

**CONSPICUOUS CONSUMPTION:
AN ANALYSIS OF FINNISH AND MALAYSIAN LUXURY GOOD
CONSUMERS**

by

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Abstrak

Konsep penggunaan “*conspicuous*” manusia sudah bermula semenjak manusia bertapak di dunia ini dengan adanya status yang berbeza mengikut pemakaian busana, barangan kemas dan aksesori. Mengikut perkembangan ekonomi, permintaan terhadap barangan *mewah* turut meningkat mengikut kuasa beli pengguna. Permintaan yang meningkat ini secara langsung dipandu oleh tabii sifat manusia, penerimaan sosial serta keinginan untuk mempamerkan status individu. Media juga memainkan peranan dalam menggambarkan peningkatan cara hidup kebendaan, dimana pengguna mahu mencari dan menunjukkan identity mereka. Bagi mengenal pasti sifat tidak rasional pengguna ini, adalah penting untuk mengenalpasti sifat-sifat yang mendorong mahupun merangsang mereka.

Bagi memenuhi keperluan “*mewah*” ini pelbagai barangan telah diperkenalkan setiap tahun. Walau bagaimanapun banyak produk yang gagal memenuhi keperluan pengguna kerana ia gagal mengenalpasti sifat yang mendorong mahupun memotivasikan mereka. Oleh sebab itu, tesis ini bertujuan untuk mengenalpasti dan menguji rangsangan yang mendorong gelagat penggunaan ini. Topik ini adalah masih baru kerana tiada kajian yang dijalankan mengikut konteks perbandingan penggunaan di antara dua negara. Kajian ini menunjukkan beberapa kesamaan dan begitu juga perbezaan di antara dua kumpulan kajian ini. Mengikut faktor tidak bersandar seperti perihal menarik perhatian, “*self-image congruity*” dan Negara asal mempengaruhi niat penggunaan kedua-dua kumpulan namun apa yang jelas adalah pengguna Malaysia lebih dipengaruhi oleh faktor luar seperti kumpulan rujukan dan produk pengganti berbanding dengan pengguna Finland yang lebih individualistik. Ini menyokong idea bahawa latar belakang budaya adalah kuasa dorongan yang penting dalam menentukan tabii penggunaan ini.

Abstract

The concept of conspicuous consumption has existed for as long as man has walked on earth with human beings showing their status with apparel and accessories. With the increasing health of economies the demand for luxury goods has grown alongside consumer's purchasing power. The demand for these luxury items is driven by a natural human needs of social acceptance and status showcase. The media is portraying increasingly material lifestyles, which people want to identify themselves with. In order to understand the ever-irrational behavior of the consumers, it is important to understand their behavioral drivers.

To satisfy the increasing need for luxury and lifestyle products, numerous new brands are established yearly with some more successful than others. Many of these brands fail as they merely try to satisfy the demand created by a current fad without attempting to really understand the consumer's motivations. Hence this thesis attempts to unravel some of these drivers and test them accordingly.

This dissertation explores the subject from the point of view of consumers and the drivers behind their consumption habits. The topic subject is considered fresh, as there have not been many studies regarding this topic with none done in context of comparing conspicuous consumer behavior of two countries. This research found several similarities as well as differences between the two consumer groups. Though some of the variables such as conspicuousness, self-image congruity and country of origin affect the purchase intention of both consumer groups it is apparent that the Malaysian consumers are more affected by the outside factors such as reference groups and substitute products than the more individualistic Finnish consumers. Supporting the idea that the cultural background of the consumers is still among the driving forces behind their consumption behavior, even the conspicuous one.

Chapter I

Introduction

1.1 Background to the study

In economic terms demand for luxury goods increases proportionally as the income of an individual increases. This type of effect is not as visible with normal or inferior goods as it is with the luxury goods. However one should not observe the demand of these goods from only income perspective as once an individual achieves certain status and monetary level, the goods previously perceived as luxury now become normal or even inferior. To define luxury good one needs to observe the different qualities of the good that make it superior to comparable products. These qualities can include design, performance, quality or monetary value. Some of the goods have a luxury status due to the symbolic value it provides to its owner. Hence luxury goods are often more than just basic products, they are status symbols, which provide prestige to their owners and provide leverage to their image.

Although a specific good might not differ from another alternative with anything else except brand name or other symbolic value, one purchases these goods to show their social status and wealth. The purchasing of these types of prestigious goods is categorized as conspicuous consumption, which means purchasing of luxury products such as precious jewelry, luxury cars or other forms of luxury goods.

