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Factors of Luxury Fashion Consumption

Author: Mei Cui

Senior Project Sponsor:

Dr. Liya Palagashvili

Department of Economics Professor

Second Reader:

Dr. Cedreic Ceulemans

Chair of the Department of Economics

Purchase College State University of New York

Purchase, New York

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Abstract:

For my research, I utilized the data from a luxury outlet store located right outside of New York City. The store is a popular fashion house that is owned by the biggest luxury retail conglomerate in the world. The data collected shows the sales results in a nine month period from January 1st, 2019 to October 1st, 2019. In that time frame, there were 4,300 transactions in the store. The mall that the store is located in is a tourist destination that people from all over the world visits. I collected information about the shopping client's demographics, spending habits such as average dollar amount spent per transaction, and average units per transaction as well as a few other key performance indicator to understand how people of different demographics shop differently. From the data that I collected, it is shown that women purchase less items, but more expensive pieces. Women contribute 66% of the overall turnover in the store. There is a huge growing demand for luxury items from the Unites States, China, APAC countries, and African countries. The key performance indicators and the overall sales results are all very telling about the shopping differences between the different demographics.

I chose this store because it is one small section of the luxury retail market. There is a lot of data related to people's demographics and their spending habits. I wanted to compare this store's data to the research that has been done previously. I also gathered information about how this particular brand segments their clients and how each client segment contributes to the overall business. This will show how people of different classes shop differently and how much each group contributes to the luxury retail market.

Introduction:

Fashion is one of the biggest industries worldwide and in 2017, it was valued at 1.4 trillion dollars in sales. There are many sectors in the fashion industry but in this paper, I will look at the different factors and theories in luxury consumption. It is imperative for companies to look at their demographics and to understand the underlying factors of demand. There has been a lot of theories based around the idea of Veblen goods. People use fashion as a tool for economic signaling. All people want to feel like they belong to a group and fashion is an easy way of expression. In this paper, I will analyze the different shopping demographics and understand the different factors of demand. There are different demographics that engage in conspicuous spending and I will look at how their shopping habits differ. Factors such as culture, society, and the human psychology all motivate the demand for luxury goods. I will also analyze how people from different backgrounds are segmented, how much they contribute to the overall luxury spending market, as well as different theories surrounding the luxury fashion market.

For my research, I utilized the data from a luxury outlet store located right outside of New York City. The store is a popular fashion house that is owned by the biggest luxury retail conglomerate in the world. The data collected shows the sales results in a nine month period from January 1st, 2019 to October 1st, 2019. In that time frame, there were 4,300 transactions in the store. The mall that the store is located in is a huge tourist destination. People from all over the world come visit this outlet mall. I collected information about the shopping client's demographics, spending habits such as average dollar amount spent per transaction, and average units per transaction as well as a few other key performance indicators. From the data that I collected, it is shown that women purchase less items, but more expensive pieces. Women contribute 66% of the overall turnover in the store. There is a huge growing demand for luxury items from the Unites States, China, APAC countries, and African countries. The key performance indicators and the overall sales results are all very telling about the shopping differences between the different demographics.

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Section 2.1 BACKGROUND

2.1.1 Defining the Fashion and the Industry:

Annually in the United States, fashion is a 200-billion-dollar industry. It is larger than books, movies, and music combined. Fashion is a window upon social class and social change. Fashion is a site of struggle over social status. For example, Vogue only portrays the lifestyle of the elite society. Although the driver of fashion is not necessarily high-status people, but the people who follow fashion because they want to be fashionable. They want to be associated with new innovative, and state of the art (referred to as 'Trickle Down Theory'). This shows that people dress a certain way because they want to associate with others in their group, show high social status, or to be associated with new and innovative. [1]

[1] Trickledown Theory: The model of product adoption in marketing that affects many consumer goods and services. It states that fashion flows vertically from the upper classes to the lower classes within society. Each social class is influenced by a higher social class.

To understand fashion, fashion experts analyze exactly what makes something fashionable. There are many key factors into this cycle with many factors at play. In the article “What Makes Something Fashionable?” Farennikova (2011) explores this topic. They found that there is a mixture of the masses, fashion experts, designers, and editors that makes something fashionable. Things go in and out of style. For example khakis, everyone had them so it no longer was appealing. It had looked the same for decades. We accept something as fashionable because people we regard as experts declare to be so. There are four conditions that must be met for something to be fashionable (Anya Farennikova 2011, 29-30).

1. A look is fashionable only if many people are wearing it
2. Individuals regarded as experts must endorse the look
3. Those who wear the look must intend to conform to the trend
4. They must regard to look as having aesthetic value

This matters because there are so many components into the fashion industry. No one can explain all of the components into what makes something fashionable, but this is a very important perspective. One condition is that individuals regarded as experts must endorse the look such as celebrities or fashion experts. This also shows economics signaling because just because people see Kim Kardashian wear something, they will buy it because they want to be the same class as Kim Kardashian. Many companies pay celebrities to wear their pieces as a way of marketing. In the article “Design Innovation and Fashion Cycles, Author’s last names (year of publication) explains and how companies will release a new design, once enough people buy it, they will come out with a new design, render the older one obsolete and the process continues.

Author’s last name found that designs are used as a signaling device in a dating game. Appearance is the most important component of most durable consumption goods. They are not primarily used to make these goods functional but to be fashionable. The purpose of fashion is to facilitate differentiation of “types” in the social interaction. The demand for new designs is for people to interact with the “right” people (Wolfgang Pesendorfer 1995, 771). This matters because the fashion industry creates new designs constantly to make the older ones obsolete to make the most profit. This still shows economic signaling because people always want to be fashionable, so they are constantly buying the newest and the latest to show status and class.

