
Consumer Buying Behavior for Luxury Goods with Reference to Economic Slowdown and Current Government's Budget Provision: An Empirical Study

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Abstract

Luxury brands have often been associated with core competences of creativity, exclusivity, craftsmanship, precision, high quality, innovation and premium pricing. These product attributes give consumers the satisfaction of not only owning expensive items but added psychological benefits such as esteem, prestige and a sense of high status that remind them and others that they belong to an exclusive group and only a select few who can afford these expensive items. Very little research has been done on consumer behavior in the luxury segments. Demand for luxury brands in India dipped to the tune of 60% in the first quarter of the 2009-10 due to economic downturn and this has economic repercussions. Therefore, it is necessary to carry out research in this field.

This paper focuses on two main influencing factors such as economic downturn and the effect of the union budget in India on Demand for Luxury Brands. Thus, it becomes important to gain insights into consumer behavior during times of duress so as to adopt appropriate marketing strategies for luxury brands in such times. The methodology of research used in the paper is descriptive statistical analysis based on data collected through questionnaire survey around Delhi and NCR region. Based on findings of the study, the paper finally developed a matrix of strategy for marketing luxury brands among Indian Consumer.

Introduction

The luxury sector targets its products and services to consumers at the top-end of wealth spectrum. Such consumers are more or less price insensitive and choose to spend their time and money on objects that portray opulence rather than necessities. For these reasons, luxury and prestige brands have for centuries commanded an unwavering and often illogical customer loyalty.

Luxury and prestige brands such as Rolex, Louis Vuitton and Cartier represent the highest form of craftsmanship and command a staunch consumer loyalty that is not affected by trends. These brands create and set the seasonal trends and are also capable of pulling all of their consumers with them wherever they go.

Luxury brands are however different from premium brands. These are Polo Ralph Lauren, Calvin Klein and Tommy Hilfiger. Premium brands aspire to be luxury brands but their marketing strategies are

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more attuned to the mass market, albeit the luxury mass market. They are also termed as mass-premium brands or mass-luxury brands. Fashion brands on the other hand are those that address masses. The paper after reviewing literature on the consumer behaviors of the luxury brands, develops its own empirical study to investigate the behavior of Indian Consumer of Luxury brands and how the trend is changing due to recession and the Government's annual budget policies.

LITERATURE REVIEW

Following major trends are observed in the recent literature on consumer behavior in the segment of durable consumer goods. In the past, consumers who entered a new category especially that of consumer durables tended to enter quite gingerly. This created a market for "price-conscious" brands. However, today the line between entry-level and upgraded products has been disappearing.

Also, the nature of consumption of durable goods has changed. These products are no longer considered as lifelong investment. Today, the average life of a mobile is twelve months, that of a Television three years; cars four to five years and soon even homes will be changed more frequently. Clearly, durability is no longer the most desirable criteria. Durable products are changed with better brands and with advances applications. Now, shopping behavior is changing from shopping lists the women brought from home to a list evolving as she walks through the aisles of a supermarket.

SRI Consulting Business Intelligence (1999) categorizes consumers into three groups according to what luxury means to them namely functional luxury, reward luxury and indulgence luxury.

1. Some consumers buy luxury products for their superior functionality and quality. Consumers in this segment are the largest of the three; they are older and wealthier and are willing to spend more money to buy things that will last and have enduring value. They buy a wide array of luxury goods from artwork to vacations and conduct extensive pre-purchase research making logical decisions rather than emotional or impulsive.

2. These consumers are relatively younger as compared to other two groups. They are motivated by their desire to demonstrate their success to others. Luxury brands that have widespread recognition are popular; however, they do not wish to appear lavish or hedonistic in their appearance. They want to purchase "smart" luxury that demonstrates importance while not leaving them open to criticism. Marketing messages that communicate acceptability among the peer group exclusivity resonate with this group.
3. This group is the smallest of three and tends to include younger consumers with comparatively more males than other two groups. Their purpose for luxury goods is self-indulgence. They are willing to pay a premium for goods that express their individuality and make others take notice. They are not overly concerned with product longevity or possible criticism. They enjoy luxury for the way it makes them feel, and therefore have a more emotional approach to purchases. They respond to messages that highlight the unique and emotional qualities of a product.