The market for luxury goods is growing as the buying power of individuals' increases with the well being of the economy. There is an increasing demand for these products and hence new luxury brands emerge on the market more than ever before. The market is still controlled by luxury giants such as Louis Vuitton Moët Hennessy. The brand consisting of over 50 separate luxury brands including Gucci, Fendi, Louis Vuitton, Hennessy and Dior to name but a few. According to the web dictionary

Wikipedia, the group reported revenue of 15 billion euros from the fiscal year of 2006, which indicates a growth of 2 billion euros in comparison to 2005. These figures give indication to the huge market for luxury goods. Every year people are spending more and more money on such goods.

Most of the research over luxury goods market has been conducted either in Europe or North America, leaving the Asian and Scandinavian market quite untouched. Most of the Asian countries such as Malaysia are growing economically with more people able to purchase luxury products and pursue a wealthy lifestyle. Finland again represents a stable economy with different lifestyles and ideals in comparison to Malaysia. Hence this proposed thesis will attempt to explore the behavior of the Malaysian in comparison to the Finnish consumers in the market for luxury goods.

1.2 Purpose of the study

Relying on the previous research and literature available about the luxury good market, the purpose of this research is to compare the conspicuous consumer behavior in Malaysia and Finland, both of which are relatively untouched in terms of research conducted on conspicuous consumption. The research will be done using hypothesis testing.

The socio economical changes in Malaysia and Finland have contributed to increasing consumption on luxury products. The marketers have observed the growing need for luxury goods and hence more and more companies are releasing luxury lines in addition to functional product lines. Since the market for luxury goods is in a growth stage, expanding into several different categories, satisfying consumers in different levels, it is profitable to look into consumption of luxury goods in further extend. The past research conducted on the field of conspicuous consumption is done

in environment with a number of wealthy individuals spending more on luxury goods, than consumers elsewhere. However the increasing purchase-power of individuals is increasing the demand for luxury goods and now environments where in the past consumers seldom spent their money on luxuries show symptoms of conspicuous consumption. The research should be able to increase the understanding of the conspicuous consumption in Malaysia and Finland and evaluate whether these countries provide opportunities for luxury good producers penetrating new markets.

The consumer behavior itself is a matter not easily understood, as consumers act rather irrationally, following fads and fashions, which lead their behavior. According to Zaichkowsky (1991), after becoming aware that goods have "hidden meaning," scholars of consumer behavior in the 1950s took to the notion of the consumer as an irrational, impulsive decision maker.

Finland and Malaysia are both untouched regarding research on conspicuous consumption and are both presenting different lifestyles. A research conducted on the consumers in these two environments expands the perception of global conspicuous consumption.

1.3 Problem statement

The problem statement for the proposed thesis will be the following:

- Since the human behavior is irrational, how can we understand consumer behavior patterns of Malaysian and Finnish conspicuous consumers?

1.4 Research questions

The main issue will be approached with several sub issues relevant to the respected market of luxury goods in Malaysia and Finland. The proposed problem statement leads to following research questions:

- What are the main factors affecting the intention to purchase luxury goods?
- What are the differences in the consumer behavior between Finland and Malaysia?

1.5 Research objectives

From the above mentioned problem statement as well as research questions, the following research objectives are formulated:

- To gain understanding of the behavior of Finnish and Malaysian luxury good consumers
- To understand what are the important triggers that set off a purchase of luxury goods

By relying on previous literature and available information about the consumer behavior in the luxury market this research will attempt to shed light on how do Finnish and Malaysian consumers behave in the market for luxury goods and what are the factors affecting this.

1.6 Central concepts of the study

To fully comprehend the factors affecting the luxury consumption we have to study the effects of consumer behavior and related segmentation involved with the market. Since the effects of product piracy are visible everywhere it is important to explore whether or not the increasing number of counterfeit goods in the market have effect in the market. To understand what triggers the purchase decision for luxury goods, psychological approach analyzing the symbolism and image value of the goods is also required.

1.6.1 Luxury goods

According to the Oxford American Dictionary, luxury is the state of great comfort and extravagant living. This is truly what every individual craves for. The concept of luxury is limited to each individual and what luxury means for them. In general luxury goods are highly priced products often in the niche market of goods. Individuals purchase these goods for different purposes. These could include diamond engagement ring, self-rewarding with Louis Vuitton bag or expensive car to match the neighbor's BMW. The main concept of luxury goods is the prestige the brand name provides to its bearer. Hence these goods have a very exclusive symbolic value.

