

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

Department of Economics



BACHELOR THESIS

Consumer Behavior towards Purchasing of Luxury Goods

Author: Nataliya Khaustova

Supervisor: Ing. Petr Procházka MSc, Ph.D.

© 2011 CULS

Declaration

I declare that I have worked on my bachelor thesis titled “Consumer Behavior towards Purchasing of Luxury Goods” by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on March 31, 2011

.....

Nataliya Khaustova

Acknowledgement

I would like to thank to Ing. Petr Procházka MSc, Ph.D. for his useful advice and support during my work on this thesis, as well as my consultants for materials they provided me and for help with English grammar revision.

Spotřebitelské Chování při Nákupu Luxusního Zboží

Consumer Behavior towards Purchasing of Luxury Goods

Souhrn

Hlavním cílem práce je studie spotřebního chování ke koupi luxusního zboží. Cílem je podívat se na rozdíly v chování mezi ruskými a západními spotřebiteli s ohledem na luxusní zboží. Cílem práce je analyzovat vnímání spotřeby luxusního zboží ve dvou zemích, Rusku a Francii, podat srozumitelné přehled marketu s luxusním zbožím v Rusku a předpovědět jeho rozvoj v po-krizové době.

Pro účely studie, primární a sekundární data byla shromážděna z různých zdrojů. K získání informací o vnímání spotřeby, motivaci a chování v případě konzumace luxusního zboží, byl použit kvantitativní postoj (s použitím dotazníku).

Tato studie upozorovala určité odlišnosti mezi ruskými a francouzskými spotřebiteli, převážně kvůli vlivu kultury a marketů na jejich spotřební zvyklosti.

Aby podnikání bylo úspěšné, tato zjištění by měla být brána v úvahu jako součást marketingové strategie.

Výzkum také prokázal, že světová recese ovlivnila průmysl luxusního zboží v Rusku. Ale nyní, s pozitivními známkami v ruské ekonomii, optimismus spojený s tímto průmyslem roste. To je demonstrováno výdaji spotřebitelů a zvýšenou tržní aktivitou.

Klíčová slova

Luxusní zboží, spotřební chování, market luxusního zboží, Rusko, Francie, marketing, ekonomická krize, demonstrativní spotřeba

Summary

The main goal of the thesis is a study of consumer behavior towards purchasing of luxury goods. The aim was to see the differences in behavior between Russian and Western consumers towards luxury goods.

The objective of the thesis is to analyze consumer perceptions of luxury in two countries, Russia and France, to give a comprehensive overview of the Russian luxury goods market and to give a forecast about its development in the post-crisis period.

For the purpose of the study, primary and secondary data were collected from various sources. A quantitative approach (by using a questionnaire) was used to retrieve information about customer perception, motivation and behavior regarding luxury consumption.

This study observed some differences among Russian and Western consumers because of the impact of culture and markets on their consumption patterns. For a business to be successful, these findings should be taken into consideration as part of its marketing strategy.

Also the research revealed that the global recession has affected the luxury industry in Russia. But now with positive signs in the Russian economy, optimism about the industry is on the rise, as demonstrated by consumer spending and heightened market activity.

Key words

Luxury good, consumer behavior, luxury market, Russia, France, marketing, economic crisis, conspicuous consumption

Content

1. Introduction	5
2. Objectives and Methodology.....	7
2.1. Questionnaire Analysis.....	7
2.1.1. Data Collection and Sample Selection	8
3. Literature Review.....	10
3.1. The Theory of Consumer Behavior.....	10
3.2. Economic and Social Meaning of the term "Consumption of Luxury goods"	11
3.3. The Concept of Luxury.....	12
3.4. Theories on Luxury	14
3.5. Perception of Luxury.....	19
3.6. Motivation for Luxury Consumption	20
4. Analysis and Interpretation.....	22
4.1. Luxury Market	22
4.2. Cultural-historical Context in Russia	23
4.3. Luxury Consumption in Modern Russia	23
4.4. The Impact of the Crisis	27
4.5. Luxury Consumption in France	28
5. Results and Discussion from the Questionnaire	30
5.1. Sample Profile.....	30
5.2. Perceptions among Russian and French Consumers.....	31
5.3. Motivation for Luxury Consumption among Russian and French Consumers.....	34
5.4. Consumer Behavior among Russian and French Respondents.....	35
6. Conclusions and Recommendations	38
7. Bibliography	41
8. Appendix 1	44
8.1. Questionnaire Form 1	44
8.2. Questionnaire Form 2.....	47

1. Introduction

The term “luxury” has been defined in different ways since the beginning of civilization. It had an important role for the ancient empires as well as now for modern societies. In earlier times it was rather easy to distinguish between social classes, thus only elite groups could consume luxury. So it was fairly clear to define luxury as something that the elite could have and the poor could not. Nowadays, the affordability and availability of luxury goods has very much increased. The market has responded to consumer desires and wants, and so-called “accessible luxury” was created within the luxury market. This new category of products is created especially for the middle class. [22]. As luxury penetrates into the masses, defining luxury has become even more difficult.

Foreign researchers believe that the number of consumers seeking to acquire prestigious brands is growing. This trend is becoming particularly apparent in the following four countries: Brazil, Russia, India and China (what are known as the BRIC countries). [13] They are considered to be at a similar stage of newly advanced economic development. Demand for status and exclusive products has been caused by the special characteristics of consumer behavior in those countries - the representatives of the new class of millionaires and elite. The owners of the "new" capital purchase art, antiques, real estate, expensive cars, jewelry, clothing and accessories, while not particularly thinking about their value. Such wasteful consumption is often based on a desire to demonstrate their position in society.

According to the consulting agency Mintel, the market for luxury goods grew by 7.5% and reached in absolute terms \$104 billion in 2008. [34] The global financial crisis has negatively affected the situation in this market, and sales of luxury goods have decreased. However, according to some experts, even the most difficult period (the end of 2008) did not bring such large losses to the producers of luxury goods. At the same time, the luxury market in developing countries has grown twice as fast than in developed countries. [13]

The rapid economic growth in Russia has increased consumers’ purchasing power, and therefore has opened the market for luxury goods. [29] As people become

wealthier, their lifestyle and self-image change. Due to its communist history, North American and European luxury products were not allowed in Russia. Now with the change of the political situation, the potential for the luxury market is strong.

Thus to understand what kind of marketing strategies are needed in Russia, it is beneficial to analyze the differences in consumer behavior between Russian and Western consumers. And it is also important to consider the recent financial crisis in Russia and its impact on the market for luxury goods.

2. Objectives and Methodology

This thesis brings attention to the consumption of luxury, its motives, values and consumer perceptions. To understand the importance of consumer behavior in the process of marketing luxury goods, a variety of key aspects are analyzed in this research:

- To investigate consumer perceptions of luxury brands in two countries, Russia and France.
- To provide an insight into the evolving demands of luxury consumers in emerging and developed markets, especially within the context of the financial downturn.
- A key focus of this thesis is the Russian market, as it has been identified as having an increasing influence on luxury consumption in terms of growth and volume in the future.
- To explore the impact of the global economic crisis on luxury consumption.
- To understand major changes in consumption patterns and the implications of these for the future of the luxury market.

It is the task of this thesis to bring together, organize and analyze both primary and secondary data from various sources, including books, articles, questionnaires, statistics and graphs, in order to provide an overview of the main issues regarding luxury consumption.

The active consumers of luxury brands in Russia and France were analyzed for the purpose of the thesis. France was chosen because its economic-consumer system is formed and established, while Russia's is new and developing. On the basis of the study, basic consumer preferences, motivations, values, perceptions and lifestyles of the consumers in both countries were derived.

2.1. Questionnaire Analysis

Four parts were included in the questionnaire. They are:

- Demographic information;
- Perception;
- Motivation of consumption;

- Consumer behavior.

Demographic information:

The first part (questions 1 to 6) is about the demographic information of the responders. They were asked to provide their age, marriage status, gender, occupation, and education.

Perception of luxury:

The second part (question 7) is about consumers' perceptions represented by the facets, as pointed out by De Barnier et al (2006). The responders were asked to rate the importance of each value on a five-point scale, in which "1 = not important at all, 3 = normal, and 5 = the most important."

Motivation of consumption:

The third part (question 8) obtained the information about consumers' motivation of luxury consumption. The participants were asked to indicate the importance of each value on a five-point scale, in which "1 = not important at all, 3 = normal and 5 = the most important."

Consumer behaviors:

The last part (questions 9 to 15) is about consumer behaviors regarding luxury consumption. The purpose was to get information regarding rational or impulsive behavior, impact of the crisis on consumption, expectations and spending in the near future, etc.

2.1.1. Data Collection and Sample Selection

It is quite difficult to access this particular target group, because there is still ongoing discussion in the literature as to how luxury consumers can be distinguished from non-luxury consumers. And it is arguable whether paid surveys really can attract wealthy and active luxury consumers. [1]

Because participants are in different countries, the questionnaires were distributed to people in Moscow and Paris. Respondents were questioned directly on the streets or inside the shopping malls in popular shopping areas. Printemps, the luxury department store, and Avenue Montaigne were chosen as the most popular shopping areas in Paris. Along the avenue a large number of shops offer consumers a wide range of high-end clothing, handbags and other luxury goods. Luxury lovers regularly arrive in large numbers there.

Gum and Stoleshnikov Street were chosen as the most popular shopping places in Moscow. Gum is the largest department store in Russia which specializes in luxury goods. It is located in the heart of Moscow. In this store buyers can choose from more than one thousand brands of clothes, shoes, perfumes, cosmetics and accessories. Gum is visited daily by about 20,000 customers. [29] Stoleshnikov Street is known as one of the most expensive shopping areas in Moscow with boutiques and shops with many luxury goods.