2.1.2 Economic Signaling and Veblen Goods:

Economic signaling is when someone in the market has information that outsiders do not, thus insider’s actions influence the outsider’s actions. This applies to fashion because there are fashion experts that influence many people with their fashion choices. The article “The law, Culture, and Economics of Fashion” from the Stanford Law evaluates the whole fashion industry. Companies pay celebrities to wear their pieces as a marketing tactic. Celebrities are often seen as fashion experts so people will tend to copy their styles. (Scott Hemphill and Jeannie Suk 2009, 113) For example, Fashion Nova was sued by Kim Kardashian because they are copying what she was wearing. They even hired models that look like her as a marketing tactic in hopes of increasing sales. There is an inherent value in the celebrities wearing a brand’s clothing.

The Veblen theory explains that positional goods defy the law of demand. The demand increases for Veblen goods as prices increase. This is because these goods are often status symbols and it signals wealth through conspicuous spending. According to Veblen, "Once societies start to produce a surplus the relationship between private property and status becomes increasingly important. It becomes indispensable to accumulate, to acquire property in order to retain one's good name. A hierarchy develops in which some people own property and others do not. To own property is to have status and honor and is in a position of esteem in this hierarchy." Luxury goods are not necessarily better, but due to the high prices and the limited access by the masses the demand increases. (Veblen 1899, 29) Below are a few other theories that go along with the Veblen effect.

The snob effect – perceived unique value. Snob consumers perceive price as an indicator of exclusivity, and avoid using popular brands to experiment with inner-directed consumption

The bandwagon effect – perceived social value. Relative to snob consumers, bandwagon consumers attach less importance to price as an indicator of prestige, but will place greater emphasis on the effect they make on others while consuming prestige brands.

The hedonic effect – perceived emotional value. Hedonist consumers are more interested in their own thoughts and feelings, and thus will place less emphasis on price as an indicator of prestige.

The perfectionism effect – perceived quality value. Perfectionist consumers rely on their own perception of the product's quality, and may use price as further evidence of quality.

(Melika Husic and Muris Cicic 2008, 232)

SECTION 3.1 LITERATURE REVIEW AND DEFINITIONS

In this section, I will explore the factors that determine the factors of demand in the luxury goods purchasing decision. I gathered previous related research to understand the results that others in the field has already found. This will be a base of what I will compare my results to as well as better understand the different aspects of the demand in the luxury goods market.

3.1.1 Psychology of Veblen goods:

In the social benefits of luxury brands as costly signals of wealth and status study, Altintas and Heischimidt looked at how the different genders value things differently. The paper broke it down into self-esteem motive, continuity motive, distinctiveness motive, belonging motive, efficacy motive, and meaning motive. Self-esteem motive are individuals who engage in conspicuous spending when they want to increase their self-esteem. HSBC target young urban males who are between the ages of twenty and thirty years old with a lower income because they feel like their self-esteem is threatened due to their low income (Melike Altintas and Kenneth Heischmidt 2012, 3). They seek luxury items in seek a higher lifestyle. Women purchase luxury items to prevent the self-threat from other women. The study found that men and women both engage in conspicuous consumption at equal levels when they want to repair self-threat and raise their self-esteem (Melike Altintas and Kenneth Heischmidt 2012, 8).

It is very important for brands to understand the client base that they are trying to reach which determines the kind of goods that they make. Psychologists have found that people feel between when making a downward versus upward comparison. (Philip Coelho and James

McClure 1993, 596). For example, one would feel better about themselves if they were wearing a bag from Hermes because most likely, no one else in the room will have a ten thousand dollar bag. They are showing that they own property and that they are in the place of honor and status.

3.1.2 Impact of Culture and Society:

Kapferer explains that many cultures such as China and Japan buy luxury pieces as a face-saving tactic. While the CEO and the secretary are both buying Louis Vuitton, they are buying very different pieces. Half of the women in Tokyo offices wears a Louis Vuitton bag. The CEO is wearing a non-logo discreet alligator bag while the secretary is wearing a Neverfull tote that is all logo. Kapferer says “Chinese consumers love leading brands. This is clearly an advantage for brands with high brand awareness and a network of stores in all major capital cities, and now even regional cities. For a local Chinese consumer, buying a luxury good is a way to participate in the world of consumption. Pieces such as the heavily logo piece the Louis Vuitton Neverfull tote, it is a piece that almost everyone has. People around you will judge you if you don't have it and you may be viewed as “outside of the group”. (Kapferer 2010, 42-44)

3.1.3 Consumer Segments and Their Desires:

While there are exceptions to every rule, most very wealthy people don’t have much to prove. They don’t need to prove their wealth and status so they may not choose high signaling logo pieces. They might choose to go with Brioni, Bottega Veneta, or haute couture. Those pieces with high quality with no branding. Haute couture is so exclusive that most of the time one can only be invited to their haute couture atelier, and pieces run from 5K to 200K. It is a very exclusive club that one not only have to have money, but it is someone that the brand wants to be represented by that person. The people that choose those pieces will know the others that are in their group.