1.6.2 Consumer behavior

Understanding the consumer behavior today is not an easy task, as instead of observing the consumers by serving them in a smaller retail environment, the marketers now have to be able to look into global market segments with increasingly diversified consumer needs. However the consumer is not a rational being and hence fully understanding the motives behind their purchase behavior is extremely difficult task that takes time and money. According to Kotler, Armstrong, Saunders and Wong (2002), marketers spend more time than ever to study consumers, trying to learn more about consumer behavior. Who buys? How they buy? When do they buy? Where do they buy? Why do they buy? To simplify the understanding, marketers look into a stimulus based model of consumer behavior.

1.6.3 Reference groups

Consumer's surrounding environment and reference groups within affect the consumers and their consumption habits. The decision-making unit which according to Pickton and Broderick (2005), recognizes the involvement of a range of people in

the decision making process. Different generations have different consumption patterns and their lifestyles as well as their peers, whom could include parents and admired media figures for instance, reinforce these patterns.

1.6.4 Segmentation

In the luxury market just like in every other field, it is important to segment one's customers accordingly. Luxury goods, which generally belong into the category of high involvement products, belong into the niche market. However with the expanding demand for lifestyle accessories the luxury goods are being divided into different classes within their niche market. One can also look into segmentation from the viewpoint of consumption styles which can also be grouped in a similar fashion as Bakewell and Mitchell's (2003) research over generation Y female shoppers; trend setting loyals, shopping and fashion uninterested, recreational discount seekers, recreational quality seekers and confused time money conserving. Although some patterns can be drawn, one must remember that every consumer differs from one another, and human being is not a rational creature, hence it is challenging to truly comprehend a consumer and their consumption styles.

1.6.5 Substitute products

Substitute goods come in many different forms as either direct or indirect substitutes. Substitutes to luxury goods surround the consumer in every form of consumption, as instead of purchasing a \$600 jacket one may purchase six cheaper pieces of clothing or even take a vacation. According to Hitt, Hoskisson and Ireland (2007), a product substitute becomes an issue when its features and characteristics, in terms of cost and differentiated features, are potentially attractive to the customer. This viewpoint is especially valid in the market for luxury goods as most of the high-

end brands are constantly copied and then offered to the customers with a knock off price.

When considering substitutes, one might be tempted by the low cost version of the original product. Product piracy is a growing phenomena and what many might consider as a major problem. Expanding technological capabilities and disappearing borders between countries, product and copyright piracy has rolled out of control. The counterfeit goods can be separated to for example two different classes: deceptive and non-deceptive fakes. According to Prendergast, Chuen and Phau (2002), the term pirated brand refers to products that are also copies of items, but they are produced with the knowledge that the customer will be aware that the item is a fake, so it is usually sold at a fraction of the price of the copied good. Such items are sometimes known as “non-deceptive fakes”. Deceptive goods again refer to consumer being unaware that the product is a fake. The issue is especially problematic for luxury good manufacturers as their products are popular target of counterfeit artists.

1.6.6 Brand image and symbolism

Consumers are following the lifestyles portrayed in the media such as MTV and as these lifestyles are often very materialistic, the demand for luxury goods portraying wealth has also increased. It is always important to “keep up with the Joneses”, however with the improvement of the economic health consumers are going even further to show their wealth. The number of symbolic brands showcasing consumer’s status has been growing constantly and it is becoming more difficult to stand out as a prestigious brand over the competition.

1.7 Significance of the study

This research will provide relevant information on how a conspicuous consumer behaves. This information is useful for product/ brand managers who wish

to sell their goods to the Malaysian consumers. The findings of the study can easily be adapted to aid in formulating a suitable marketing strategy for a luxury retailer. In addition the study can prove useful for those foreign companies wishing to penetrate the Malaysian luxury good market, as they will have general understanding on how does the Malaysian consumers perceive luxury goods and whether or not there is existing demand for these goods.

1.8 Structure of the thesis

The proposed thesis will consist of five chapters, in addition to executive summary and abstracts. The first chapter will delve into the world of luxury goods with introduction to the topic and by explaining the background to the study. It is also relevant to introduce the purpose of the study, central concepts and explain what significance the study has. First chapter also establishes the research objective as well as problem statement supported by research questions. In addition the structure of the thesis is explained.

The second chapter will be inclusive of the literature review. Essential supporting literature is critically evaluated to find central concepts relevant to the current research. The second chapter also lays down the groundwork for the following chapters as the following theoretical framework is derived from the previous literature.

