Journal of Business Research 65 (2012) 1452–1460

Contents lists available at SciVerse ScienceDirect

Journal of Business Research

Understanding luxury consumption in China: Consumer perceptions of best-known brands ☆

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ARTICLE INFO

Article history:
Received 1 March 2011
Received in revised form 1 July 2011
Accepted 1 September 2011
Available online 30 October 2011

Keywords:
Luxury consumption
Value consciousness
Susceptibility to normative influence
Need for uniqueness
China

ABSTRACT

This study investigates the underlying motivations for luxury consumption among Chinese middle-class consumers by testing the relationships between psychological traits and attitudes toward the best-known luxury brands. The study examines three psychological traits that make Chinese consumers unique compared to their global peers: value consciousness (VC), susceptibility to normative influence (SNI), and the need for uniqueness (NFU). Results suggest that consumers evaluate the best-known brands more favorably as they become more value conscious, indicating that luxury products are not necessarily extravagant purchases in China. In addition, SNI positively relates to brand attitudes, which suggests that social influence is an important driver for luxury consumption. The relationship between NFU and brand attitudes depends on consumer knowledge. As consumers learn more about different luxury brands, they evaluate the best-known brands more negatively as uniqueness-seeking becomes a more important goal. These findings offer insight into consumer perceptions of luxury brands and provide managerial implications for marketers to build sustainable luxury businesses in China.

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1. Introduction

With a rapidly growing economy and an enormous population, China has become one of the most attractive markets for luxury brands in the world. According to a report by Goldman Sachs, China's luxury consumption accounts for 25% of the global market, making China second only to Japan in global luxury consumption (People's Daily, 2009). Despite the worldwide economic downturn in 2008, many key luxury producers report strong sales in China. For example, China is the number one market for Hennessy cognac and the world's second largest market for fashionable clothing and leather goods (China Daily, 2009). China's growth is also the main reason that Asia surpassed the United States in 2009 to become the second largest market for another luxury brand, Versace (Cavender & Rein, 2009).

China's middle-class consumers are becoming important targets of luxury brands (Unger, 2006). McKinsey & Company defines consumers in households with annual income of 40,001–100,000 RMB (i.e., USD $6060–USD $15,151) as the upper middle class in China (Farrell, Gersch, & Stephenson, 2006). This study refers to this group as the middle class for simplicity purposes. Although this consumer group is the main proponent of China's luxury market, their motivations for luxury consumption are not thoroughly understood. Without a good understanding of these motivations, companies cannot adequately address these consumers' perceptions of luxury brands, nor can they effectively meet consumer needs. Previous studies examine motives for luxury consumption in other countries (e.g., Clark, Zboja, & Goldsmith, 2007; Dubois & Paternault, 1995; Veblen, 1899), but those findings cannot be generalized to China without further investigation because Chinese consumers differ remarkably from their foreign counterparts (Atsmon & Dixit, 2009; KPMG, 2007; Phau & Prendergast, 2000). Therefore, this study explores the underlying motives of middle-class consumers in China by relating consumers' psychological traits to their attitudes and purchase intentions toward luxury brands.

The study examines three psychological traits that distinguish Chinese consumers from their global peers: value consciousness (VC), susceptibility to normative influence (SNI), and the need for uniqueness (NFU).The first trait, value consciousness (VC), refers to a tendency to seek the best features and performance of a product or service for a given price (Lichtenstein, Netemeyer, & Burton, 1990). Chinese consumers value the functional benefits (e.g., quality,

☆ The authors gratefully acknowledge financial support from the National Social Science Foundation of China (08CTQ008), the National Natural Science Foundation of China (70832001, 70902017), the Shanghai Pujiang Talent Program, and an Internal Competitive Research Grant from Hong Kong Polytechnic University (G-YG22). The authors thank two anonymous reviewers and the guest editors, Eunju Ko and Carol Megehee, for their insightful comments on content and style. The authors also acknowledge the revision suggestions by Alison Lloyd and Liyin Jin on the earlier version of this article.

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doi:10.1016/j.jbusres.2011.10.011

materials) of any particular purchase more than their peers in other countries do (Atsmon & Dixit, 2009). In addition, Chinese consumers save a much larger portion of their growing incomes than their counterparts in America, the United Kingdom, and Japan (Orr, 2004; Wang & Lin, 2009). Because luxury products are characterized by premium prices and have the highest ratios of price to quality (McKinsey & Co., 1990), this study attempts to answer one simple question: are luxury products perceived as worthwhile purchases by Chinese middle-class consumers? The answer to this question would help marketers of luxury brands evaluate the sustainability of the emerging Chinese market and better position their products for this market.

The second trait, susceptibility to normative influence (SNI), refers to individual differences in the tendency to conform to social norms. Social norms exert great influence in China because of its collective culture. Research suggests that motives for luxury consumption differ to cultures, so that consumers in individualistic cultures purchase luxury brands mainly for self-expression, while consumers in collective cultures are primarily driven by social needs (Wong & Ahuvia, 1998). Collective cultures emphasize group harmony and individual responsibility to the group, so following social norms is a core goal that guides each individual's behavior (Kim & Markus, 1999). For example, consumers from collective cultures tend to choose products that conform to group norms (Kim & Markus, 1999). Thus, a critical issue for understanding luxury consumption is to identify the social norms that guide Chinese middle-class consumers, norms that are shaped by two competing forces: Chinese traditional values and modern Western cultures. To provide insight into Chinese consumers' changing mindset, this study attempts to shed light on two related questions: what are the dominating social norms among the middle-class consumers in China, and how do the norms influence luxury consumption?