There is an innate difference between “old aristocracy” and “new money”. This seems to be a trend that creates differences in the ways that these groups shop. The “old aristocracy” tend to gravitate towards the quiet luxury goods that suits their lifestyle. While “new money” shows a strong suggestion of the snob effect where they purchase exclusive items in an attempt to distinguish themselves. It is also important to mention that during the time of the 2008 US financial crisis, high end, non-conspicuous, and full priced products were still flying off of the shelves. The rich will always stay rich, and there will always be a demand for luxury items. (Melika Husic and Muris Cicic 2008, 233-235).

3.1.4 Desire for logo:

There is a key component for companies when designing goods is whether they want to use logo. In the article “Pro Logo or No Logo” by Jean-Noel Kapferer (Year of publication) talks about the use of logo within brands. He used data analysis to interpret this topic. He found that the future belongs to companies who understand the need for status and adopt a true luxury strategy. People inherently have the need to compare oneself to others. Luxury is tied to social hierarchy. Looking at history, luxury was the privilege and the signal of the powerful people such as kings and aristocrats. The status needs of different segments are not the same. People who have money and status has nothing to prove so they choose brands such as Patek Philippe to

Rolex. Louis Vuitton focuses on both true luxury pieces such as crocodile bags with no logo and the masses with heavy logo. Car companies have the same idea in mind while top of the line cars has the smallest logo and the lower end cars has the biggest logo. Companies take economics signaling into account when designing for their target audience. (Kapferer 2010, 42-44)

Different wealth groups has desires for high status signaling pieces. In one study, the experiment broke down consumers into four groups according to wealth and needs for status. Wealthy consumers in low need for status wants to pay a premium for quiet goods that only they can recognize. Wealthy consumers in high need of status use luxury goods to show off to the masses that they are not one of them. People who do not have the means to buy those luxury goods that have a high need for status buys counterfeit goods to emulate. (Young Jee Han, Joseph C Nunes, and Xavier Dreze 2010, 3-6) There are different types of consumers that have a high or low need for status. People can choose to purchase couture pieces with no logo, just high quality. Rather than others that purchase loud pieces to show their wealth and status. Economic signaling is done through the pieces they wear and to show others of their wealth or will only be recognized if others are a part of your group.

3.1.5 Define: Luxury

Signaling pieces has a symbolic significant that is an expression of the ego. Luxury fashion is fueled by different design quality perceptions and different signaling qualities. Luxury stems from the Latin work “Luxus” which means excess. Luxury pieces are not really necessary but people choose luxury pieces because of higher quality and sometimes for signaling. In the article “Prestige brands or Luxury brands?” from Cahiers de Recherche, the authors analyzes the differences between prestige brands and luxury brands. They used a qualitative technique in depth interviewing. The owner of LVMH, a conglomerate fashion house that owns Louis Vuitton, Fendi, Givenchy, Dior, and many others Bernard Arnault says,

"He did not like the word luxury but instead on using the word prestige to describe his brands. Prestige is a subjective evaluation judgement about the high social status. Luxury is everything that is more than what one needs. Brands use celebrities who have an elevated status as a marketing tool. So, consumers subconsciously want to purchase those pieces because they want to be associated with higher class and social status." (Bernard Dubois and Sandor Czellar 2002, 3-7)

3.1.6 Define: Value of Luxury

People value different things when shopping. Some value functionality while others value status seeking pieces. In the article "Toward an Economic Theory of Fashion" from the Economic Inquiry, they talk about two economics theories of competitive and noncompetitive markets. They analyze fashion and status seeking incentives. They found that riches are desire primarily for their ability to enhance one's status. Fashion goods must be more costly to show status. For example, neckties indicate that the man's professional status. It shows that they do not have to engage in physical exertion. From an evolution perspective. There is strong evidence that there is an innate drive for status among humans. The competitive model generates cycles producing fashion's "booms and busts". This matters because people innately wants to show status and one way is through fashion. (Philip Coelho and James McClure 1993, 598) These luxury items are Veblen goods. These are the goods that defy the law of demand. So as prices increase, the demand increases as well. People are willing to spend 10k on a Birkin bag because it shows that they are well off and they can afford it. Bags has the same innate value of carrying things, one will spend 10k on a bag, while a free plastic grocery store bags will serve the same function. A plastic bag has a great price value financial value, function value, and usability value, it is lacking a lot of other factors that is linking it to the luxury value. A Birkin bag has a usability value, quality value, uniqueness value, self-identity value, hedonic value, materialistic value, conspicuous value, and prestige value. Although it is a lot more expensive compared to a plastic bag, it does offer a lot of value.

Below is a chart from the Journal of Behavioral Studies in Business. They broke down the luxury value into several different parts including financial value, functional value, individual value, and social value. This is a powerful breakdown of the luxury retail business because it breaks down the perceived value and why there is a demand for these luxury goods.