Chapter three will present the theoretical framework of the research. It introduces the research model and the related variables. These variables and their measurement are then explained with detail. The research hypotheses are formulated in the respected chapter. Finally the research design, sampling and data collection methods are all explained with further detail.

Chapter four revolves around data analysis and respected findings. These findings are then further analysed and brought into context of the research. Finally these findings are summarised and critically evaluated.

The fifth chapter will consist of conclusive arguments and discussion of research limitations. With respect to the current research, future directions are also evaluated.

Chapter II

Literature review

2.1 Conspicuous consumer behavior

According to O'Guinn, Allen and Semenik (2006), consumer behavior is defined as the entire broad spectrum of things that affect, derive from, or form the context of human consumption.

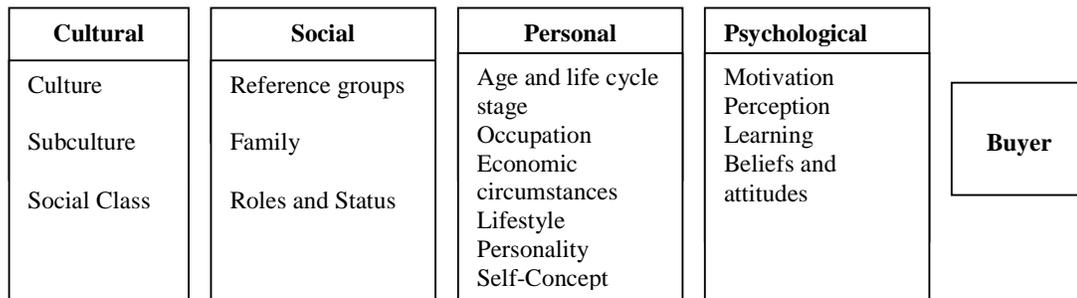


Figure 2.1

Factors influencing consumer behavior

Source: Kotler et al. (2002), Principles of Marketing, pp.192

Consumers' behavior is constantly affected by factors to which marketers have no affect, such as cultural, social, personal and psychological. One could argue that efficient marketing practices could affect consumer's purchase decision, or that marketers may even create a new culture's revolving around a product or product category. The culture has according to Kotler et al. (2002), the deepest influence on the consumer. However, every individual still operates following his or her personal instincts. One's surrounding also affects the purchase behavior; the so-called reference groups affect either directly or indirectly to one's consumption patterns. Consumers' are affected by personal factors such as; who they are? Where they live? How they live? These lifestyles are also affected by the psychological factors underneath the surface.

Consumers have distinctive purchase patterns in different classes of consumer goods. However it needs to be noted that every individual has a purchase behavior of their own, and hence it is difficult to group these consumers together. According to O’Cass and Frost (2002), purchase behavior is reflected on the self-concept that reflects to the culture, which the individual is surrounded with. In their research, Dubois & Duquesne (1992) compare the predictive power of income versus culture in the market for luxury goods. The study involved fourteen categories of luxury goods. Most of these categories are still perceived luxurious but products such as wine would probably not be categorized as luxury goods but rather as everyday products. Distinction between jewelry and precious jewelry should have been drawn, as this product category includes many types of goods, of which majority does not cost more than five dollars.

The study of Dubois and Duquesne (1992) indicates that the luxury goods should be targeted to those enjoying a privileged economic status. The relevance of this conclusion is questionable as it is fairly obvious that the luxury goods are targeted to those affording to purchase them. The emphasis should rather be on to which groups inside this segment were the products to be sold to. It also does not take into consideration that there are other factors in addition to financial situation that affect the consumer’s purchase behavior.

Since this research is conducted on the field of luxury goods, it is relevant to define luxury goods.

2.2 Luxury goods

According to the web dictionary Wikipedia, a luxury good is a good at the highest end of the market in terms of quality and price. Classic luxury goods include “haute couture” items such as clothing, accessories and luggage. However many

markets have a luxury segment including, for instance, cars, wine and even chocolate. Yet luxury can be something intangible such as holiday, or more time spent with one's family. The meaning of luxury according to the American Heritage, Dictionary of English Language, is something inessential but conducive to pleasure and comfort. The word is a derivation from a French word *luxurie*, which again comes from Latin word of *luxuria*, which means excess.