Another unique characteristic of wealthy Chinese consumers is their lack of knowledge about luxury brands. Investigations from leading marketing research firms find that most Chinese consumers can name only one or two luxury brands in any product category (Atsmon & Dixit, 2009; KPMG, 2007). In other words, the best-known brands may represent the whole category of luxury products in China. In addition, Chinese consumers have difficulty identifying luxury brands because of their rather limited experience in the market as well as the vagueness of the luxury concept (Kapferer & Bastien, 2009; Vigneron & Johnson, 2004). A pretest with 105 respondents listing all the luxury fashion brands they knew found that over one quarter (25.7%) of the respondents named brands that are barely luxury brands (e.g., Nike and ELLE). To address the general lack of knowledge about luxury brands, this study focuses on only the best-known luxury brands in China.

The third psychological trait examined in this study is need for uniqueness (NFU), which reflects an individual's tendency to distinguish oneself from others (Snyder & Fromkin, 1977). NFU is an important determinant for consumer possession acquisitions and their display (Tian, Bearden, & Hunter, 2001). Understanding the relationship between NFU and brand attitude toward the best-known luxury brands would provide brand owners with valuable information to better position their products and meet consumer needs more effectively. NFU may negatively relate to brand evaluation of the best-known brands, because uniqueness-seeking consumers prefer less popular products (Lynn & Snyder, 2002) and the best-known luxury brands are also the most popular ones in China (TIME Magazine, 2007). On the other hand, luxury, by definition, is exclusive, which may be particularly true in China where only a tiny fraction of the population own luxury brands (Roberts, 2007). In other words, NFU can also positively relate to brand evaluation, especially when consumers are not aware of other brands that represent prestige and uniqueness. To further clarify this relationship, the model adds one construct—consumer knowledge about luxury brands—to test how consumer knowledge affects the relationship between NFU and brand attitudes.

This study suggests several marketing implications. First, the findings offer useful information for market segmentation in China's market by delineating the psychological characteristics of consumers who pursue luxury products. Second, this study sheds light on the dominating social norms among Chinese middle-class consumers and, thus, can help owners of luxury brands to better communicate product values and develop market positioning that appeals to consumers' specific needs. Third, this study reveals the role of consumer knowledge in shaping consumer perceptions of the best-known luxury brands, and, therefore highlights an important, long-neglected variable that should be considered in market segmentation and positioning strategies.

2. Literature review and hypothesis development

This study focuses on three consumer traits: VC, SNI, and NFU. In addition to their relevance to the specific needs of Chinese consumers, these factors also directly relate to luxury consumption, as suggested by a variety of discussions (e.g., Amaldoss & Jain, 2005; Clark et al., 2007; Commuri, 2009; Han, Nunes, & Drèze, 2010). This section discusses how the conceptual framework is developed, and Fig. 1 presents the framework

2.1. Value consciousness (VC)

By definition, product value can be expressed as the ratio of overall benefit to total cost (Zeithaml, 1988, p.14). Consumers naturally prefer options with the lowest cost when the requirements for product benefits are met. However, compared to other consumers, high value-conscious consumers are more sensitive to the benefit/cost ratio and, therefore, tend to exert extra effort to seek products that offer the best values (Lichtenstein et al., 1990). Although luxury brands are assumed to have the highest ratios of price to quality in the market (McKinsey & Co., 1990), the benefits that they provide—especially the psychological benefits derived from the consumption experience—can still make those brands highly desirable options (Belk, 1988).

Consumers often rely on material possessions to communicate social status (Belk, 1988; Han et al., 2010). Luxury goods work as an effective social label because of their premium prices and the associated symbolic meanings (Batra, Ramaswamy, Alden, Steenkamp, & Ramachander, 2000; Bearden & Etzel, 1982; Steenkamp, Batra, & Alden, 2003). Apart from any functional benefits, luxury goods communicate prestige and social status. Besides, most luxury brands in China are foreign brands that often connote cosmopolitanism and affluent Western lifestyles, which makes luxury brands particularly appealing to consumers in developing countries such as China.

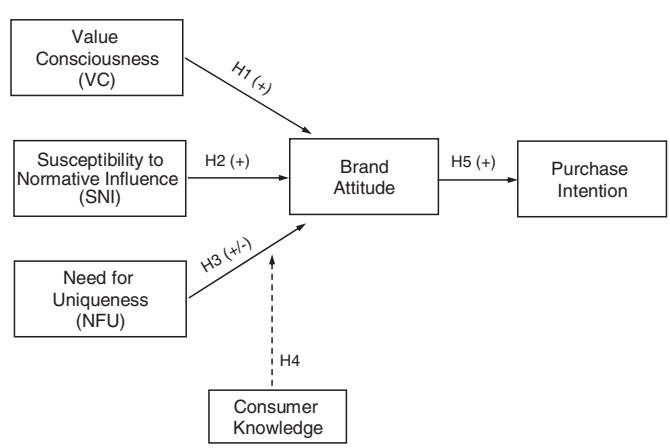

Fig. 1. The conceptual model.

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