The spending behavior of Indian population is forecast to increase considerably. However, due to recent recession, this estimation has been marginally revised (McKinsey Global institute, 2008).

Emerging Consumer Behavior Groups

India has the youngest population profiles among significant countries of the world. This means that there are a lot of young people in different income segments and locations who either are spending their own money or influencing their parents' spending. Moreover, a section of farmers have unquestionably grown beyond "Rural" in the broadly understood senses. Many of such young population are also beginning to earn money through part-time or full-time employment arising out of opportunities that did not exist few years ago. This gives them scope to spend money. These groups consist of Teen Riches, Call Centre boomers, Bold & beautiful, young entrepreneurial professionals, rural affluent farm folk and some retired group with high pensions combined

with returns on investment and employees of multi-national companies who are based in India but travel extensively.

According to a study by American Express (2004), 'Inside the Affluent Space', the mindset of the Indian consumer is a desire to prove that "I've made it". This can be related to the luxury categorization which is based on the fact that luxury is seen as a reward, both for achievements in life as well as showcasing these achievements to others.

Thus, luxury brands in India are here to stay. The Luxury Marketing Council Worldwide has established a chapter in India, with the aim of promoting luxury brands. Their task will also be to build synergy between various luxury brands interested in India by way of sharing of consumer insights as well as best practices. The Hindustan Times group of publications has been at the forefront of driving the luxury revolution in India by organizing two Indian Luxury Conferences in the last 4 years. In addition, it also brings out a monthly supplement of luxury goods available in India thereby creating awareness for luxury brands.

RESEARCH METHODOLOGY

Objectives of the study

Present study was carried out for a period of 4 months. During this period, the following objectives were identified for the study.

1. To identify different segments of consumers buying luxury goods.
2. To identify various factors influencing luxury buying today
3. To develop a selected strategic matrix for organizations specially for marketing of luxury products to those who are entering into this segment.

Total 156 working adults living in Delhi and NCR with minimum salary of Rs. 5 lakh per annum were invited to take part in this study. Respondents were selected through convenient sampling and snow ball sampling techniques. Snowball sampling allows estimation of characteristics which are not very common in a population. After collection the data, only 136

responses were taken to analyze as remaining responses were incomplete.

Respondents were divided into 4 groups on the basis of annual income. The income classification was done, taking into consideration the income of 'individuals' and not any other unit such as 'family' of the respondents.

Data collection

The study was carried out with the help of a specially designed questionnaire to capture the consumer awareness and their purchasing behavior. Respondents were asked variety of questions regarding their intention, attitudes, awareness, motivations, demographic as well as lifestyle characteristics. Questions were related to income category, types of luxury products they wish to buy, the effect of union budget and economic slowdown on buying luxury goods, choices of brands, idea of luxury items buying, reasons to buy luxury goods etc. All independent factors which can affect the consumer purchasing behavior towards luxury goods were analyzed. There were only 11 specific questions in the questionnaire to maximize the response rate. Multiple choice and dichotomous questions were used. The rank order scale is also used in some of the questions.

The respondents were requested to provide the answer which first comes to their mind. For the purpose of data collection, premium shopping malls in Delhi, Gurgaon, Faridabad and Noida were selected. These malls hosted showrooms of various luxury products and premium brands.

Questionnaires were then tested for reliability through SPSS software. Chronbach's alfa value of the data found out to be 0.68, which confirms the reliability of the data.

Findings

In the study (Table 1), 85 male and 51 female participants' responses were taken to analyze data with respect to their purchasing behavior and individual income categories (between INR 5 - 20 lakhs).