The market for luxury goods is an affluent niche with a range products and expansion opportunities. According to the Saison Research Institute of Japan, a staggering 94.3 percent of Japanese women in their 20s own Louis Vuitton goods and 92.2 percent of them own a Gucci product. (Will, G., 2007) The economists have noticed the increasing demand for luxury goods and in February 2006, French bank BMP Paribas and the Deutsche Börse launched the world luxury index, a collection of 20 luxury-goods purveyors from Hermes to LVMH. Merrill Lynch soon followed with the Merrill Lynch lifestyle index, which tracks 50 such stocks. In June, British money manager Dominion Group launched Chic, a mutual fund that invests in 61 makers of luxury-goods. (Demos, T., 2007) The driving force behind the expansion of the luxury market, is the unprecedented surge in the global wealth for instance, the number of millionaires in the world recently surpassed 9.5 million.

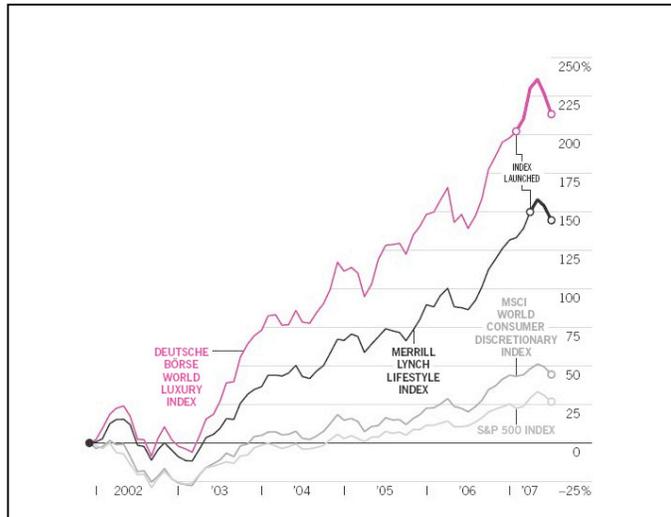


Figure 2.2
Luxury indexes

Source: Demos, T. (2007, 17 September). Does bling beat the market?. Fortune Magazine, The Luxury edition, pp. 78.

From the above graph we may observe that both the Deutsche Börse and the Merrill Lynch lifestyle indexes beat the more common S&P 500 and MSCI World Consumer discretionary indexes with increase on 207% and 142% respectively from 2002. One must however note that the past figures for the luxury indexes are somewhat hypothetical at the best, being only recently launched. Still they provide an idea of the market power of the luxury segment. The future of these indexes remains to be seen as the lifestyles change though the demand for luxury goods remain the same it is up to the brands to deliver what their customers want.

Table 2.1
Luxury dimensions

Author	Definition
Nia and Zaichkowsky (2000)	Luxury goods are goods, which provide prestige to the owner and can be related to the individual's personality
Beverland (2004)	Components of luxury ; culture, marketing, endorsements, product integrity, history and value driven emergence

Table 2.1 continued

Moore and Birtwistle (2005)	Structure of a successful luxury brand ; culture and heritage, marketing, endorsements, product integrity, iconic products, flagship stores, store brand concept and premium pricing
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Due to an increasing demand, numerous luxury brands have surfaced attempting to capture the increasingly wealthy consumers. Bernard Arnault, Chairman of Louis Vuitton Moët Hennessy answered to a question about luxury brands, that I would say that there are four characteristics required. A luxury brand is timeless, modern, fast growing, and highly profitable. It is very hard to balance all four characteristics at once after all; fast growth is often at odds with high profitability. A brand has to become an institution but also remain current. (Beverland, 2004)

According to Nia and Zaichkowsky (2000), luxury goods are defined as goods, which provide prestige to the owner and can be related to the individual's personality. People who buy luxury goods want to improve their image and show their status to others by expressing their true self with the symbolic value of the products they carry.

To analyze the meaning of luxury, Beverland (2004) provides a model with six components: culture, marketing, endorsements, product integrity, history and value driven emergence. While the model provides insight into what is luxury, it is limited to its structure of six components. Moore and Birtwistle (2005) again suggest a following structure for a luxury brand, the components of successful luxury brand are indicated as follows; Culture and Heritage, Marketing, Endorsements, Product Integrity, Iconic Products, Flagship Stores, Store Brand Concept and Premium Pricing. Purchasing luxury goods is a high involvement process for most consumers as only some people afford to purchase a pair of USD500 jeans just for the fun of it. Hence it is suitable to first look into the theory of consumer behavior in the market for luxury goods.