The questionnaire was first translated into Russian for Russian responders and into French for French responders. Collected answers were translated afterwards into English for further analysis. All the participants were informed that their answers were confidential and to be used only for the thesis. Some of my friends volunteered to contact more responders, so more answers were collected for this survey. In total, 60 respondents in each country took part in this questionnaire.

3. Literature Review

3.1. The Theory of Consumer Behavior

A fundamental issue in microeconomics addresses the question “How can a consumer with a limited income decide which goods and services to buy?” According to Robert S. Pindyck and Daniel L. Rubinfeld, the theory of consumer behavior explains how consumers allocate money to the purchase of different goods and services in order to maximize their well-being. The decision of which goods to buy determine the demands for different goods and services. In turn, understanding consumer buying behavior is essential for any business organization trying to sell a product or service.

There are three main steps which best explain the concept of consumer behavior:

1. *Consumer preferences*: they are defined as the subjective tastes measured by the utility of various market baskets of goods. In a world of goods, the buying behavior of people and the choices are highly individualistic. Each buyer is guided by his or her tastes, attitudes toward fashion, product design and other subjective preferences. And those preferences do not depend on price and income. One can prefer Bentley to Skoda, but only have the financial ability to buy a Skoda.

2. *Budget constraints*: it is known that income has a direct impact on demand, and prices, on the amount of purchased goods.

3. *Consumer choices*: people choose to buy combinations of goods that maximize their utility according to their preferences and limited incomes. Thus, these combinations will depend on the prices of different goods. [18]

"All marketing decisions are based on assumptions and knowledge of consumer behavior." (Hawkins and Mothersbaugh, 2007). A company should understand buying behavior for the following reasons:

- The reaction of consumers to a company’s marketing strategy can greatly affect the success of the company.
- A company should create a Marketing Mix in order to satisfy the customers.
- A company should predict how consumption patterns might change in the near future.

3.2. Economic and Social Meaning of the term "Consumption of Luxury goods"

In economics, consumption is considered as the utilization of goods or services to satisfy needs. Economic sociology defines economic action as a form of social action, which, according to the definition of Max Weber, is a "subjective semantic unity" and "relates to the actions of other people." In such a model, individualism of the subject is relative, because the subject is presented "in the collection of their social relations and involvement in various social structures". [26] In this case, the motives of human behavior go beyond purely economic goals to satisfy the primary needs, and are recognized as an aspect of the status consumption of luxury goods, which are not considered to be necessities.

The economic model of homo economicus, or Economic human, proposed by Weber, is characterized by the priority of rational thought in consumption and an analytical reduction, i.e. a simplified approach to understand the economic necessity of the consumption of certain goods and services. In the process of this reduction the important cultural and social characteristics of consumers are not considered, and the goal of such simplification is to construct accurate models of economic (rational) consumption.

At the same time, many researchers recognize the importance of cultural aspects on consumption. Paul DiMaggio (2005), an American professor of sociology, argues that "economic processes have always some irreducible "cultural" component." In that case, economic processes mean "institutions and relations of production, exchange and consumption." DiMaggio explains the unpopularity of the categories of culture in the preferences of the economists: it is difficult to construct a precise deductive model, since changes in perception and evaluation do not always provide a firm foundation for such models. Moreover, DiMaggio finds contradictions in the economic postulates of Neil Smelser, in which he analyzed the statement of value added goods, which by itself established the foundation of rational behavior for the subject (since the product is a complex of functional and emotional attributes, which underlie a rational consumer's decision to purchase). DiMaggio came to the conclusion that the "rational" subject in the economy is nothing but a cultural reality, mistaken for "nature" of rationality. [17]

In contrast to the previously analyzed model, homo sociologicus describes the "social person", whose motivation is often not clear to an outside observer, i.e. the researcher. Economic sociology tries to understand the behavior of homo sociologicus, focusing on the cultural and symbolic environment. The complexity of using this model is obvious compared to the accurate models of economic theory. At the same time, the attempts to analyze the behavior of homo sociologicus brought important ideas and approaches to sociological and marketing science.

In economics and marketing, a product is anything that can be offered to a market that might satisfy a want or need. Kotler includes tangible products and intangible services and ideas to the category of "goods". [12] The value of tangible products is their ability to satisfy certain needs of the owner.

There are many definitions of consumer goods in international marketing. The most significant and widespread classification of goods is the one that was made by Copeland: convenience goods, shopping goods, specialty and unsought goods. In addition, we can distinguish between durable and nondurable goods. Also, economists divide goods into necessities and luxury goods, consumption of which, in essence, is not rational, and to a greater extent based on the principles of sociological interaction of subjects, which confirms the purchase of luxury goods in order to confirm status. [2]

3.3. The Concept of Luxury

Most certainly everyone has some idea or opinion as to what constitutes luxury. Luxury goods always have some hidden characteristics, the degree of importance of which, for the consumer, is difficult to measure. This indicates the need for definitions of "luxury" and "luxury goods" and the development of classifications helps to understand how products in this category differ from traditional products.

To answer this question it is necessary to refer to the work of renowned experts, as well as research results.

“Luxury defines beauty; it is art applied to functional items.” (Kapferer, 1997).

This definition by Kapferer (1997) shows the basic interpretation of how people treat the concept of luxury, but still the consensus in the definition of "luxury" in economic science has not yet been achieved. There are several interpretations, and the meaning depends on the lifestyle and the structure of the society, as well as cultural and

economic conditions. In general, luxury goods are more expensive than goods that have the same properties and qualities. Their intangible characteristics are more important than the material they are made from. From the perspective of self and others, luxury consumption is more socially oriented. For instance, why do people want to be dressed in the best suit when going for an interview or important meeting? However, the idea that luxury is bought only for demonstrative purposes falls away when, for example, the properties of lipstick are compared: external differences are subtle, and even the price is similar, but we will have different motives which underlie the decision to purchase. There is more in owning luxury products than just a desire to impress others. Such goods affect the self-esteem of their owners. Economic calculation is based on psychology. All goods related to luxury have the following characteristics: a strong brand image; an exceptionally high price; the exceptional quality of design or craftsmanship; and finally, controlled, exclusive or selective distribution (network and system sales). [11]

In contemporary market science, Prof. Bernard Dubois identifies ‘luxury’ as a specific (i.e. higher-priced) tier of offer in almost any product or service category. [6] A large number of knowledge of luxury was collected during the past decades. Nevertheless, researches still have not agreed at a common definition of luxury.

Although the term ‘luxury’ is applied in daily life to certain lifestyle, the underlying definition of construct is about the consumer and situation specific. If you earn less than \$10 a day, a Prada handbag would be a really big luxury item for you. On the other hand, if you earn more than \$50,000 per month, a luxury car may become a normal good or even an inferior good for you. The word luxury comes from the Latin term “luxus”, which means “sumptuousness or opulence, indulgence, soft or extravagant living.” [9] However, luxury is rather an unstable term to identify because of the strong involvement of the human element and value recognition from others.

The price-quality dimension was used as one of many other attempts to define luxury, and it states that higher priced products in all categories are considered to be luxury. In much the same way, researchers also used the uniqueness aspect of luxury. But nowadays it is quite difficult to identify luxury by using either of the above dimensions. It is mostly due to the increasing quality orientation from lower-end brands and massification of luxury that is now accessible to a broader market. [2]

Prof. Jean-Noel Kapferer (1997) takes an experiential approach in defining luxury. He assumes that luxury provide extra pleasure by flattering all the sense at once. Some researchers focus on exclusivity dimension to identify luxury. Several others argue that luxury evokes a sense of belonging to a certain high class.

The discussion above marks out the extremely multidimensional and subjective aspects of the nature of luxury. The attempts define a dimension of luxury such as exclusivity, high quality, uniqueness, high price, etc.

From the classical economic theory, the products under the category of luxury are known as “normal goods.” These are goods for which demand increases as income rises, as opposed to "necessity goods", for which demand is not related to income.

Basically, economic theories focused mostly on distinctions between necessity goods and luxury goods. The first researcher who analyzed luxury goods in the social economic context was Veblen in his famous “The theory of the leisure class” (Vigneron and Johnson, 1999). At present, the primary goal of economic theories is to analyze the influence of pricing strategies on exclusivity of luxury goods. They strongly tie together luxury with “high” or “exclusive” pricing. Groth and Mc Daniel (1993) introduce the exclusive value principle as a structure for “marketing strategies to achieve brand exclusivity” based on the connection of exclusivity and price. The researchers revealed that the market price for a product is the sum of the pure utilitarian value of the product and the exclusive value premium. For luxury goods, pure utilitarian value includes aesthetic design, superior quality, excellence of service, etc. Exclusive value premium includes external factors that motivate consumers to purchase luxury goods, such as advertising and promotion campaigns. [9]

However, without understanding the motives of luxury consumption by those who love and appreciate it, it is impossible to understand how and why this industry exists and works.

3.4. Theories on Luxury

Luxury markets actively resist the application of technologies that are designed for mass consumption goods. Brands that have passed "marketing process" tools of classical marketing of "consumer expectations" are rapidly expanding the audience, but they are losing the "dream dimension," which encourages customers to strive to have

this thing. [14] The key difference between luxury goods and normal goods is the ability to set specific long-term relationships with consumers, affecting their behavior and self-awareness. Symbolic aspects of consumption of luxury goods require separate marketing reasons of symbolism, the traditionally “elusive” element.

The most significant interpretations of the concept of "luxury" are created in several different time theories that are relevant to the present day.

1) *Conspicuous consumption* (Veblen, T., 1898, "Theory of the Leisure Class"). First complete case study in history on the study of the question of luxury. The basis for consumers to purchase luxury items is to demonstrate high social status and personal wealth. Veblen's definition of "conspicuous consumption, " "cash competition" (i.e. the desire to be as the rich) and "envious comparison" is firmly entrenched in marketing and economic literature.