From the Pearson correlation reported in table 2 gender is a main influencing factor and found to be correlated with specific luxury products ($r = .416, p < .01$) and reason to purchase luxury products ($r = .343, p < .01$). Another independent variable i.e Salary structure is also found to be correlated with type of luxury products ($r = .614, p < .01$) and influence of budget in buying behavior towards luxury products ($r = .246, p < .05$). Influence of recession in buying luxury products is also correlated with income of the respondents ($r = .238, p < .05$). The correlation (.614) between specific choice of product and salary structure is significant at 1% confidence limit.

Various types of luxury products are correlated with the criteria of imported or Indian brands ($r = .511, p < .01$) and reason to purchase these products ($r = .244, p < .05$). Various reasons of luxury products buying is also correlated with type of products i.e Indian or imported ($r = .432, p < .01$)

Table 3 shows the sex wise classification of respondents with respect to different age group. Another important parameter i.e sex wise distribution of various income category, is mentioned in Graph 1.

The Graph No. 2 indicates that the group 1 and 2 consumers feel relatively higher intensity of the effect of recession on their spending. Group 3 consumers expressed lesser effect of economic slowdown in buying luxury product compared to the income group 4 where the effect is moderately high. On the other hand group 1 consumers take the safe route and totally stopped spending. Over all, the numbers of consumers who have totally cut out their luxury purchases are minimal and the majority of consumers are moderately affected by the same.

Majority of consumer belonging to the income group of 2 ranging between 10 to 15 lakhs, appears to be ignorant of the fact that union budget has a considerable effect on the prices of the luxury goods that they purchase. However, it is interesting that the consumers in the lowest income groups of our sample are the highly informed group as compared to all other groups and make informed decisions about the purchase of luxury goods or other commodities as displayed in the graph above (graph no. 3). Group 4 consumers highly aware of luxury products such as automobiles and electronics.

Irrespective of the income group, the number of people who follow the budget every year to plan their purchases accordingly is minimal. Higher percentage of people appears to follow the union budget when they have free time to do so, followed by the group of consumers who are planning to buy some luxury goods, the price of which can be influenced by the budget decisions (Graph 4).

Graph 5 shows that the consumer in the group 2 income ranges purchases luxury goods mostly when there is a special occasion to celebrate. Surprisingly some of them also purchase luxury goods due to peer pressure and the necessity to stay in a social structure or group. It probably reflects a need to keep up with the latest trend than necessity or personal satisfaction. Majorly of young Indian consumers in the group 1 income range purchases luxury goods to flaunt their ability to afford the high- priced goods.

It is also observed that male respondents are partially more attracted to luxury buying, compared to female respondents though the difference is not very significant. Also male respondents are brand specific or conscious compared to female respondents. Thus, it becomes important for luxury brands to target women in all the income groups.

From Graph no. 6, we see that consumers in all the income groups wish to own imported luxury items. Various independent factors do correlate significantly with the type of goods i.e imported luxury goods.

Discussion

In the light of above findings, a matrix is developed with the help of various factors influencing buying behavior of luxury goods (table no. 4). This will help luxury brands in deciding what strategy to take in case of the above discussed conditions.

During economic slowdown, luxury brands do have market, thus they are not much affected by these external threats in the market. However some measures can be taken to appease just for safety reasons. Initiatives can include discounts, group offerings, sales promotions and price cuts etc.

CONCLUSION

This paper is an attempt to study Indian consumer behaviour with respect to luxury goods and services. Results of empirical study have shown greater significance between dependent variable (buying behavior of luxury goods) with independent variables like age group, income, type of luxury goods, effect of economic slowdown etc. However, results show a general trend of behavior for certain decisions made in choosing the luxury goods and the future planning.

This study can be useful for the luxury goods producers in segmenting their target consumes and designing their promotional offers. The results of this

study can be used to understand the thought process that goes into purchasing of such products and the reason for the purchases being made. On the other hand, this study can also educate the individual consumer about the effect of union governments' policy decisions that have on the pricing of luxury goods in India and accordingly plan their purchases. Being aware of consumer behavior of various income groups also can help them in understanding the marketing offers launched by the producers and make a cautious decision of purchase without being carried away by marketing ploys.