Figure 1: The perceived value of luxury from the Journal of Behavioral Studies in Business (Melike Altintas and Kenneth Heischmidt 2012, 6)

Journal of Behavioral Studies in Business Volume 10

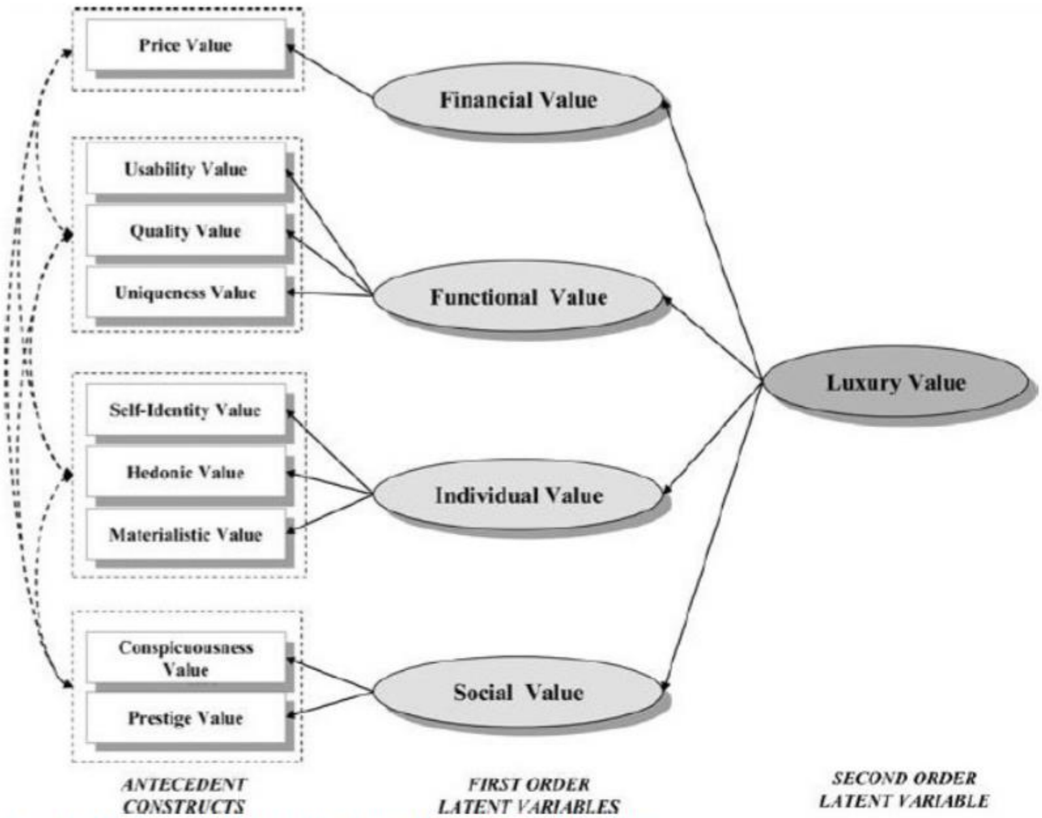


Figure 1: The Conceptual Model (Wiedmann, Hennings & Siebels, 2007)

Throughout history, luxury was only for Kings and Queens and now most people can afford a luxury piece depending on how they prioritize their spending. Is there really any benefit to wearing luxury other than worrying about how others perceive you? In the Article "Social benefits of luxury brands as costly signals of wealth and status" from Tilburg University explores if displaying high status goods elicit a preferential treatment. They performed several experiments where they sent people into stores with different levels of status signaling goods to see if they did receive better customer service from the store representatives. They found that people display luxury brands do get better treatment than a person who does not even if they are the same person entering the store. Luxury brand labels on clothing would be perceived as signals of wealth and therefore enhance a person's status. Financial wealth is a desirable characteristic. Luxury displays may be a socially learned strategy that comments beneficial treatment from others. People wear high status goods to gain social status. Subjective utility derived from expenditures that develop functional benefits may accrue from there, merits and signals of social status. (Rob Nelissen and Marijn Meijers 2010, 352-353) As of 2012, expenditure on luxury products is $450 Billion. There is an old saying "Dress for the job you want". This concept is ingrained into our minds that we might not even ever think about it that affects all areas of our lives.

As a sales associate in a luxury brand setting, I experience this first hand. All sales associates on staff are commission based so everyone has an incentive to sell as much as they can. If there is a constant traffic of customers walking in, everyone looks for high signaling pieces which shows that this customer is more likely to spend. For example, if two people walk in at the same time, one is wearing a coach bag while the other is wearing a Hermes bag, the sales associate will most likely offer more service to the one wearing the Hermes bag because that person is more likely to spend. It can be seen in a store setting as sales associates can only talk to one person at a time. With opportunity cost in mind, they will gravitate towards the customer that they think will be more likely to purchase.