According to Veblen, the strategy of status and class differentiation was called "conspicuous leisure", which means not merely abstaining from work, but distancing oneself from everything that is associated with difficulty, e.g. non-functional styles, easily soiled colors.

Veblen shows "the controversial aspects of consumption: goods can be effectively used in indirect and envious purposes and therefore contain a significant element of the prestigious high cost (the cost in excess of the cost of expenses, making them suitable for functional use). Such use of the product was named the "Veblen effect." Goods purchased in order to make a lasting impression on others. The price consists of two parts: the real value and prestige. [24]

2) *Snob effect and the effect of accession to the majority* (Harvey Leybenstain, 1950). The effect of accession to the majority leads one to buy what everybody is buying, to be "in the wake of life, keep up, to be equal, to withstand the overall style and level." This effect means the amount that will increase demand for goods only exists because others will buy it as well.

Under the snob effect the buyer tends to differ from the majority, to be special and original, and to stand out from the crowd. The choice in this case depends on the choice of the majority in reaction to which, the luxury buyer focuses on the opposite. The snob effect is similar to the Veblen effect, but a snob looks at the overall trend, and Veblen, on the price and testimony of actual high-status individuals.

Lebenstaysn divided the demand for functional and nonfunctional. Functional demand for goods is determined by the consumer properties of goods, i.e. utility. Non-functional demand does not depend on usefulness and rationality and mostly operates when consumers purchase luxury goods. [15]

3) *Signaling model of conspicuous consumption* is about transferring a social status to the external environment. There are two major stimuli of demonstrative consumption: a desire not to be identified as poor (the effect of accession to the majority) and the desire to be identified as rich (snob effect). [16]

The development of the study of Veblen: the value of the purchase as the acquired status symbol increases with increasing prices for a product or service. Price is does not mean the quality of the goods, but about the quality of consumer and consumption. In some cases, the increase in price will lead to the increase in the demand of conspicuous consumption (including the introduction of taxes). [24]

About the status consumption: status is said to be a position in which the individual is assigned by the rest of society or the group. Status is a form of government, consisting of respect, value for others and envy. There are three types of status: the status of position, the status of achievement and the status of consumption. The latter is the most interesting from the marketing point of view, which is based on purchasing power and propensity to buy.

Almost all goods have a symbolic meaning. Consumers tend to use them to enhance or transform the "I", to appear before others in a certain way, to show what they feel and what they think, set the desired type of social relations, and to show the external symbols of status.

Some purchases are usually called a status symbol. In order for the purchase to be perceived as high-status, it must be displayed in public. Status consumption is the motivational process by which individuals seek to improve their social position in society by means of conspicuous consumption, which contributes to obtaining status and symbolizes it for the people around. [16]

For a long time, luxury consumers were segmented by a single principle - income (without regard to cultural development). By itself, the level of income affects the penetration of the luxury market. But only with the growth of the culture of the target

audience, is the expansion of cultural relations and practices of luxury becoming more popular.

Segmentation based on the income of buyers creates only the traditional marketing strategy: the emergence of premium rates and the selective distribution (based on the classical microeconomic model of acquisition on the basis of utility). [3]

For the category of luxury goods, there is a big importance placed on matching the tastes of the consumer with his or her cultural traditions - the quality, aesthetics, encased in a design, high level of service. Products are purchased not for show, but for pleasure and self-expression. (Dubois, 2001).

So the companies operating in the luxury market have to explore the values which inwardly and outwardly express the brand. They should conduct an analysis of consumers' values towards their purchases in order to bring their branding strategy in line with the existing value system of consumers. And finally, they should play a proactive role in predicting the evolution of consumer values.

4) Luxury as a synonym of scarcity (deficit)

There is a tradition in economics to believe that luxury goods are perceived as rare and scarce, thus enhancing the value of those who own them. The dilemma of the luxury companies is whether to sell more and make a profit but to lose the perception of scarcity and exclusivity, or to less and keep the loyalty of consumers and the perception of scarcity. A brand which is mass produced and over exposed becomes part of the mainstream consumer culture. The rarity of the goods can be natural or created artificially.

- Natural rarity is about limited resources. For example, the harvest of grapes for wine making, the performance of manual labor.
- Technological rarity. Examples include the first refrigerators and vacuum cleaners, the first owners of technological innovations and the latest fashion trends.
- Limited edition is the most popular strategy, artificial creation of scarcity and deficit, and control of production. For example, after six months of excessive demand for bags, the company Louis Vuitton, despite the inconvenience to

customers, stops its production with a single purpose - to maintain the image of the rarity of its products.

- Rarity, which is based on information. For example, creating special glossy pages, special PR events with celebrities, history and stories around the products – everything, except direct advertising. [19]

5) *The formula of a dream*

An unequal relationship exists among dreams, awareness and making a purchase. Without the initial knowledge about the product the consumer can never dream of it, nor buy it. Awareness is already an existing relation between the consumer and the brand, but the relation between the dream (desire to own) and purchase is very weak.

There is a strong relationship between dreams and awareness. Thus, the purchase is not born as a dream. But interest in the subject is born as a dream (as a consequence - awareness). So it is true that the more awareness the higher the probability of purchase, even without a dream. [14]

6) *Hedonistic consumption* is consumer behavior focusing on emotional desires and experiences and the pleasure caused by the interaction with the product or service.

Subjective meanings and values replace the physical properties of the goods. However, the value of cultural stereotypes and practices are more significant. It is characterized by the desire to pamper oneself or make oneself agreeable, but not for the acquisition of symbols of social success or long-term investment. [19]

7) *Relationship of "price - functionality"*

Rather than imagining the products in their traditional product categories, they will be ranked on a pyramid. At the base of the pyramid are consumer goods; at the next level are high-quality premium products, and the goods that belong to the category of luxury will be at the top. There is no clear link between price and quality of luxury goods, but there is a huge connection ratio between functionality and price. Functionality is low, and the price is high.

It is also possible to distinguish between the following segments of goods: there is affordable luxury (e.g. perfume) at the base. Such goods are consumed by the middle class with the aspiration to achieve a higher status. Interim luxury is in the middle of the pyramid, which is consumed by professionals, special connoisseurs, experts who can

also can be the representatives of the middle class. And non-affordable luxury is at the top, such as personalized products with extremely high prices. [2]

It is curious that the degree of accessibility is determined by consumers themselves, comparing themselves with one or another class. Therefore the level of luxury differs according to consumer perception of accessibility-inaccessibility of luxury goods.

3.5. Perception of Luxury

A luxury brand is a brand for which most of its products are luxury goods. Such products often have a high price and high quality. [6]

Research concerning luxury brands is greatly available. Based on cross-cultural analysis Dubois, Laurent and Czellar indicated six main facets of luxury among luxury brand consumers in Russia, UK and France (Dubois, Laurent and Czellar, 2001).

Table 1: The six main facets of luxury (Dubois, Laurent and Czellar, 2001)

• Excellent quality	Exceptional ingredients, components; delicacy and expertise, craftsmanship
• Very high price	Expensive, elite and premium pricing
• Scarcity and Uniqueness	Restricted distribution, limited number, tailor- made
• Aesthetics and Poly-sensuality	Piece of art, beauty, dream
• Ancestral heritage and personal history	Long history, tradition, pass-on to generations
• Superfluosness	Uselessness, non-functional

Source: Dubois, B., Czellar, S. and Laurent, G. (2001) “*Consumer Segments Based on Attitudes Toward Luxury*”, Marketing Letters, Vol. 16, № 2.

Later on, De Barnier et al (2006) took his cause and furthered analyzed the following facets. Through in-depth interviews with Russian, French and British responders, he noticed that five facets, such as Aesthetics, Premium Quality, Personal History, Self-Pleasure and Expensiveness are still important to the three countries. But new facets of Self-Pleasure, Product Conspicuousness, Aspiration, Functionality and Luxury Atmospherics emerged during the interviews. Superfluosness appeared to be irrelevant for all three countries.

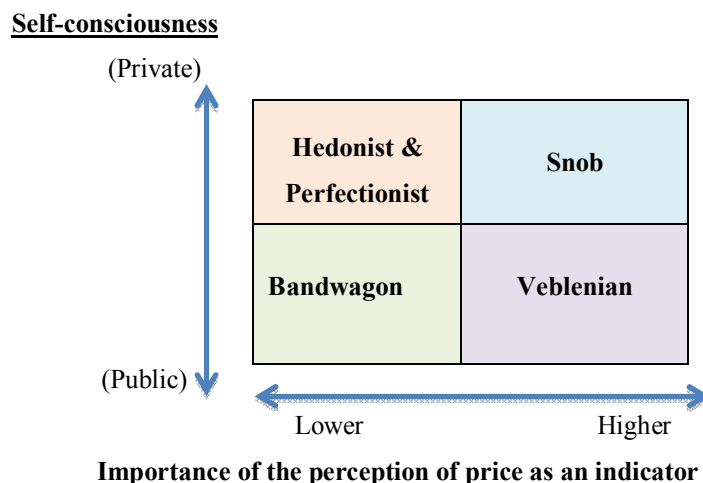
This study suggests that such patterns as aesthetics, personal history, premium quality, expensiveness, self-pleasure, aspiration, conspicuousness, functionality, luxury atmospherics and uniqueness, are the most important luxury patterns of this segment. It also says that luxury patterns change over time and new ones appear. [5]

It is remarkable that no other cross-cultural analysis has been done since that time to verify whether the existing ten facets can stimulate consumers to purchase luxury goods. Hence, one of the purposes of the thesis is to analyze what are the main luxury perceptions among Russian and French consumers.