Appendix : TABLES AND GRAPHS

Table 1: Various income groups

Group classification	Income (Per Annum in INR)
Group 1	5 to 10 Lakhs
Group 2	10-15 Lakhs
Group 3	15-20 Lakhs
Group 4	Above 20 Lakhs

Table 2:- Descriptive statistics and inter correlations between various factors

Variables	Gender	Salary Structure	Products	Imported Vs Indian	Influence of Budget in Buying	Reason to purchase	Influence of recession
Gender	1						
Salary structure	.117	1					
Specific Products	.416**	.614**	1				
Imported Vs Indian	.033	-.015	.511**	1			
Influence of Budget in buying	.214*	.246*	.117	.164	1		
Reason to purchase	.343**	-.171	.244*	.432**	.117	1	
Influence of recession	.130	.238*	.214	.092	.214	.164	1

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3: Age wise classification of the respondents

S. No.	Age group (in years)	Study population		Total
		Male	Female	
1	20 – 29	4	12	16
2	30 – 39	25	27	52
3	40 – 49	45	10	55
4	50 and above	11	2	13
	TOTAL	85	51	136

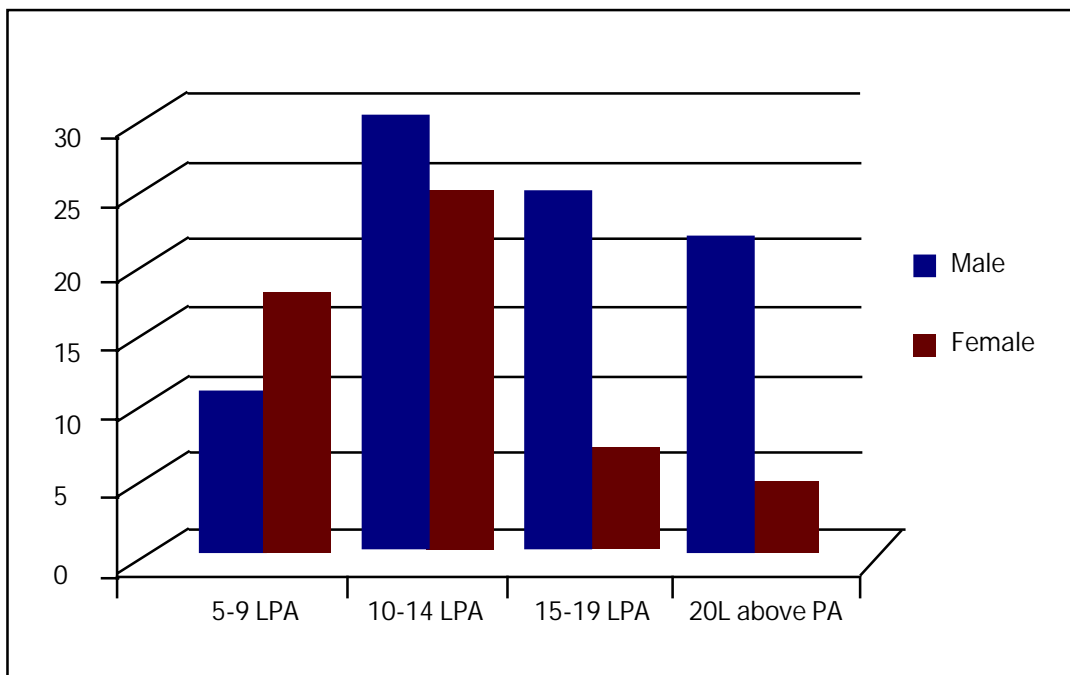
Table No. 4: Factors influencing luxury goods buying behavior matrix