Beverland's (2004), research on the related field of luxury wines takes the approach of assessing the lack of research in the luxury market thus focusing on an even less explored category, the luxury wines. His research looks into the luxury branding in general in an attempt to gain understanding of the luxury market. The market for wines has increased dramatically in the past years and also according to Beverland (2004), these wines represent a number of paradoxes associated with luxury brands. For example, the quality and style of these wines are enormously individual, and highly variable, depending as it does on the weather. The wine brands in the luxury segment do not necessarily fit today's global market for wines, as in contrary to the general wine offering these brands are highly depending on quality and price in addition to focused promotion and selected distribution.

Just like products in other luxury markets the brands in luxury wine market have huge market power in addition to increasing demand. Beverland's (2004) key objectives include, examination of actions of luxury marketers to gain understanding over the components of luxury brands. Examining how these brands were developed and maintained over time. To examine the seeming paradox of luxury brands, which are highly successful brands in terms of awareness, loyalty and sales, and yet are managed by brand owners who appear opposed to the marketing concept.

His research is based on three types of primary research. These including, interviews conducted with international wineries and retailers of luxury wine brands in different geographical locations. In addition to this, focus groups consisting of consumers of luxury wines were selected and interviewed. These interviews are backed up by secondary research obtained from case studies, press releases, articles and relevant books. In order to select relevant brands, recognized wine reviews were examined, as luxury wine is not depended on price alone, but on quality as well. Here

arises one of the researchers problems. Others might perceive the luxury wines selected to the research or consumed by the focus groups as luxury wines, but some might consider them as nothing more than average. There should be a clear distinction between luxury wine and other types. Also does this research include wines from different categories of wines such as champagne, port, white or red wines? Speaking of just luxury wines is too vague and hence many parts of the research require clearer definition over what is luxury and what is not.

The results of the research uncover a number of deeper level values and processes underpinning luxury brands. According to Beverland (2004), firms seeking to build luxury brands develop values and theories-in-use to ensure the continued credibility of these brands, as opposed to simply charging a high price or developing an exclusive image. To analyze the meaning of luxury, attention was given to model of six components: culture, marketing, endorsements, product integrity, history and value driven emergence. While the model provides insight into what is luxury, and works best in providing solution to the second objective raised it is limited to its structure of six components.

Another example of a study on the lifestyles and consumption cultures regarding luxury goods is one by Fram and Baron (2004), who attempt to seek answers to, whether or not the pre-marriage ring purchasing traditions have changed with the new pre-marriage living traditions?

A natural diamond ring has a deep-rooted position in the engagement culture. According to data by Fram and Baron (2004), in 2002, USA contributed to 50% of the world's diamond revenue with USD27.4 billion retail sales. The engagement ring market alone was worth 4.3 billion. 1.8 million engagement rings are sold annually with 1.75 million being diamond rings. The United States is the global market leader

in diamond sales with Japan tailing behind with 17 percent of retail sales and Italy at the third place with four percent. The diamond market is dominated by DeBeers Diamond Trading Company, which has partnered with the Diamond Trading Company and Louis Vuitton Moët Hennesy, which are the market leaders.

Fram and Baron's (2004) research is based on questionnaires distributed to young age groups such as 18-22 and 23+. One could argue that these respondents are too young to be target market for diamond engagement rings. To add into this criticism the settling down trend has been changing rapidly in the past and people prefer staying single up to their thirties. The results however show significance in favor of the diamond engagement ring purchase trend, with both men and women considering the tradition important. Majority of the American consumers purchase their rings from a specialty jewelry store chain or an artisan, with less purchase being made via the Internet, TV or mail order.

Diamond engagement ring sales are bound to decrease as people wait longer before settling down. However this is based on assumptions and is fully dependable on the surrounding culture. The surrounding pop culture is boosting diamond markets enabling the market to flourish. The use of e.g. synthetic diamonds or other forms of precious jewelry will increase and reduce the use of natural diamonds, as the quality of the synthetic diamonds is increasing making it difficult to differentiate between the fake and the real deal. The presence of blood diamonds, which are mined in countries like Sierra Leone to fund war, is also decreasing the sales of natural diamonds. To fight this negative association, jewelers are advocating the use of conflict free diamonds to retain consumers from switching to alternatives.

Table 2.2
Empirical research – Luxury goods

Author	Research Method	Dependent variables	Independent variables	Findings
Michael Beverland (2004)	Case study, Focus groups, 34 interviews of wineries worldwide, Luxury wines	Luxury brand	Culture, marketing, endorsements, product integrity, history, value driven emergence	Firms seeking to build luxury brands develop values and theories-in-use to ensure the continued credibility of these brands, as opposed to simply charging a high price or developing an exclusive image.
Eugene H. Bram Robert Baron (2004)	Survey studying 459 young adults in the US regarding demand for diamond engagement rings	Intention to purchase diamond engagement ring	Importance of diamond engagement ring, alternatives to engagement ring	Though the lifestyles of consumers have changed the importance of diamond engagement ring has remained the same.