3.6. Motivation for Luxury Consumption

Consumers are involved in the consumption of luxury goods because they want to achieve one or more values represented by luxury consumption (Vigneron and Johnson, 1999). Vigneron and Johnson (1999) in their research discussed behavior of prestige-seeking consumers and developed a conceptual framework to analyze it. They emphasize that prestige-seeking behavior is a result of multiple motivations that emerge from the perception of price as an indicator of prestige and also from self-consciousness (Figure 1). It also addresses a distinction between both personal and interpersonal factors that influence luxury consumption. [25]

Figure 1: Prestige Seeking Consumer Behavior (Vigneron, Franck, Johnson, 1999)



Source: Vigneron, Franck, and Lester Johnson. (1999) "A Review and a Conceptual Framework of Prestige-Seeking Consumer Behavior." Academy of Market Science Review, Vancouver

In this regard, the authors combine five perceived values of prestige with the five relevant motivations as follows:

- *Conspicuous value vs. Veblenian.* The consumption of prestige brands serves as a signal of wealth and status, and the corresponding very high price of the brands enhances the value of such a signal. Veblenian consumers see a great importance in the price as the indicator of prestige because their primary goal is to impress others.
- *Unique value vs. Snob.* The exclusivity and scarcity of luxury goods provide the desire for uniqueness and thus have high value. It is true that if everyone owns a particular brand then it is not a prestigious one. Snob effect reflects peoples' motivation in achieving such value. They try to avoid popular products and see price as an indicator of scarcity and exclusivity.
- *Social value vs. Bandwagon.* The social value of a brand and role-playing aspects can affect the consumption of prestige goods. Such value is associated with the motivation influenced by the bandwagon effect. Consumers do not see price as the prestige indicator, but the effect they make on others when consuming luxury goods.
- *Hedonic value vs. Hedonist.* A product's intangible benefits determine the choice for a brand. Consequently, hedonic consumers place less importance on price as an indicator of prestige as they focus more on personal experiences, feelings, emotions and thoughts.
- *Quality value vs. Perfectionist.* Prestige is mostly derived from the level of quality. Expensive price implies superior quality and hence a higher level of prestige. Perfectionist consumers pay much more attention to the value of quality.

The first three values are associated with interpersonal effects and the last two with mirror personal effects on the consumption of prestige goods. People try to maximize all five values, but in order to achieve the most preferable ones they need to give up some less important. Thus it is reasonable to assume that different consumers have different prestige-seeking behaviors. Vigneron and Johnson (1999) pointed out that marketers should analyze their brand perception according to the categorization of the five prestige values and apply strategies accordingly.

4. Analysis and Interpretation.

4.1. Luxury Market

The purpose of this part of the thesis is to give an overall picture of the development of the market for luxury all over the world, and also the basic figures on the growth of indicators of the Russian luxury market, the basic audience, and the prospects of their further development.

“Luxury market” is a broad term that includes fashion, watches, perfumes, jewellery, and so on. In global sales of luxury goods, the fashion segment has the largest share - 32% of the market Next is the segment of perfume and cosmetics - 23%; then jewelry and watches - 20%; leather goods and accessories - 19%; and finally home accessories, gifts and other products manufactured luxury brands - 6%. [30]

Europe has been the largest market for luxury goods in the world regarding per capita consumption of the luxury consumers. Japan leads having more than one-fourth of the luxury consumers.

According to Luxury Marketing Council, over the last 10 years sales in mass segments of the retail market grew by 4-6 % a year, while sales of luxury goods grew by 20-30% annually. [35]

The fastest growth of prices for luxury goods is in countries where a small group of people disproportionally owns a big share of the capital. Russia is one of the examples.

In general, from 1996 to 2006, the wealth of wealthy individuals grew by an average of 8.0% per year, and during this time increased to 35 trillion US dollars. [33] According to Boston Consulting Group, the world's wealth is growing faster than world GDP, and continues to be concentrated in the hands of the richest 9.55 million families. World GDP grew in 2006 by 5.3%, according to the World Bank' estimates, and the average annual growth rate of the world's wealth amounted to 5.6% in 2006-2011. [33]

The luxury goods market is directly correlated with global economic conditions. Thus, GDP has been one of the major factors affecting the market. Also, the growing population of high net worth individuals and the increasing demand from the emerging economies is expected to boost the global market.

4.2. Cultural-historical Context in Russia

In the past in Russia, the symbols of luxury were clothing and means of travel, such as horses, and later sleighs and carriages. By the end of the XVII century the journey of a boyar, even over a short distance, resembled a theatrical performance. [8]

In the USSR there was no possibility for the general public to become wealthy, and the people were excluded from the world of fashion. [8]

After the collapse of the Soviet Union and the capitalization of the economy, prestigious consumption reached a new level. Russians wanted to make up for lost time. In 1990, the Russian Federation, as a result of the processes of primary accumulation of capital formed a new class of elites - the wealthy co-operators and businessmen, also known as the "new Russians". [7]

According to the writer Viktor Erofeev the emergence of this category of people was necessary for the transition from one form of society to another. [7]

After the collapse of the Soviet Union, the "New Russians" were the first to introduce the cult of prestigious consumption in Russia. Among the elite of the early and mid-1990s, the immoderate consumption of luxury goods was very popular. At this time it was not important just to own a prestigious good, but to demonstrate your wealth to the people around you. This trend continued until the mid-2000s. [28]

In 2000, the growth and availability of consumer credit made it possible to purchase goods on credit and increased demand for luxury goods. [20]

In 2005, Russia had 39 billionaires and 429 millionaires. [28] According to Forbes magazine, in 2007 their numbers had grown to 53 billionaires and 103 thousand millionaires, and Russia has reached 4th place in the world in the number of consumed luxury goods. [20] Before the economic crisis, 2008-2009, the consumption of luxury market goods in Russia had grown annually by 15-20%, faster than in Western countries. [21]

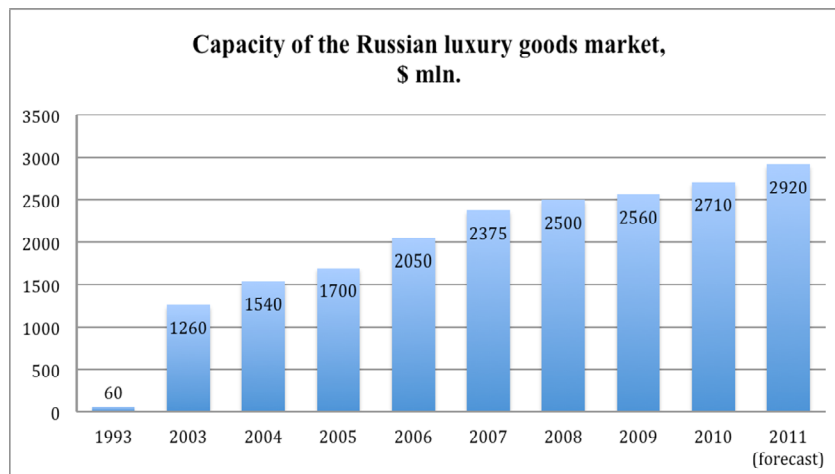
4.3. Luxury Consumption in Modern Russia

The principle of comparing quality of life, an attempt to show status and wealth still lie at the base of prestigious consumption in modern Russia. The purpose of the consumption of luxury goods is to achieve a certain social status and to demonstrate it

to the people around you. In addition, having such goods helps not only to stand out among others, but also to attract people with equal and greater prosperity.

The Russian market for luxury goods is quite young, as Russian wealth is new. In 1993, the first luxury shop was opened in Moscow. And the main retail company “Torgovy Dom” offered just some goods from Jil Sander, Gucci and Chanel. But at the present time, the situation has changed. [4] The luxury goods market has increased in size and established its own structure and rules. Thus, it is considered to be a rather fast-growing market with a promising future. Moscow is often considered to be the fifth fashion capital of the world after Paris, Milan, London and New York. The only problem is that it is quite difficult to indicate its real target group of people, as its income often remains semi-official.

Figure 2: Capacity of the Russian luxury goods market



Source: Integrum, own processing

At this moment, Russia has formed its own luxury market of goods and services. Its level of development has reached a high enough peak, and now the preferences of the Russian consumers are taken into account by world-class producers, along with the tastes of the elites of the most developed countries.

Assuming the current growth rates, it would be logical to expect a final saturation of the market by 2012. However, due to the financial crisis, this process has slowed down, but has not led to a huge reduction of this market.

A study on the Russian luxury market of clothing, footwear and accessories was conducted. (see Figure 2) According to the estimates, this market totaled \$1,950 million

in 2008. In the market structure by product groups, clothes had the largest share - \$ 1,248 million, or 64%, shoes accounted for 17% (\$ 332 million), and accessories, including bags - 19% (\$ 371 million). In total, category luxury was about 6.8% of the total market of clothes, shoes and accessories in Russia (\$ 4.8 billion) in 2008.

In the past three years, the Russian luxury market has been increasing annually by 15-20% due to the growth in real incomes and positive market conditions, and has become one of the fastest growing and most promising markets, together with countries such as Brazil, India and China. Since the beginning of September 2008, a negative trend of decline in sales began to appear in the market. According to the estimation of the largest market participants, in the period September-December 2008, sales dropped by nearly 20%. Even to achieve such performance, luxury leaders were forced to unprecedented measures - to provide discounts of up to 70% (November-December) on the new collection.

In 2009, under the influence of the global economic crisis, the positive trend of growth of the luxury market over the past years slowed down. A forecast of the luxury apparel market in is presented in the figure.