Income GOp	Group 1	Group 2	Group 3	Group 4
Factors				
Recession / Economic slowdown	Tend to cut spending on luxury good	No effect	No effect	No effect
Tracking the union budget	Only when planning to buy	Only when they have time	Only when planning to buy and have time	Only when planning to buy and have time
Awareness about changes in union budget	Aware of Property & automobiles general policy or rate changes	Aware of automobiles, general commodities and electronic goods policy or rate changes	Aware of automobiles, general commodities and electronic goods policy or rate changes	Aware of automobiles, and electronic goods policy or rate changes
Reason for purchase	Like to flaunt luxury goods	It is a matter of prestige	It is a matter of prestige	No specific reason

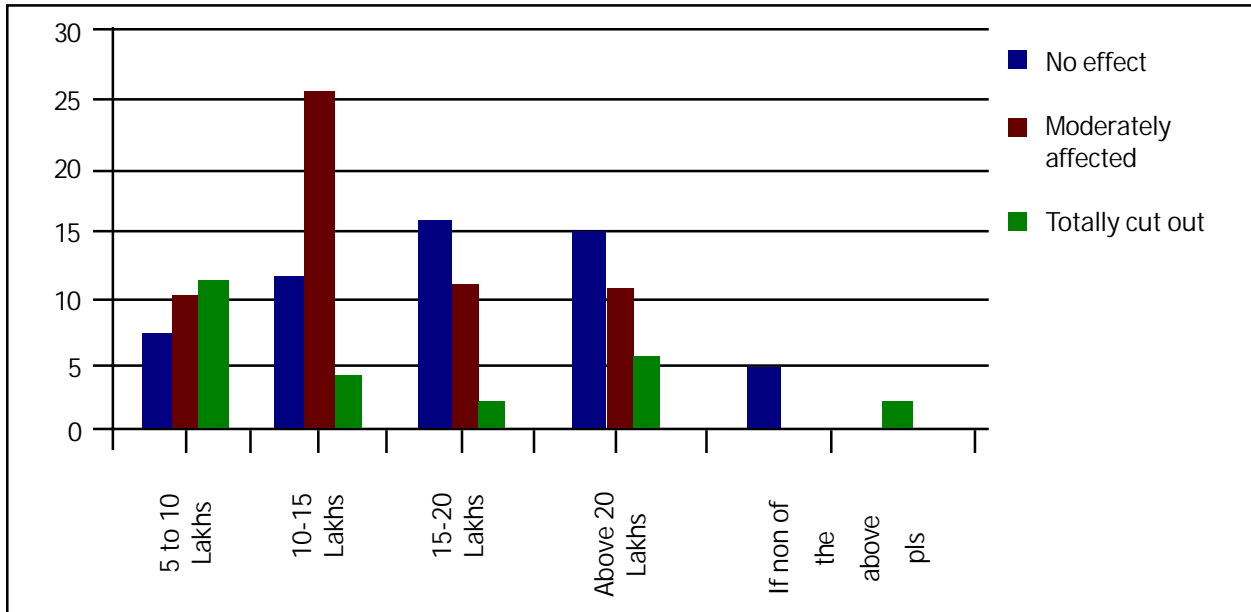
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Income GOp	Group 1	Group 2	Group 3	Group 4
Factors				
Gender Distribution	Male & Female equivalence on spending on luxury goods	Male dominated spending on luxury goods	Male dominated spending on luxury goods	Male and female dominated spending on luxury goods
Choice	Prefer Imported over Indigenous luxury goods	Prefer Imported over Indigenous luxury goods	Prefer Imported over Indigenous luxury goods	Prefer Imported over Indigenous luxury goods