4.1 DATA AND RESEARCH DESIGN

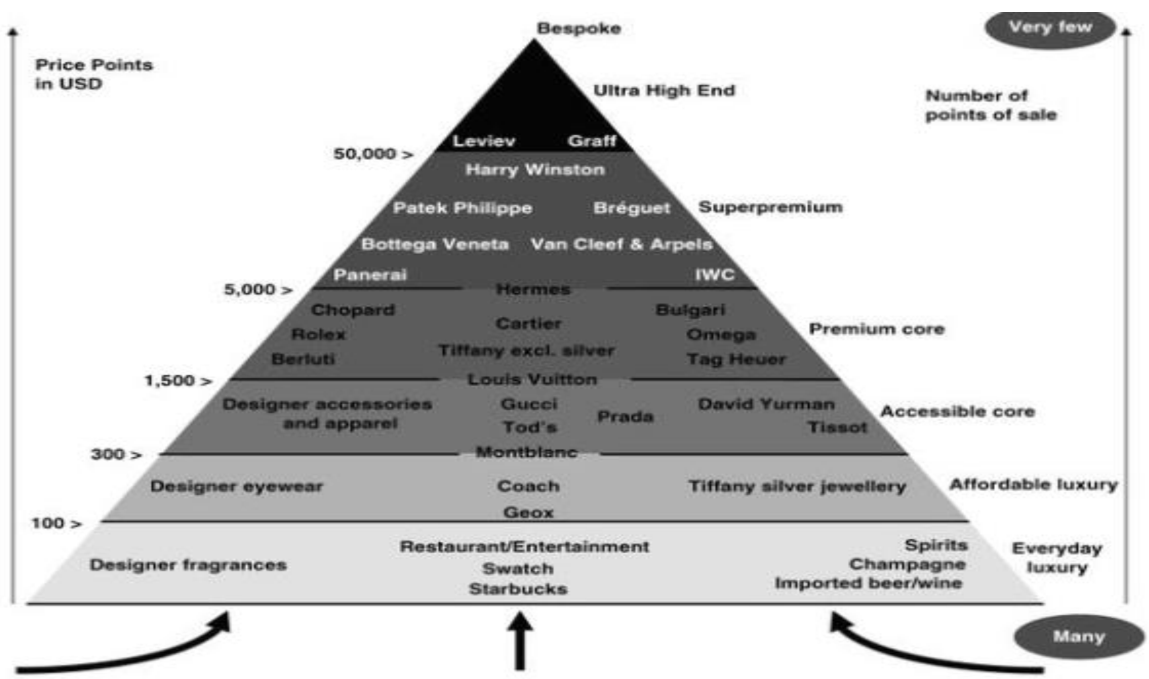
4.1.1 Brand Analysis:

To analyze the factors of luxury shopping, I utilize the data of a luxury outlet store located an hour away from New York City. The information below was collected in a fourth tiered luxury fashion boutique. This is the outlet of the popular fashion house and the results collected shows the sales results in a 9 month period from January 1st, 2019 to October 1st, 2019. In that time period, there were 4,300 transactions in the store with an average price of $557. Within that time period, the boutique sold $3,318,560 with a UPT (Unit per Transaction) of 1.38 and an AVB (Average dollar spent per transaction) of $772. At that point, the store had 4,300 transactions and sold 5,955 units. This brand is a well-established household name that is owned by a large conglomerate that dominates the luxury retail sector. This store is a fashion house the sells leather goods such as handbags and wallets, men's and women's ready to wear, shoes, and accessories. This location was chosen because it is a part of the luxury retail market and is located in a major tourist attraction. The findings will show the key performance indicators of the store and will be an important indicator of behavioral spending.

The data is analyzed and broken down by gender and country of residence. The business will be broken down by spending tiers and how much they contribute to the overall turnover in the store. Key performance indicators such as unit per transaction and average dollar spent per transaction will be used to analyze the quality of sales from each gender and the client's country of residence.

Below is a chart from Business Insider where they categorized the brands. The brand in the research is in the accessible core brands which is the fourth tier in this model. It is very similar to a brand such as Gucci, Saint Laurent, and Prada.

Figure 2: The Luxury Brand Breakdown by Exclusivity from Business Insider (Megan Willet 2015)

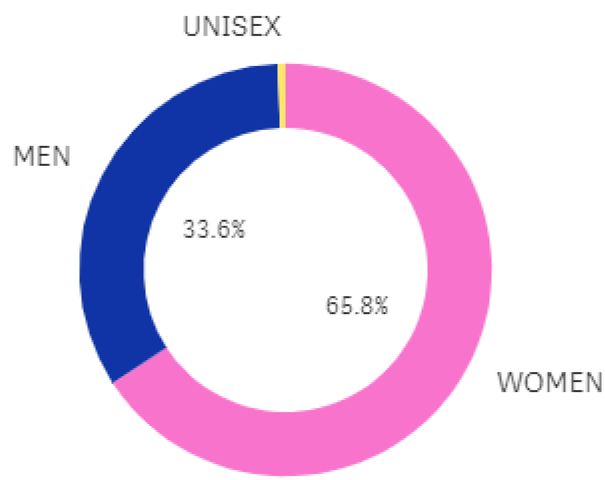


Section 5.1: RESULTS

5.1.1 Gender Breakdown:

For this individual store, women contributed 65.7% of the overall business and men contributed 33.6%. Year to date as of 10/2019, women spent $2,183,612 and men spent $1,115,036. Below, Figure 3 presents findings from the luxury store on the proportion of total spending between males and females.

Figure 3: Proportion of total spending between males and females

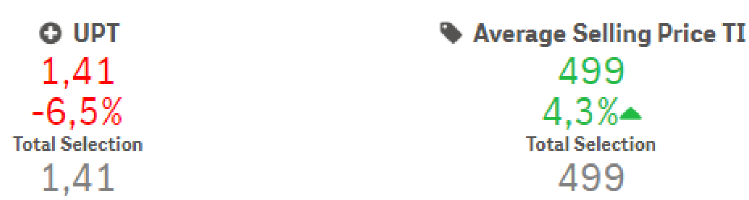


The average unit per transaction for this particular store is 1.38 and the average basket is $772. To determine the differences, we look at the unit per transaction and the average selling price. This shows us how much each gender buys (unit per transaction) and the average price of the items that they are purchasing. Below, Figure 4 presents findings from the luxury store on the Women's unit per transaction and the average selling price per item.

Figure 4: Women's unit per transaction and average selling price

Below, Figure 5 presents findings from the luxury store on the Men's unit per transaction and average selling price

Figure 5: Men's unit per transaction and average selling price



Figures 4 and 5 shows how women and men shop differently. Women on average buys 1.39 items per transaction and the average price of an item they purchase is $769. Men on average buys 1.41 items per transaction and the average price of an item they purchase is $499.