When it comes to high involvement products such as precious jewelry, often the decision making process is longer and involves more people than just the consumer. Hence it is relevant to next look into the decision making process.

2.3 Decision making process

According to Kotler et al. (2002), consumer decision-making varies with the type of buying decision. Consumer buying behavior differs greatly for a tube of toothpaste, a tennis racket, an expensive camera and a new car. To analyze the different types of consumer behavior one may look into the degree of involvement.

	High involvement	Low involvement	
Significant differences between	Complex buying behavior	Variety seeking buying behavior	brands differences between brands
Few differences between	Dissonance-reducing buying behavior	Habitual buying behavior	

Figure 2.3: Four types of buying behavior
 Source: Kotler et al. (2002), *Principles of Marketing*, pp. 212

Kotler et al. (2002) advocate that, consumers adopt complex buying behavior, when the product is expensive, risky, infrequently purchased and involves high level of self-expression. Consumers investing great deals of funds in a single good often have to thoroughly research the product before making the purchase decision. This type is similar to the dissonance reducing buying behavior. The latter only differs in the level of similarity across different brands. For instance, when purchasing a diamond ring, one has several brands and types to select from, but the price and the risk involved are still similar.

According to Kotler et al. (2002), habitual buying behavior refers to purchase of everyday goods such as salt, the level of involvement is very low and often the eye level is the buy level, which means that the consumer simply picks the first product he/she spots. Variety seeking buying behavior still advocates a low involvement, but differentiates from habitual buying by the customer's perception towards certain brands. For example a consumer might be used to purchase a certain type of washing powder due to its functionality and pleasant odor.

We as consumers are constantly subjected to the culture around us, which directly or indirectly affects our consumption behavior. Doole and Lowe (2001) explain that, culture not only impacts on how we behave as consumers but on the whole decision making process. Blackwell, Miniard and Enkel (2001) ask the

following questions relevant to the decision making process; upon which information sources do members of the culture rely? Do members of the culture tend to be rigid or flexible in the acceptance of new ideas? What criteria do they use in evaluating alternatives?

To answer these questions, one must look into the decision making process itself, Pickton and Broderick (2005), identify four stages in the decision making process; pre-purchase, purchase, post-purchase evaluation and product disposal. Throughout these stages the surrounding environment influences the consumer. According to Dibb, Simkin, Pride and Ferrel (1997), the pre purchase and purchase stages are influenced mainly by the psychological influences such as personality, self image conception, and attitudes toward the brand, personal influences such as economic situation and demographics, and social influences like reference groups and culture.

It is these reference groups that Pickton and Broderick (2005), define as groups of people to whom an individual relates such that her/ his behavior is potentially influenced by that of others in the group. The people in these groups can include family, friends, and colleagues for instance.

The consumers' purchase behavior is dependant on their decision making process and the external influence surrounding them. Pickton and Broderick (2005), identify two schools of decision-making, the cognitive paradigm and the behavioral paradigm. Cognitive school identifies the influences affecting the purchase and if necessary can ration the purchase decision, where as the behavioral school is looking at decision making from the perspective of environmental consequences.

Decision making process depends on whether or not the product is of the high or low involvement. By dividing the product types, it is easier to identify a suitable

customer group for the particular good. In order to reach the right customer, segmentation is crucial. Thus the next section will explore segmentation and relevant literature.

2.4 Segmentation

Marketers may approach a market through two approaches, mass marketing or market segmentation. Pickton and Broderick (2005) define market segmentation as the process of dividing market into homogenous segments using one or a range of possible segmentation methods. Dibb (1998) establishes her study on three stages of segmentation, segmenting, targeting, positioning. It is necessary for the companies to move according to these steps to enjoy the benefits of segmentation. But sometimes following the set of rules is not enough. The study of Dibb (1998) attempts to answer the question of whether or not segmentation is a good idea and why does it sometimes fail?

For a manufacturer it is vital to know to who the products are to be sold to. If the consumers do not possess enough knowledge of the products, it is best to sell the products to workshops. In this case the segmentation would happen in the business-to-business context. To shed light to the region of segmentation Dibb (1998) carries out an analysis of segmentation in regard to the effects of brand, perceived quality, service, product range and service needs. The research does not pinpoint any schemes available to the manufacturer, and only provides some insight into the customer's mind without creating a clear customer profile. O'Cass and Frost (2002) add that, there is also indication that marketers should segment their markets for specific needs and create products to satisfy consumer's self image.