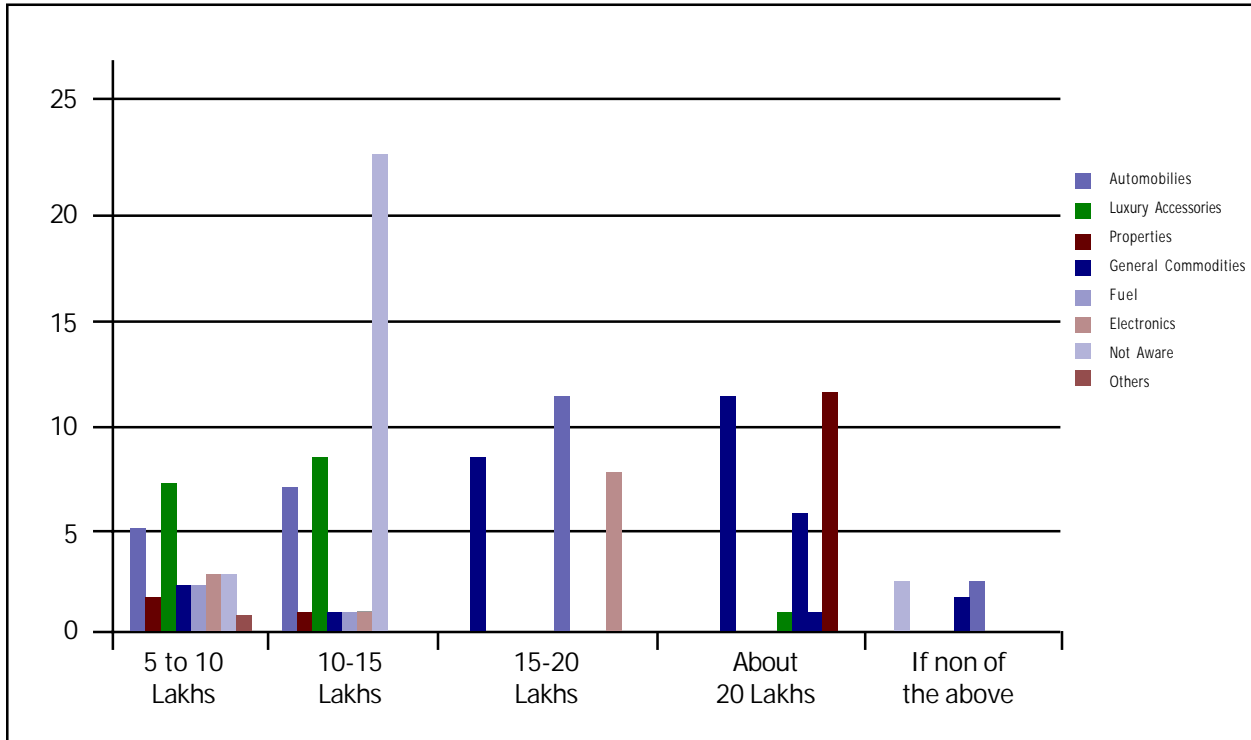
Graph 1 : Income category wise distribution of the respondents