Below, Figure 6 presents findings from the luxury store on the top selling categories for Women.

Figure 6: Top selling categories for Women

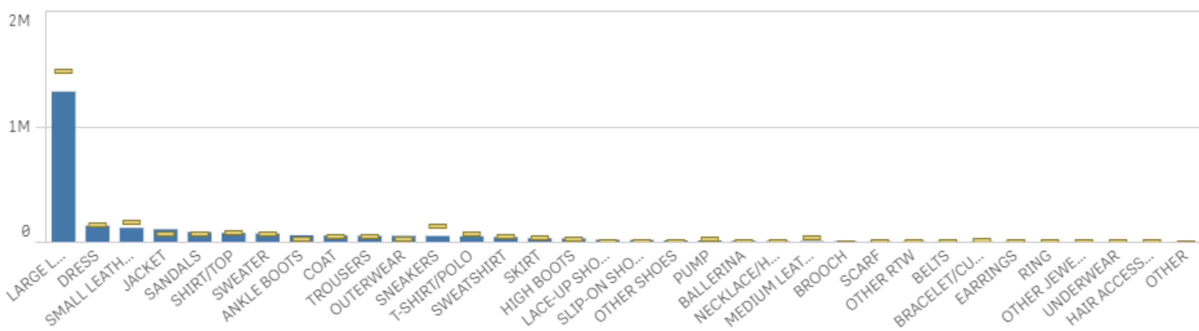


Figure 6 shows the top selling categories for women. As you can see, large leather goods is the top selling category by far at about 1.3 million dollars. This is followed by dresses, small leather goods, jackets, sandals, shirts, sweaters, and ankle boots. Note that this is organized by the dollar amount spent. The average price of a large leather good is by far the most expensive item in the store with an average price of $1360.

Below, Figure 7 presents findings from the luxury store on the top selling categories for Men

Figure 7: Top selling categories for Men

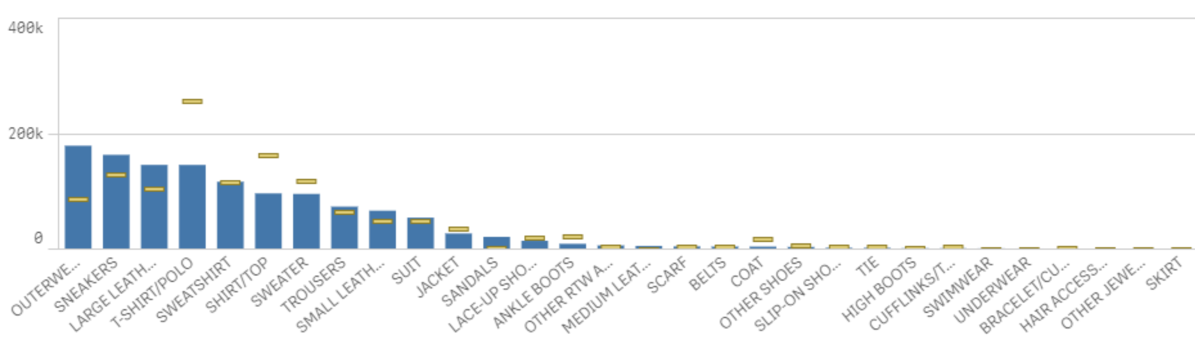


Figure shows the top selling categories for men. The items are a lot closer in range compared to the women's results. Outerwear was the top selling category at about $190K, followed by sneakers, large leather goods, t-shirts, sweatshirts, shirts, sweaters, trousers, and small leather goods.

5.1.2 Region Breakdown by Turnover:

1. Local (USA) $2.2Million
2. Unknown $351K
3. China $332K
4. APAC $220K
5. Americas (Not USA) $ 118K

The store is located in the United States, it is expected that the highest percentage of people will be local. Local is defined by anywhere in the US. Unknown transactions are when the client did not want to leave any information with the store. The second ranking country is China who is the world's second biggest economy. There is a huge demand for luxury goods and many people travel to the US or Europe just to shop for better prices. APAC countries includes Asia Pacific countries such as Singapore, Philippines, and Thailand. The Americas not including the US was the 4th top region.

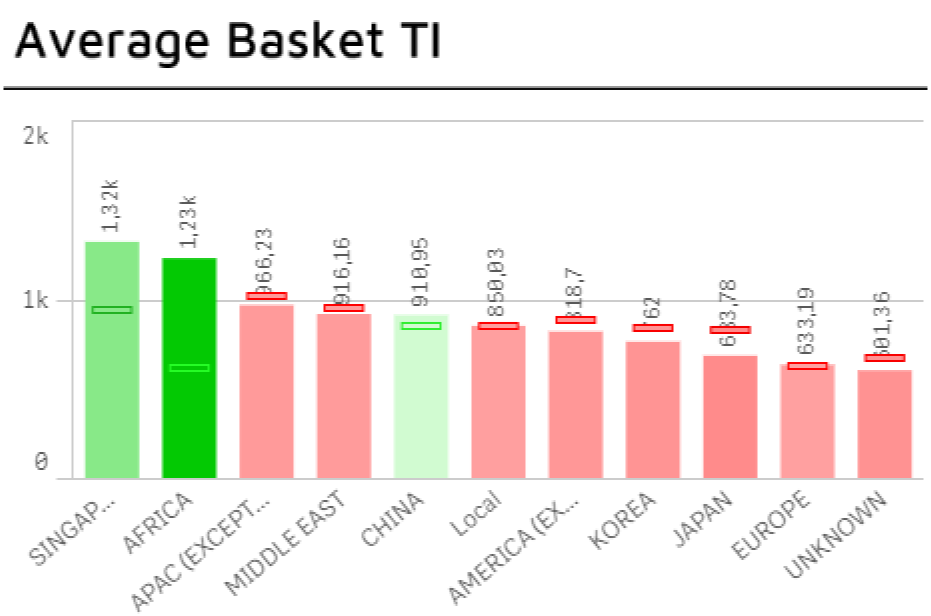
Below, Figure 9 presents findings from the luxury store on the sales breakdown by client residency.