Figure 3: The volume of the Russian luxury market

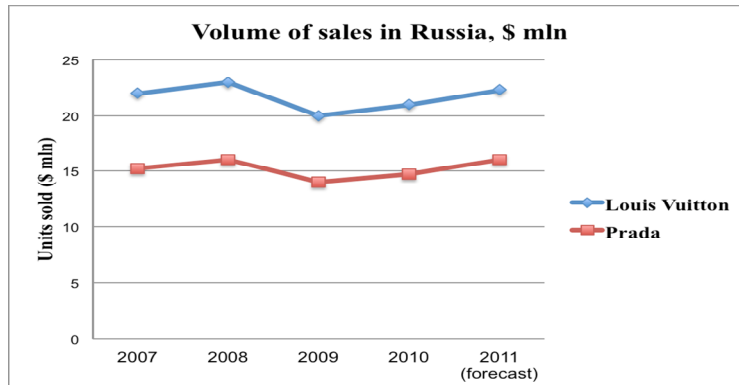


Source: IndexBox, own processing

The volume of the luxury market of clothing, footwear and accessories in 2009 in Russia was reduced by 32% down to \$ 1,326 million. (see Figure 3) But afterwards, an increase by 5% in 2010 to \$1,590 million is appeared. At present, even despite the more dynamic forecasted growth, the market is still far from its pre-crisis position of mid-2008. By the end of 2011, the expected growth of 12% will account for \$ 1,870 million

of the volume of the luxury apparel market and will account for 27% annually.

Figure 4: Volume of sales in Russia

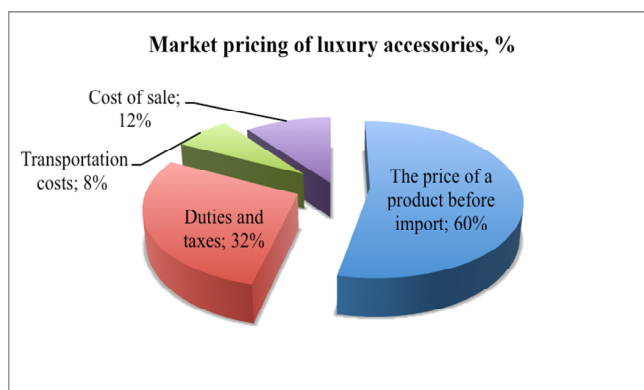


Source: IndexBox, own processing

When Russian consumers purchase luxury goods, the majority of them make a choice based on familiarity and popularity of the brand. Luis Vuitton is one of the best selling brands in Moscow. Another is Prada. Impressive sales figures, which luxury brands showed in 2008, is likely to remain at an historic peak in the medium term. (see Figure 4) Influenced by the economic crisis, the Russian luxury clothing market experienced a significant decline in the purchasing power of consumers. But according to the estimates, it will move up in 2011.

The majority of luxury goods in Russia is much more expensive than in Europe and America. For example, prices for clothing in the upper segments and luxury accessories are sometimes overpriced by 3-4 times compared to the boutiques in Western Europe.

Figure 5: Market pricing of luxury accessories



Source: IndexBox, own processing

A substantial tax rate on luxury accessories exists in this market, and together with a high cost of sales, almost doubles the price of the original goods imported to the Russian Federation. Entering this market is hindered by high costs, the availability of administrative barriers, and relatively weak competition. Most of the brands are controlled by few large players.

4.4. The Impact of the Crisis

The global economic crisis of 2008-2009 had a negative impact on the categories of premium and luxury: the demand for goods decreased, thus has caused a decline in prices. However, in 2008, the recession was hardly noticeable. Elena Kudozova, a director of the luxury goods exhibition Millionaire Fair, believed that the crisis did not have a great impact on the luxury segment. She stated that in response to the crisis nothing has changed. If a rise is everywhere, so it is in luxury as well. If the decline is everywhere, so will there be a decline in luxury. But if you look at the extent of this fall, the luxury market is more stable.

However, in 2009, the global luxury market fell by 10%, and the demand for prestige goods in Russia decreased on average by 15-20% in rubles and by 40-45% in foreign currency, due to the rising value of the dollar and euro. [31]

During the first half of 2009, the sales of many luxury brands decreased, such as LVMH (drop net profit by 23%) and Hermès (7.6%). But in the summer of 2009, there was little growth in sales of designer clothing, shoes and yachts. During this time, the brand Louis Vuitton opened a boutique in Yekaterinburg. Chanel also did not notice a decrease in activity from their Russian customers. [31]

Analyst of "Finam", Konstantin Romanov, said that it is profitable to invest in luxury goods during the crisis. However, at the same time, the crisis pushed wealthy Russians to invest not in luxury, but in art. He stated that products with unique features will always be successful, it was in the past, at present, and will be in the future. Millionaires do not rush at all that glitters, but a castle in Ireland will always be bought, because it is unique. But an apartment in Moscow at the same price as the castle will no longer be able to be sold. There is a change of characters and landmarks - from the luxury of "conspicuous" to more thoughtful and sophisticated style.

According to some experts, the fall in demand for prestigious goods consumption

may be associated not only with the reduction in the number of rich people, but also with the fact that before the crisis, many purchased status things on credit. It is possible to suggest that as a result of the liquidity crisis, most consumers who purchase luxury goods by using debt financing, have lost the opportunity. Meanwhile, due to such buyers, there was market growth in recent years.

Since 2010, there has been an increase in the demand for luxury goods. According to the results, the sharp decline in prices for luxury goods is not expected.

4.5. Luxury Consumption in France

Cultural and historical context.

There are three main phases in the development of the wealthy classes of French society:

- 1) Feudal - this means aristocracy, close to the king and feudal lords.
- 2) Bourgeois - is the emergence of a new class of bourgeoisie and financiers.
- 3) Colonial - a class of individuals who have created their own wealth in the French colonies.

The culture of wealth in France, in its broadest sense, began to form with the emergence of the bourgeois class in the 17th century. Moreover, a class of aristocracy existed in society long before the appearance of the bourgeois strata. This class was highly educated, appreciated art and formed a certain pattern of behavior resembling the wealthy.

Numerous political revolutions, the early formation of the republican model, and the development of a constitution, have led the society to the adoption of human and cultural values, and as a consequence, have played an important role in the development of cultural wealth.

The institute of inheritance, social development, and a rich history, eventually led to the fact that instead of unbridled luxury and exemplary waste of money, "intelligent" luxury emerged. Elegance is more valuable than the pomp, and the notion of "social responsibility of wealth" had arisen. [23]

Consumption patterns of French luxury consumers are characterized by relative resilience, in comparison with the Russian pattern, because in the last 10 years, they have not changed.

This is due to two factors: firstly, a stable economic and political situation, and the absence of the phenomenon of scarcity. Secondly, this is due to the effect of "old money." Head of the Center for Elite Studies, Institute of Sociology RAS, Olga Kryshstanovskaya explains the desire of Russian businessmen for status items. According to her, there was a so-called prestigious culture of consumption. The fact that the older the money the more respectable-behaved owners. And young money is always more demonstrative. Some experts argue that the desire for luxury and status consumption is not characteristic of only the elite, but it is a feature of the Russian mentality. Status consumption in Russia became a special language that tells others about the financial "wealth" of other people.

Forbes said that inheritance is the main source of the French wealth. Traditions and the prevailing culture of consumption also contributed to the stability of the consumer patterns of the upper class. Consumers from developed countries have become more and more value-driven and increasingly demanding of intelligent communication, superior service and a personalized understanding of their desires. At the present time, income growth is more evenly distributed in Europe. In such countries as Italy, France and Germany, the growth of income has been seen more among middle- and lower-income families. Thus it opens a luxury market for more middle-class European consumers with greater access to credit.

5. Results and Discussion from the Questionnaire

5.1. Sample Profile

Table 2: Sample Profile

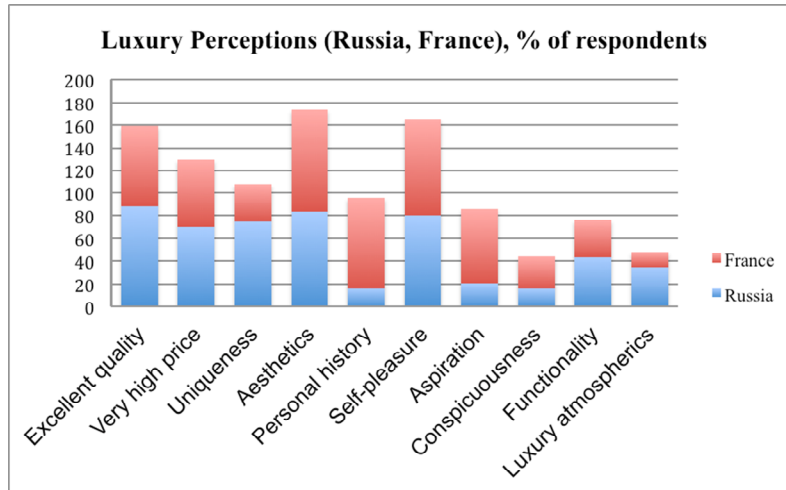
	N	%
Nationality:		
Russian	60	50
French	60	50
Gender:		
Male	45	37.5
Female	75	62.5
Age group:		
18-34	50	41.6
35-44	55	45.8
45 or above	15	12.5
Marital status:		
Single	30	25
Married	90	75
Highest education level:		
High school	10	8.3
University	90	75
Other	20	16.6
Profession:		
Student	15	12.5
Executives	20	16.6
Management	45	37.5
Professionals (engineer, teacher)	10	8.3
Others	30	25

Source: own processing

There were 60 respondents per each country in the sample. In total, 120 respondents took part in this questionnaire. More than half (63 percent) of them were female. In general, the majority of responders were between the age of 18 and 34, and 35 and 44. The occupations of such people include management, professionals and executives. The demographic information of participants is summarized in Table 1.