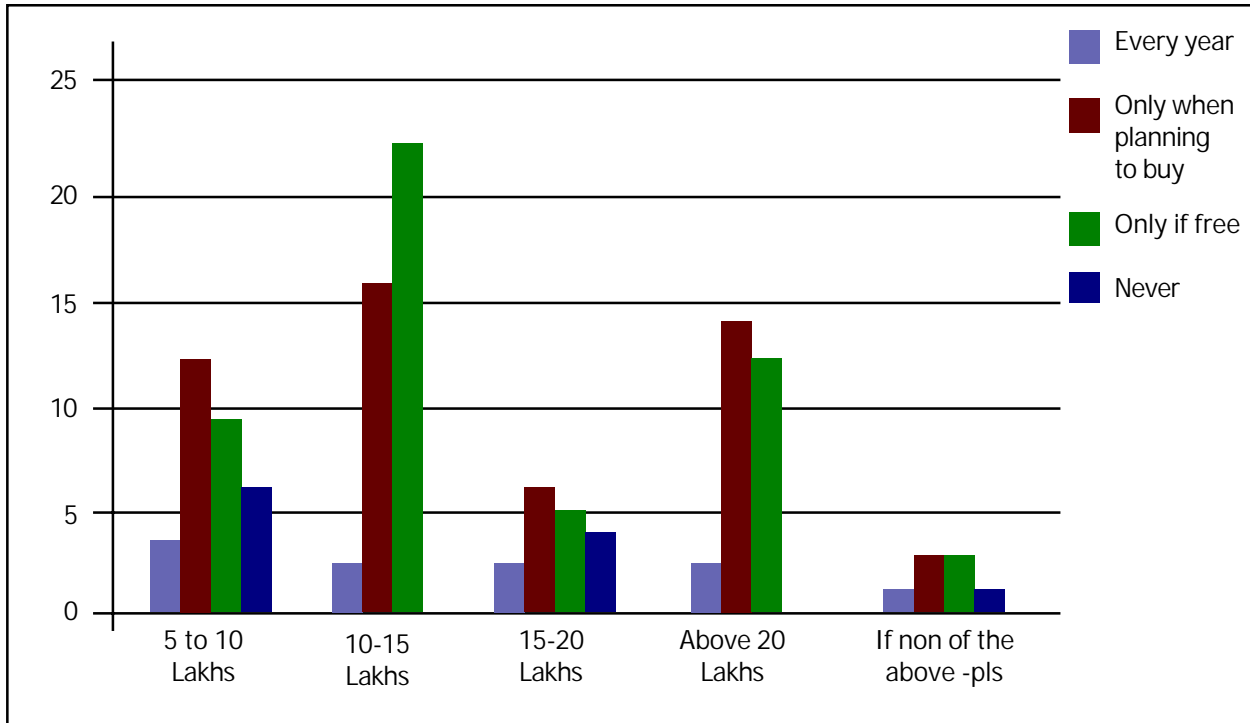
Graph 2 : Effect of recession of luxury goods buying



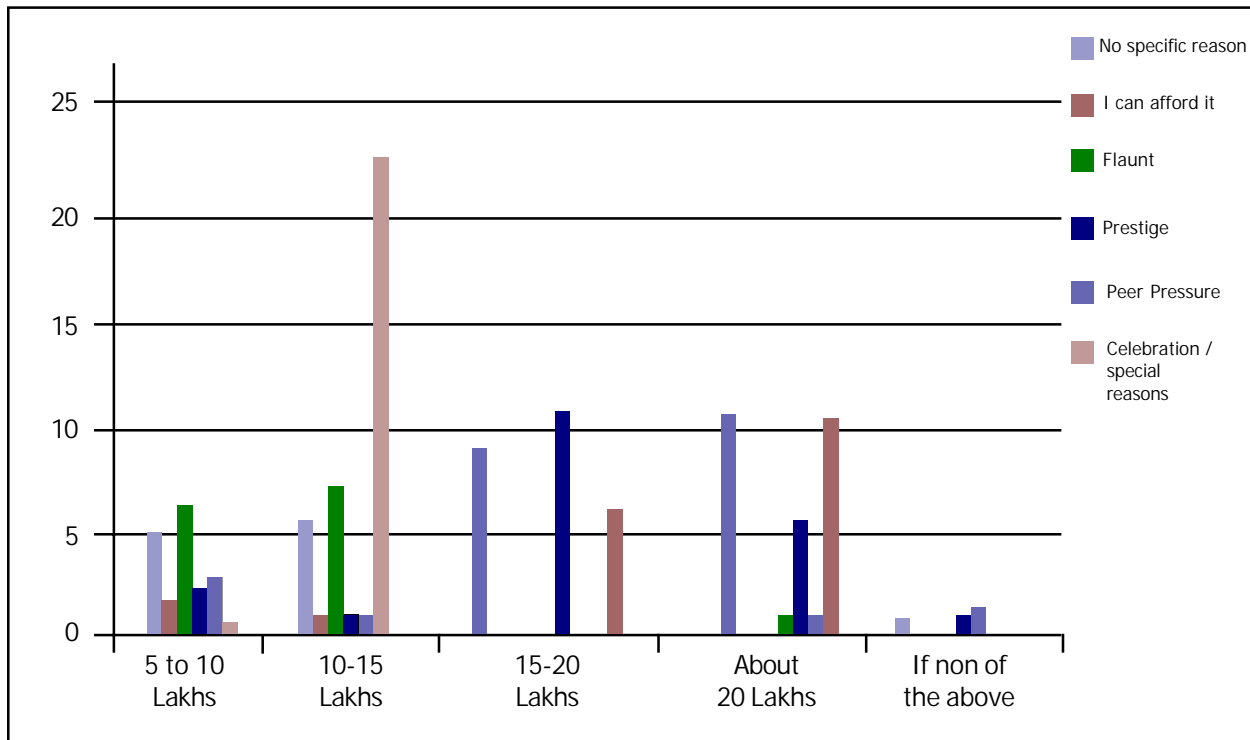
Graph 3 : Various luxury goods buying with respect to Income