Figure 9: Sales breakdown by client residency

Key performance indicator analysis:

Below, Figure 10 presents findings from the luxury store on the average basket by client residency

Figure 10: Average basket of clients by region



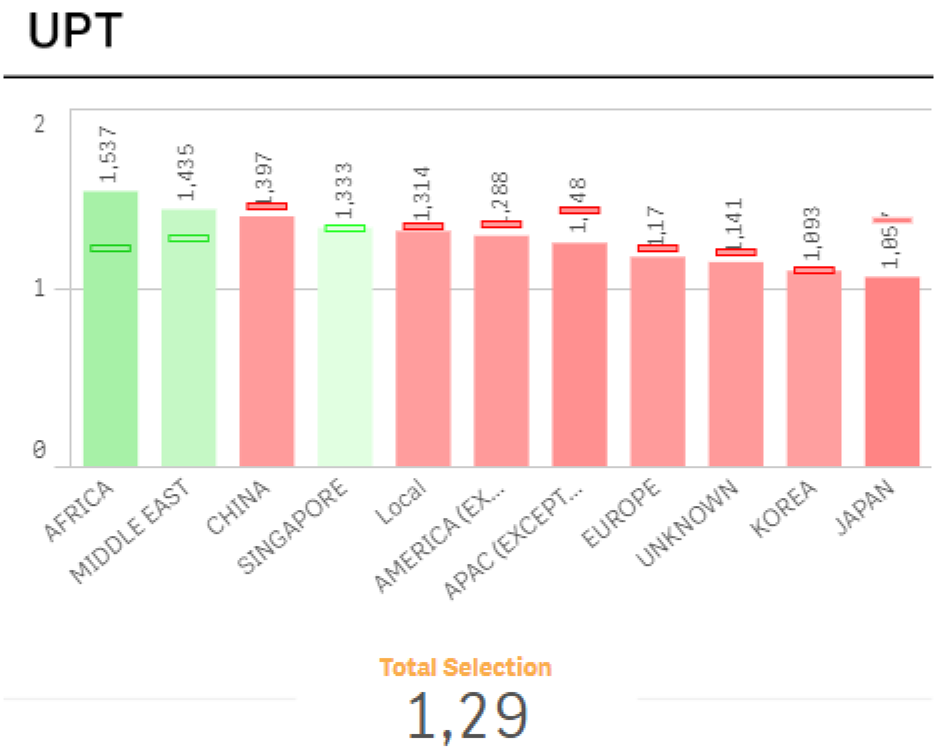
Average basket per region:

1. Singapore $1360
2. Africa $1210
3. APAC $958
4. Middle East $887
5. Local $847
6. Americas (Not USA) $837
7. Korea $793
8. Japan $671

In general, East Asian and African countries have the most spending. Singapore is highest at $1360 and Japan is lowest at $671.

Below, Figure 11 presents findings from the luxury store on the unit per transaction breakdown by region

Figure 11: Unit per transaction of clients by region



The key performance indicator unit per transaction explains the number of items purchased in every transaction. The list below shows the overall average of the unit per transaction ranked per region. Africa has the highest UPT (unit per transaction) at 1.55. This can be explained by the lack of free standing stores in Africa. This particular brand has no free standing stores in the whole continent and there is clearly a demand. Africans are purchasing more due to the lack of supply in Africa. The Boston Consulting Group did a market analysis and it was found that Brazil, China, Japan, Russia, and the US together has 150 million luxury spending households and it accounts for 90% of the world’s luxury spending households. The brand will focus on European, Asian, Middle East, and American countries instead of countries in Africa.

Unit per Transaction per region:

1. Africa 1.55
2. Middle East 1.42
3. China 1.40
4. Singapore 1.36
5. Local 1.32
6. Americas (Not USA) 1.31
7. APAC 1.25
8. Europe 1.08

In general, African and Middle East countries have highest average units per transaction. African countries have the highest units per transaction at $1.55 and European countries have the lowest with an average of 1.08 units per transaction.

5.1.3 Client segmentation and turnover:

This particular company breaks down clients into six different spending categories and four main groups:

Very Important Clients: (12.2% of turnover)

1. Elite Plus: Spends 75K Euros or more per rolling year.
2. Elite: Spends 30K to 75K Euros per rolling year.
3. Top: Spends 15K to 30K Euros per rolling year.

Potential VICs (17.2% of turnover)

4. Repeat big/ one time big: Spends 5K to 15K Euros or more per rolling year.

Medium (52.7% of turnover)

5. Repeat medium/ One time medium: Spends 1K to 5KEuro or more per rolling year.

Small (16.6% of turnover)

6. Repeat small/ One time small: Spends less than 1K Euros per rolling year.

Very important clients who are in the elite plus, elite and top categories make up 0.8% of all clients. These clients represent 12.2% of turnover. Potential VICs, who are in the repeat big or one time big category represents 3.6% of all clients and contributes 17.2% of turnover. Medium tiered clients represent 45% of all clients who represent 52.7 of turnover. Small tiered clients represent 50% of clients who represents 16.6% of the turnover. Below, Figure 3 presents findings from The Boston Consulting Group which analyzes the pattern of luxury spending across consumer segments.