Here it should be mentioned that luxury goods often belong into the niche market where the number of buyers is limited due to the high price and high

involvement related to the good, and the customers of the brand or product are often loyal advocates for the brand. According to Hollensen (2004), many smaller firms have no choice but to specialize in the supplying of products that occupy a relatively narrow global niche. This type of strategy however is often very successful if the product is targeted to the very few privileged enough to purchase this particular good.

Marketers sometimes fail to gain benefits from segmentation as they either get sidetracked in the process or fail to understand the concept of segmentation. There is a great temptation to get involved with the process and meanwhile forget the actual objectives. Prestigious brands such as Rolex and Rolls Royce are using segmentation successfully by focusing on their main segment without hesitation and communicating with their customers in clear and consistent manner. Another example of an affluent niche is Valextra leather luggage sold in Milan. With a starting price of USD 5000 the brand sells cream-colored hand made leather bags without wheels, pull-straps or retractable handles. Bags that would surely be ruined after one flight in a commercial airline, however these bags are not meant for those using commercial airlines but rather to those traveling with private jets. Although brands such as Rolls Royce retain their prestige by offering only limited product categories, most luxury good companies start at the high end and then they filter their brand downstream and do diffusion lines, which they look at as necessary evil. (Levinstein, J.L., 2007) This is done to assure the availability of these goods to all possible consumer segments.

Constant observation of factors affecting the outcome is required before, during and after a marketing project. According to Groth (1994), identification of physical needs can assist in identifying the market segment, coming up with a product that suits the physical needs, influencing the units demanded, delivering a good or a service to meet that demand and favorably affecting the margin by utilizing exclusive

value principle. As people do not purchase products just for utilitarian reasons as products hold deeper meaning for each individual, it is important to know, who are the customers?

The macro economical changes have assisted in emergence of distinct differences in consumer behavior, which again has contributed to creation of new customer segments. The young generations have greater disposable income and start consuming at an earlier age. The theorists refer to this generation as Generation Y. Greater variety of media vehicles and consumption patterns are forcing marketers to take the new features of generation Y into account.

In their study on the consumer behavior of Generation Y female consumers' Bakewell and Mitchell (2003) identify five segments of shoppers; trend setting loyalists, shopping and fashion uninterested, recreational discount seekers, recreational quality seekers and confused time money conserving. Though it is possible to segment the consumers into these categories, their study is limited to the focus on female shoppers, which makes the results of the study fairly one-sided. Although women spend more time shopping than men, the behavior of male shoppers has changed to some degree in the past years. Men have similar purchase patterns as the women and in some instances spend even more money on personal products. Conspicuous consumption behavior of the male consumers is especially evident in the increasing market for male grooming products.

These generation Y youngsters have changed their consumption patterns along the years and pose a great possible market segment for companies. The new generation spends on average seven hours a day watching television, which increases the need to advertise on TV. Also the use of Internet is ever increasing and offers a great opportunity to turn the generation Y into online shoppers. The online effect is

very visible in Western countries where consumers rather purchase e.g. their clothing and music online than go to the actual store. This effect has been evident in the decrease of retailers in the market. For instance, previously successful music and entertainment retailer Free Record Shop recently seized all of its activity in Finland. This is mainly due to the fact that consumers prefer shopping their music online. The media is portraying a very materialistic image to be followed, which is making goods desirable. The MTV culture is adding more and more pressure on today's youth, as they want to keep up with their idols. An interesting example of this is the increasing demand of "grillz" or clip-on gold teeth in layman's terms, in the American jewelry market.

According to Bakewell and Mitchell (2003), the young cultures identify price with quality and are more willing to spend money on personal goods. Young men and women enjoy shopping more than previous generations, which could be an effect of children being introduced to shopping and materialistic lifestyles at an earlier age. Shopping is more of a hobby for teenagers. As teenagers spend more time in the shopping malls the trend of window-shopping has also increased.

Consumers are subjected to marketing programs that suit their individual needs. Pre-purchasing has become more difficult and time consuming as the number of products and brands is increasing rapidly. This is resulting in consumer confusion as people spend more time shopping but do not know what to get. The effect of consumer confusion differs between high and low involvement products, as it is very easy for one to purchase a candy bar for one dollar, but when it comes to high involvement goods such as luxury products, the effects are more apparent. To reduce the confusion and keep the customers happy, companies engage in relationship programs to build a rapport.