on those goods, changed during the period of income decline in compliance with the definition in economics, showing a more than proportional decline, or there was the case of *ratchet effect*, which is a term proposed by J.S Duesenberry²⁴. The author's own analyses are included in the chapter comprising the discussion on the research conducted by other authors due to their descriptive character, which consists in the analysis of data tables unlike the more advanced research presented in Chapter 5 based on the same data as well as to the continuity of the disquisition on the data of Prince & Associates referring to a few periods. The third part of this Chapter discusses the research with regard to the middle class buyers of luxury products in the world. The fourth part is devoted to the same research conducted in Poland. The analysis of the research conducted to date indicates a major research gap, i.e. a small number of research which simultaneously considers and compares the significance of different variables (social, demographic, psychological etc.) in order to explain the purchases of luxury products.

Chapter 5 includes more advanced and detailed analyses performed by the author, concerning various aspects of attitudes to luxury and behaviour of buyers of luxury products. In the first three parts of this Chapter the scientific status of the definitions of luxury products in economics are analysed by applying the data on the change in demand on luxury products during the crisis of 2008–2009. In this connection, a rarely used research notion of wealth (net asset value) elasticity

²⁴ J. S. Duesenberry, *Income, savings and the theory of consumer behaviour*, 2nd edition, Harvard University Press, Cambridge, Massachusetts 1952.

of demand was applied (in relation to the spending and planned spending on luxury products by wealthy, rich, very rich buyers). The fourth part of this Chapter – not included in the English online version – refers to the buyers of luxury products in Poland. It includes the author's own analyses using the database of TNS Pentor, which pursued a research for the weekly magazine "Wprost" in 2006, and the data from the author's own survey conducted among internet users by GFK Polonia in 2009. The author discussed the research gaps presented in Chapters 2 and 4, and analysed various aspects of behaviour in relation to luxury (including the purchase of luxury products) using the database allowing for the simultaneous evaluation of the effect of the variables explaining these behaviours. The author, for the sake of his research, modified the multi-item scales developed by other authors or created them from scratch himself. They were applied to operationalize numerous abstract luxury related notions, like emotions towards luxury, attitudes to conspicuous consumption, concern about social status, pressure to possess luxury products etc. The models of behaviour of buyers of luxury products were developed on the basis of the conducted analyses.

Chapter 6 discusses the evolution of attitudes to marketing in luxury brands management among the owners and managers of these brands. They shift from the negative attitudes, which exclude marketing as the element of management, to ambivalent (dissociating from marketing with an official recognition of its corporate function though) to those fully accepting a relevant function of marketing. Such a shift occurred spontaneously through the adjustment of management to the effects of the processes of accessorisation and democratisation of luxury or constrainedly when, upon the takeover of brands managed by the founders and their families, the new owners (from conglomerates such as LVMH, Richemont and Kering Group) implemented modern marketing which partly followed the marketing of mass consumption products. The shift of attitudes to marketing and its role in the management of luxury brands, triggered the demand for research in the 1980s with regard to the behaviour of luxury products buyers and the analysis of the market of these products. The next part of this Chapter discusses the significance of the data gathered by the author of this study and the tools he developed for the research of behaviour of buyers and for the practice of the luxury brands marketing.

The conclusion of this work summarises the results achieved and indicates the direction of further research related to the behaviour of buyers of luxury products.