5.2. Perceptions among Russian and French Consumers

Figure 6: Perceptions among Russian and French respondents



Source: own processing

In testing the validity of the ten facets of luxury in a sample consisting of French and Russian subjects, the research discovered that all ten facets remain relevant and may stimulate the purchase of luxury brands, but differ on the degree of importance. The potential causes for the variation are cultural factors and evolution of consumer behavior in different countries.

Aesthetics

Aesthetics is the presence of style, color and design that create beauty. They are considered to be the most important aspects. Firstly consumers pay great attention to the originality of the design, style and color of luxury goods. On the one hand, design and style create a beautiful overall image of a luxury consumer, emphasizing his or her best features. On the other hand, design and style give a practical value to a luxury product, allowing consumers to utilize it for different occasions, from every day to special. For French consumers, the Aesthetics dimension has the highest position, 91%, greater than Russian respondents, 83%.

Premium Quality

Premium quality of luxury is important for the participants of both Russia and France, as well as Aesthetics. It is the main perception that stimulates to purchase a luxury good. Premium quality guarantees superior materials and colors that provide

product durability. Luxury is considered to be an expensive investment, so a high price should be justified by excellent quality. For Russians, it scored 88%, for French consumers - 71%.

Personal History

Personal history means a long tradition that pass-on to generations and a good reputation. Most of the consumers associate it with famous brand names, which justify superior quality and durability. For France, the Personal History dimension obtained the highest position, 80%, in comparison to Russia, 16%. The reason could be patriotism, or a long history and tradition of the French luxury sector.

Self-pleasure

Another important aspect when consuming luxury goods is self-satisfaction. It is about feeling comfortable, secure and good. For French respondents, the Self-pleasure dimension was the highest at 85%, in comparison to Russians at 80%.

Expensiveness

It is correct to consider expensiveness as a main characteristic of luxury. To ensure quality and durability consumers have to pay a high price for expensive materials and craftsmanship. For Russians, the Expensiveness dimension was the highest, 70%, in comparison to France, 60%.

Aspiration

Aspiration was more important for the French, 65%, than for the Russians, 21%. Luxury is a dream or an aspiration to achieve sophistication, class, perfection and self-refinement through the ownership of luxury goods. Luxury is about beauty.

Conspicuousness

The Conspicuousness facet is associated mostly with the conspicuous nature of luxury goods rather than with the desire to show off wealth. Consumers tend to purchase such goods not because they help to differentiate themselves from the people around them, but rather that such goods provide aesthetics and high quality that makes them stand out from other goods. It is about the desire to purchase a piece of art. For French consumers, it scored 28%, and for Russians - 16%.

Luxury Atmospherics

Luxury atmospherics is an important aspect of luxury aesthetics that creates a real luxury shopping experience for the consumers. It is mostly associated with the interior

design of a boutique, high standards of service, advertisements, the presentation of luxury goods in luxury boutiques, and also with the people who work there. So a non-luxury good can become a luxury depending on atmospherics. The luxury Atmospherics facet earned the highest result (35%) for Russian respondents, who may be attracted to high service levels and shopping experience as a whole. Whereas this facet was not perceived as important for the French (only 13%).

Uniqueness

Uniqueness was more relevant for Russians, 75%, than for French – 30%. This facet means a limited number of luxury goods, which helps consumers feel original and individual.

Functionality

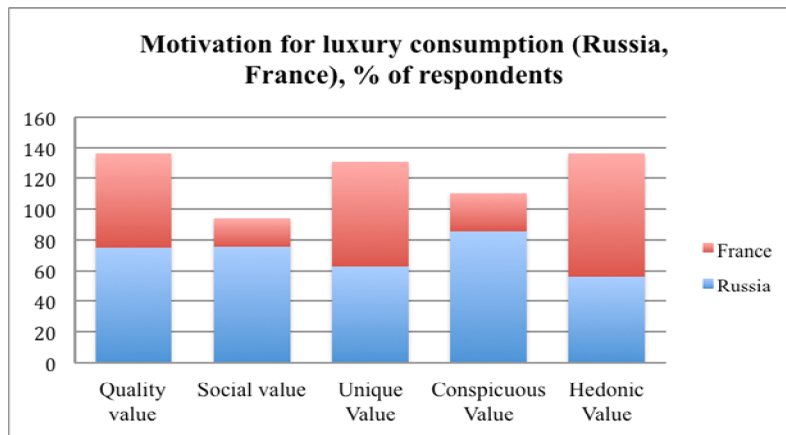
Functionality is another important dimension. Consumers tend to seek the usefulness in luxury goods. At present, people prefer to invest in something that should serve their needs the best. For the Russians, it is the mission of luxury products to ensure the premium satisfaction of human needs through superior quality and functionality. They invest money into multi-purpose luxury that could be utilized several times in different combinations. The Functionality facet scored 43% among the Russian respondents. For French, it scored 31%.

As a result, the main requirements for the French for luxury goods are exclusivity, special style or meeting certain principles. They are proud of their culture and interested in the history of the brand. Also, French consumers place high expectations on sophisticated values and appreciate quality of life.

At the same time, the main requirements for the Russian consumers for luxury goods are quality, aesthetics and uniqueness. Russians like to show-off and impress others. They want to achieve status and personal reward, have little brand awareness and loyalty. Social interaction is more important than self-actualization.

5.3. Motivation for Luxury Consumption among Russian and French Consumers

Figure 7: Motivation for luxury consumption among Russian and French consumers



Source: own processing

The results show the motivations which drive consumers to purchase luxury goods. Therefore, all motives may be influential in luxury consumption among French and Russian respondents, though some of them are more dominant in each country. French respondents have a higher motivation to achieve hedonic and unique values, compared with Russians. In contrast, consumers in western countries think more about personal development, self-actualization and personal satisfaction, rather than price. In comparison, consumers who purchase luxury goods with the purpose of distinguishing themselves from others are more prevalent in emerging countries. Conspicuous value earned the highest rating (65%) among Russian respondents, it means that the purchase of luxury goods still remains as the main signal of wealth and status, and a very high price enhance the value of such a signal. Thus, it is fully reflected in consumer behavior in Russia. Also, Social Value is more important for Russian consumers. Public appearance is more dominant for such consumers, because they care how they appear to others.

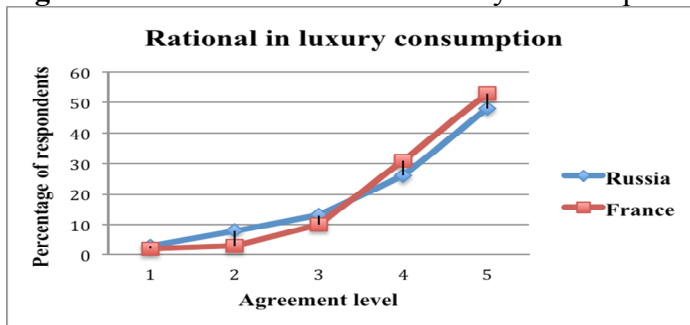
Due to changes in society and a shift in values, luxury may be divided into two parts. The first part is luxury from the traditional perspective that is used for distinction, status or membership purposes. The second part is luxury from the new perspective that is used for personal development, pleasure and individual well-being. Thus, less

importance is attached to the price as an indicator of prestige. Such changes in values from status purposes to pleasure indicate a democratic view on luxury and have been seen more in the consumption patterns of developed countries. Such figures are suitable to be used for marketers and researches to understand consumer behavior towards luxury goods in different cultures.

5.4. Consumer Behavior among Russian and French Respondents

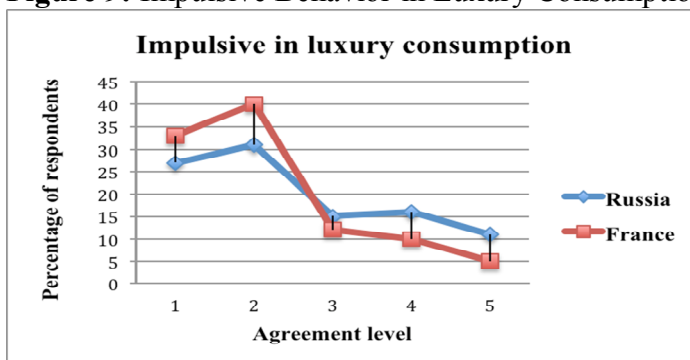
This part of the study is about consumer behaviors among the Russians and French regarding luxury consumption. The majority of the respondents (85%) from both countries always consume luxury goods, while a small portion (15%) of Russians and 10% of French purchase them at least once a year. Also, the information such as rational or impulsive behavior, impact of the crisis on consumption and spending in the near future, were derived from the questionnaire.

Figure 8: Rational Behavior in Luxury Consumption



Source: own processing

Figure 9: Impulsive Behavior in Luxury Consumption

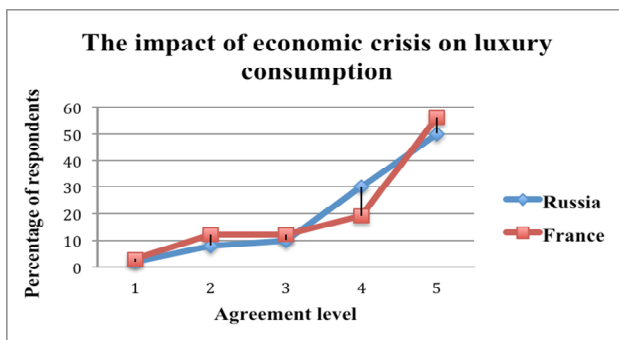


Source: own processing

Figures 3 and 4 show the impulsive, or rational, purchasing behavior of luxury consumption among Russian and French respondents. Only 8% of respondents from both countries are not rational in luxury consumption. 11% of them presented neutral attitudes according to this question and the majority (80%) of the respondents believed that their luxury consumption was rational. According to other questions about impulsive consumption, most of the participants (75%) expressed that their luxury consumption was not impulsive. Only 11% of Russian respondents agreed that they were involved in impulsive luxury consumption, and the remaining 15% of respondents expressed their neutrality.