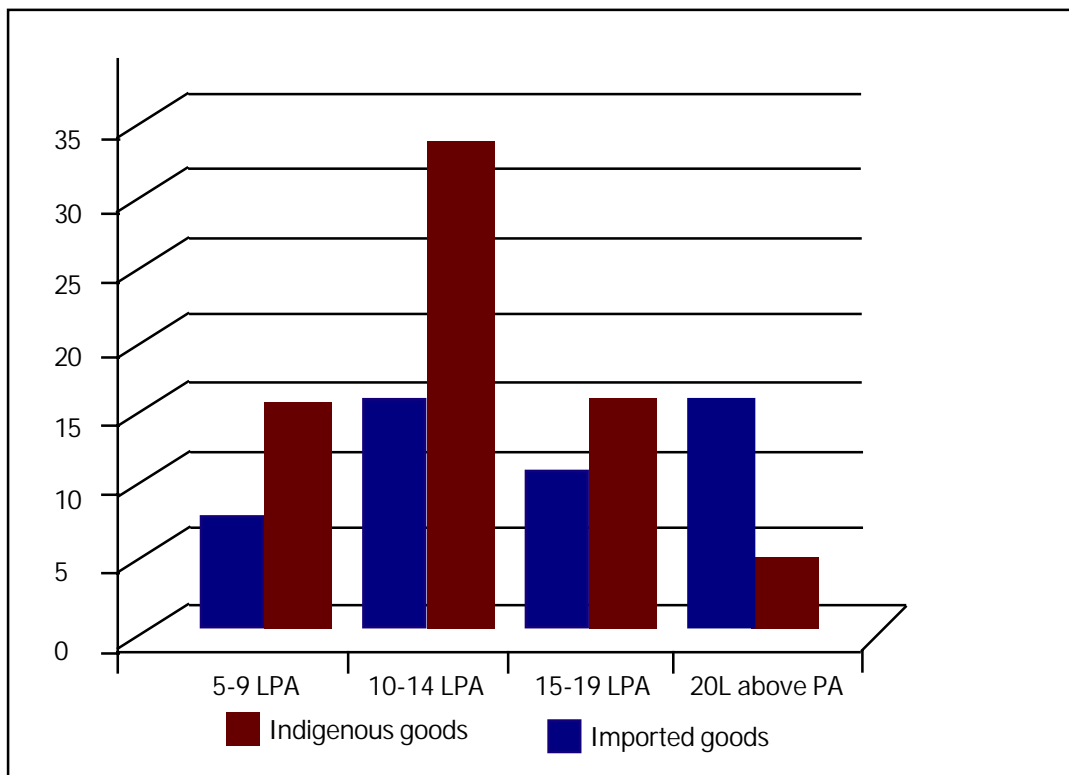
Graph 4 : Tracking Union Budget with respect to various income categories



Graph 5 : Income Group Wise reason to purchase luxury goods



Graph 6 : Income Category Wise Choice of the Luxury Products



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