As a result most of the participants were driven by rational decisions in luxury consumption. Only a small portion of French respondents (5%) were involved in impulsive behavior, and a bigger number of Russians (11%) agreed that their luxury consumption is impulsive.

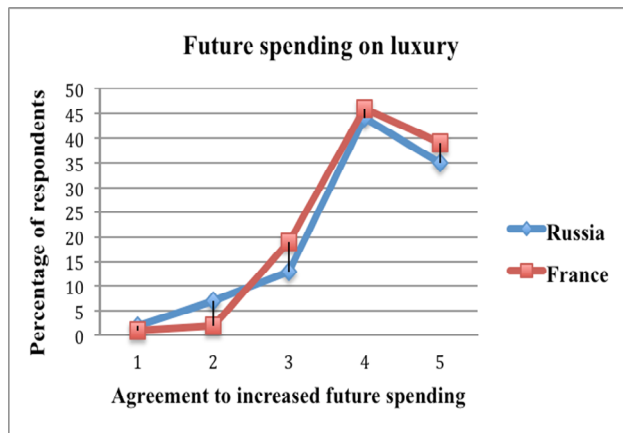
Figure 10: The Impact of Economic Crisis on Luxury Consumption



Source: own processing

The following results show the impact of the economic crisis on the luxury consumption of Russian and French consumers. The X-axis represent the level of agreement, where 1 = strongly disagree, 3 = neutral and 5 = strongly agree. 10% of Russians, a relatively small portion, and 15% of the French indicated that the economic crisis did not influence their purchasing behaviours. Such results also suggest that 10% of Russians and 12% of French took a neutral position, while 80% of Russians and 75% of French agreed that the economic downturn has greatly affected their luxury consumption.

Figure 11: Intention of future spending in luxury consumption



Source: own processing

The following results show the intentions of Russian and French consumers to purchase luxury goods in the near future. The X-axis represent the level of agreement, where 1 = strongly disagree, 3 = neutral and 5 = strongly agree. A relatively small portion of Russians, 9%, and 3% of the French expected their spending on luxury products would decrease in the near future. Such results also suggest that 13% of Russians and 19% of the French took a neutral position in terms of future spending. Such figures could be due to the recent economic crisis and uncertainty about the future economic situation. However, a big portion of Russians, 35% and 40% of French consumers thought they would increase their luxury consumption. These findings suggest that Russian and French consumers were sure about their financial condition and will continue spending on luxury goods.

6. Conclusions and Recommendations

Luxury is a rather broad concept and varies greatly depending on the time and society. Consumers originating from countries with emerging economies pursue “luxury.” Because such consumers are just beginning to accumulate wealth and luxury for them still means designer shopping, comfort, impeccable service, travelling first class, designer furnishing, caviar, champagne, etc.

From the other side, most of the Western consumers are already feeling materialistically satiated. The concept of luxury for them is continuously distancing itself from the field of consumerism and approaching the meaning of well-being, experience and self-fulfillment. Consumers will demand quality experiences and “exclusive” services. Easy access, “true” luxury and uniqueness will also be important.

The Russian luxury market is recent, with no established rules, and often called very promising, but also challenging. Luxury in modern Russia is a set of goods and services whose consumption still has a status character, and therefore is popular for the significant part of the wealthy Russians, who considered mainly the price as an indicator of prestige. In contrast, in Europe, luxury consumption is based mainly on the traditions of the brand, its exclusivity and quality.

The research analyzed perceptions of luxury brands from the perspective of Russian and French consumers, as well as their values and motivation for prestige consumption. The derived results enrich the previous studies and give further understanding of the luxury phenomena in the following ways.

First of all, this research revealed the relevance of ten luxury facets: aesthetics, personal history, premium quality, expensiveness, self-pleasure, aspiration, conspicuousness, functionality, luxury atmospherics and uniqueness, as pointed out by De Barnier et al (2006). However, the key finding of this research is that the perception of luxury brands differ to some extent among Russian and French consumers. There is a relative lack of importance of personal history for Russian consumers, as compared to French consumers; the reason could be due to the long history and traditions of the French luxury sector. This study suggests that both countries perceive quality, uniqueness and self-pleasure as the main brand determinant. This may be explained by luxury internationalization through promotion, global advertising and adoption by

people of common trends for luxury consumption.

This study also showed that the quality and hedonic effects were seen as the most significant factors that motivate consumers to purchase luxury brands. 75% of the Russian consumers and 61% of the French consumers rated quality as the primary motivation for buying luxury good. The quality factor means not only the product itself, but also how the materials are manufactured and sold to the consumer through the whole supply chain. Hence, quality is something that should fill every aspect of a luxury good. As for hedonic aspects in luxury goods, they are mostly connected with sensory pleasure derived from premium quality, outstanding product aesthetics and personal history. From the results we can see that this is also an important factor for emerging markets such as Russia.

Uniqueness was mainly relevant for the Russian consumers. This is driven by the need of individualism, exclusiveness and the idea that a luxury good is made only for them.

French consumers have already become more sophisticated in their buying behavior, while Russians are more under the traditional conspicuous drivers of prestige and status. They are also conscious about their public image. The social effect was attributed to 76% of Russians in comparison to 18% of the French.

After analyzing the historical context and cultures, and comparing consumer behaviors in two countries, the importance of cultural context emerges to explain the differences among perceptions and motivations towards luxury goods. The reason is that Russia is at a different level of consumerism. Though the luxury market in Russia is rather fast-growing, they are still in an early level of luxury consumption, which is characterized by conspicuous consumption, emerging of new rich and middle-income households. The second level reveals itself in Europe with the presence of more selective consumption patterns, which is shown through knowledge and high levels of commitment with brands and goods.

French consumers are mostly driven by discerning factors, which are characterized by: increased value for money and scrutiny of product quality; desire for 'true luxury'; call for deeper brand experiences; a greater understanding of artisanship and fine craftsmanship; and a heightened awareness of business, social and environmental responsibility.

The results discovered that new discerning and reasonable luxury consumers are more evident in developed western countries; however, businesses need to be conscious that emerging luxury markets are not far behind. Consumption patterns in developed markets are undeniably going to have an impact on less mature luxury markets such as Russia, China and India. It is possible to suggest that their purchasing decisions are also becoming more considered and informed, especially due to increased pressure under the global economic recession.

The results show that Russian and French consumers will continue to spend on luxury goods that they feel are long-lasting and worth it, but their choices will become more selective. This has future implications for the luxury business in emerging and developed markets. International luxury brands should learn to be more sophisticated, flexible and attentive in their strategies. And also building trust with consumers will bring success for the future of the luxury business, where trust is about quality, service and responsibility.

The research revealed that the Russian luxury market is rather attracted to both international and Russian players. International brands see Russia as an emerging luxury market, which could become an essential part of their portfolio tomorrow. The global recession has affected the industry. The market for luxury goods suffered internationally. But now with positive signs in the Russian economy, optimism about the industry is on the rise, as demonstrated by consumer spending and heightened market activity.

7. Bibliography

- [1] Andreeva A.N., Bogomolova L.N. *The marketing of luxury*. Saint-Petersburg university Publishing, 2008
- [2] Berry, C.J. *The Idea of Luxury: A Conceptual and Historical Investigation*, Cambridge. Cambridge University Press, 1994
- [3] Chaudhuri, H. R., & Majumdar, S. *Of diamonds and desires: Understanding conspicuous consumption from a contemporary marketing perspective*. Academy of Marketing Science Review, 2006
- [4] Chicherova Lyudmila. *View from within: Luxury Retail*. Vedomosti, №51, 2006
- [5] De Barnier, V., Rodina, I., Valette-Florence, P. *Which Luxury Perceptions Affect Most Consumer Purchase Behavior?* The International Congress Marketing Trends, 2006
- [6] Dubois, B., Czellar, S., Laurent, G. *Consumer Segments Based on Attitudes Toward Luxury: Empirical Evidence from Twenty Countries*. Marketing Letters, Vol. 16, № 2, 2001
- [7] Erofeev, V. *Where are the new Russians?* Authority, № 34, 2002
- [8] Goncharov, S. *A country House as a category of status consumption: from political elite to the middle class*. Scientific journal "No subject», № 1, 2006
- [9] Groth, J.C. and McDaniel W. *The Exclusive Value Principle*. Journal of Consumer Marketing, Volume 10, № 1, 1993
- [10] Hawkins, D., Mothersbaugh, D., & Best, R. *Consumer Behavior: Building Marketing Strategy*. New York: McGraw-Hill, 10th edition, 2007
- [11] Kapferer, J. *Strategic Brand Management*. Great Britain, Kogan Page, 1997
- [12] Kotler, P., Armstrong, G., Brown, L., and Adam, S. *Marketing*, 7th Ed. Pearson Education Australia/Prentice Hall, 2006
- [13] Kroll, L., Fass A. *The World's Richest People*, Forbes, Special Report, 2007
- [14] Lewis, L., Bridger, D. *The Soul of the New Consumer: Authenticity – What We Buy and Why in the New Economy*, London: Nicholas Brealey Publishing, 2001
- [15] Liebenstein, H. *Bandwagon, Snob and Veblen Effects in the Theory of Consumer's Demand*. Quarterly Journal of Economics, 1950

- [16] Martin, R., Mackrell, A., Rickey, M., Buttolph, A., and Menkes, S. *The Fashion Book*, London: Phaidon Press, 1998
- [17] Nee V., Swedberg R. *The Economic Sociology of Capitalism*. Princeton University Press, 2005
- [18] Pyndyck R.S., Rubinfeld D.L. *Microeconomics, 6th edition*. ISBN 0-13-191207-0 Pearson Prentice Hall, Upper Saddle River, New Jersey, 2005
- [19] Reinmoeller, P. *Emergence of Pleasure: Communities of Interest and New Luxury Products*. London: Taylor & Francis CRC Press, 2002
- [20] Singer, N. *Not Down and Out in Moscow*. The New York Times, 2007. [cit. 2010-06-20]. Available at WWW:
http://www.nytimes.com/2007/11/29/fashion/29moscow.html?_r=2
- [21] Shtern, A. *'Russian millionaires - the most millionaires in the world*. Gazeta, № 34, 2005.
- [22] Silverstein, M., Fiske, N. *Trading Up: Why Consumers Want New Luxury Goods And How Companies Create Them*, New York: Portfolio, 2005
- [23] Usunier J. *International Marketing and cultural approach*, Prentice Hall International, UK, 1993
- [24] Veblen, T. *The Theory of the Leisure Class*, New Brunswick: Transaction Publishers, 1991
- [25] Vigneron, Franck, Lester J. *A Review and a Conceptual Framework of Prestige-Seeking Consumer Behavior*. Academy of Market Science Review, Vancouver, 1999
- [26] Weber, M. *The Protestant Ethic and the Spirit of Capitalism*, New York: Scribner's Press, 1958
- [27] Wiedmann, K. P., Hennigs, N., Siebels, A. *Measuring consumers' luxury value perception: A cross-cultural framework*. Academy of Marketing Science Review, 2007
- [28] Zhavoronkop, P. *How to lure consumers who already have everything. The company*, № 337, 2004.
- [29] Zhavoronkov A. *The Russian society: consumption, communication and decision-making*, Vershina, 2007
- [30] American Marketing Association. *Definition of marketing terms, 2007*. [cit. 2010-05-13]. Available at WWW:

<http://www.marketingpower.com/mg-dictionary.php>

[31] Information consulting services, [cit. 2010-07-10].

<http://www.integrum.ru>

[32] Marketing Research, IndexBox, [cit. 2010-09-14].

<http://www.indexbox.ru>

[33] The Boston Consulting group, [cit. 2010-08-23].

<http://www.bcg.com/>

[34] The Consulting Agency Mintel, [cit. 2010-08-15].

<http://www.mintel.com>

[35] The Luxury Marketing Council,[cit. 2010-09-20].

http://www.luxurymarketingcouncil.com/?doing_wp_cron

8. Appendix 1

8.1. Questionnaire Form 1

This questionnaire forms part of the bachelor thesis “Consumer behavior towards purchasing of luxury goods” of Economics and Management program at the Czech University of Life Sciences. This research is aimed at examining the perception of Russian and French consumers of luxury goods, their motivation and their consequent purchasing behaviors. Please be assured that all information you provide will be kept strictly confidential.

Thank you in advance for your time and participation.

Section 1: Information regarding respondent.

1) Your nationality:

Russian

French

2) Your gender:

Female

Male

3) Your age group:

18-34

35-44

45 or above

4) Your martial status:

Single

Married

5) Your highest education level:

- High school University Other

6) Profession

- Student Executives Management
- Professionals (engineer, teacher) Others

Section 2: Information about consumer perceptions of luxury.

7) The following is a list of facets that can stimulate consumers to purchase luxury brands. Please rate each one according to how important it is to you (1 = not important at all, 3 = normal and 5 = the most important.):

	Not important at all	Normal	The most important
○ Excellent quality	1-----2-----3-----4-----5		
○ Very high price	1-----2-----3-----4-----5		
○ Scarcity and Uniqueness	1-----2-----3-----4-----5		
○ Aesthetics	1-----2-----3-----4-----5		
○ Personal history	1-----2-----3-----4-----5		
○ Self-pleasure	1-----2-----3-----4-----5		
○ Aspiration	1-----2-----3-----4-----5		
○ Conspicuousness	1-----2-----3-----4-----5		
○ Functionality	1-----2-----3-----4-----5		
○ Luxury Atmospherics	1-----2-----3-----4-----5		

Section 3: Information about motivations for luxury consumption.

8) Please indicate to what degree the following values relating to the motivation for luxury consumption are important to you (1= not important at all, 3 = normal and 5 = the most important.):

	Not important at all	Normal	The most important
a) Quality value	1-----2-----3-----4-----5		
(I purchase luxury goods because of their durability and high quality.)			
b) Social Value	1-----2-----3-----4-----5		
(I purchase luxury goods because I want others to view me as upper class.)			
c) Unique Value	1-----2-----3-----4-----5		
(I purchase luxury goods because of their exclusivity and uniqueness.)			
d) Conspicuous Value	1-----2-----3-----4-----5		
(I can afford to buy luxury good. Very high price gives me the sense of prestige.)			
e) Hedonic Value	1-----2-----3-----4-----5		
(I purchase luxury goods because I feel psychologically satisfied and emotionally happy.)			

Section 4: Information about consumer behavior.

In the questions 9-15 (please indicate the degree of your agreement to the following statements (1= strongly disagree, 3= neutral, 5 = strongly agree.):

	Strongly disagree	Neutral	Strongly agree
9) My purchase of luxury goods is impulsive.	1-----2-----3-----4-----5		
10) My purchase of luxury goods is rational.	1-----2-----3-----4-----5		
11) I always consume luxury goods.	1-----2-----3-----4-----5		
12) I purchase luxury products once a year on average.	1-----2-----3-----4-----5		
13) The financial crisis has affected my spending on luxury goods.	1-----2-----3-----4-----5		
14) My spending on luxury goods will increase significantly in the near future.	1-----2-----3-----4-----5		
15) My spending on luxury will decrease significantly in the near future.	1-----2-----3-----4-----5		

8.2. Questionnaire Form 2

Ce questionnaire fait partie d'un mémoire de licence " Le comportement d'un consommateur vers les produits de luxe" de l'Economie et Gestion programme à l'Université Tchèque des Sciences du Vivant. Cette recherche vise à évaluer la perception des consommateurs russes et français vis-à-vis des produits de luxe, leur motivation et leur comportement d'acheteur qui en découle. Soyez bien assurés que toutes vos informations seront maintenues confidentielles.

Merci d'avance pour votre temps et votre participation.

Section 1: Information sur le répondant.

1) Votre nationalité:

Russe Français(e)

2) Votre sexe:

Femmes Hommes

3) Votre groupe d'âge:

18-34 35-44 45 ou plus

4) Votre statut marital:

Célibataire Marié(é)

5) Votre niveau d'études:

Lycée (baccalauréat) Université D'autres

6) Profession

Étudiant Cadres Gestion

Professionnels (ingénieur, enseignant) D'autres

Section 2: Information sur les perceptions du consommateur envers les marques de luxe.

7) Voici une list d'aspects qui peuvent stimuler l'achat de marques de luxe. S'il-vous-plait, cochez chaque élément selon son importance pour vous (1 = pas important du tout, 3 = normal and 5 = plus important.):

	Pas important du tout	Normal	Plus important
○ Qualité excellente	1-----2-----3-----4-----5		
○ Prix élevé	1-----2-----3-----4-----5		
○ La rareté et d'unicité	1-----2-----3-----4-----5		
○ Esthétique	1-----2-----3-----4-----5		
○ Histoire	1-----2-----3-----4-----5		
○ Self-plaisir	1-----2-----3-----4-----5		
○ Aspiration	1-----2-----3-----4-----5		
○ Netteté	1-----2-----3-----4-----5		
○ Fonctionnalité	1-----2-----3-----4-----5		
○ Atmospherics luxe	1-----2-----3-----4-----5		

Section 3: Information sur ce qui motive les achats de luxe.

8) S'il-vous-plait, cochez chaque valeur selon son importance pour vous (1 = pas important du tout, 3 = normal and 5 = plus important.):

	Pas important du tout	Normal	Plus important
a) La qualité	1-----2-----3-----4-----5		

(J'achète des produits de luxe pour leur durabilité et qualité excellente.)

b) L'aspect social 1-----2-----3-----4-----5

(J'achète des produits de luxe, parce que je veux que les autres me voient comme faisant partie de la classe aisée.)

c) La rareté 1-----2-----3-----4-----5

(J'achète des produits de luxe pour leur exclusivité et leur rareté.)

d) Valeur ostentatoire 1-----2-----3-----4-----5

(Je peux m'offrir un produit de luxe. Un prix très élevé me donne le sens du prestige.)

d) Par hédonisme 1-----2-----3-----4-----5

(J'achète des produits de luxe, parce que je me sens satisfait(e) psychologiquement et heureux(se).)

Section 4: Informations sur le comportement des consommateurs.

Dans les questions 9-15, s'il vous plaît indiquez votre degré d'opinion à propos des affirmations suivantes (1 = vraiment pas d'accord, 3 = neutre, 5 = vraiment d'accord.):

Vraiment pas d'accord Neuter Vraiment d'accord

9) Mon achat de produits de luxe est impulsif. 1-----2-----3-----4-----5

10) Mon achat de produits de luxe est rationnel 1-----2-----3-----4-----5

11) J'achète toujours des produits de luxe. 1-----2-----3-----4-----5

12) J'achète des produits de luxe au moins une fois par an.

1-----2-----3-----4-----5

13) La crise financière a affecté ma consommation de produits de luxe.

1-----2-----3-----4-----5

14) Mes dépenses en produits de luxe augmenteront significativement dans le futur.

1-----2-----3-----4-----5

15) Mes dépenses en produits de luxe diminueront significativement dans le futur.

1-----2-----3-----4-----5