Section 6.1 DISCUSSION:

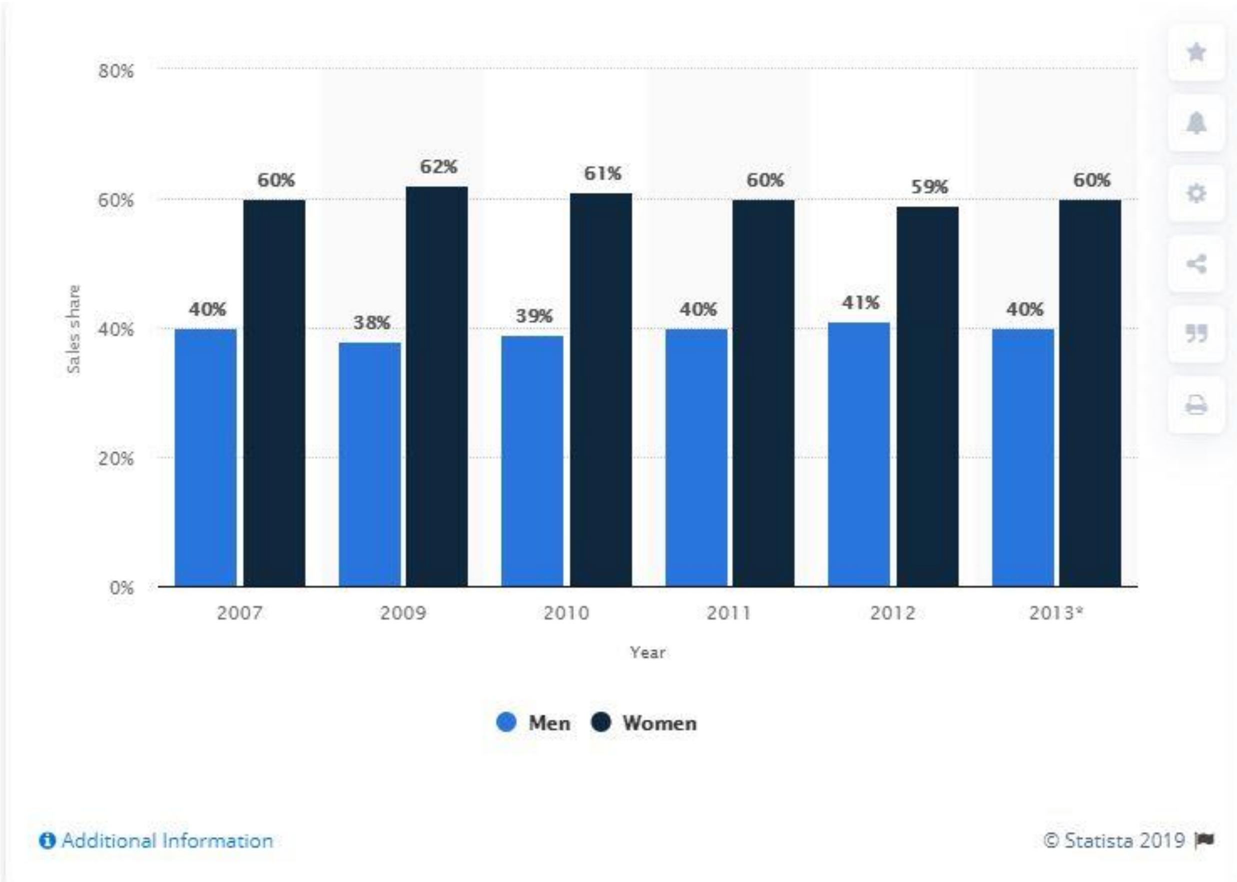
6.1.1 Gender Breakdown:

For this individual store, women contributed 65.7% of the overall business and men contributed 33.6%. Year to date as of 10/2019, women spent 2.18 million and men spent 1.12 million. Most research articles found that women shop more than men. Women are often shopping for themselves and for the ones around them like their husbands, friends, and family. According to one research, on average, women influence 80% of a household's spending on luxury goods. (The Boston Consulting Group)

The findings of the luxury store which the data was collected from show that women buy less items but buy more expensive items. Men buy more items, but they buy cheaper things. The results are surprising because women's overall turnover is so much higher than men's. One would predict that they buy more and purchase more expensive things. This is especially due to the fact that past research has shown that women often shop for the rest of their family such as for their husbands and extended family. (Jack Ma) But the charts below may explain those results.

Below is a chart from Statista. They analyzed the overall luxury shopping market and broke it down by gender. The numbers are similar in terms of overall turnover compared to the results from this individual store. Women shopped more than men consistently with an average of 60.33% between the years of 2007 and 2013 while men contributed to 39.66% of the overall market. The store results showed that women contributed 65.8% of their business while men contributed 33.6%. Below, Figure 8 presents information from Statica with their findings on the average retail sales breakdown by gender.

Figure 8: Statica retail sales breakdown by gender (Statica Research Department 2018)



It is important to take note that the average price of each item has a major effect on their percentage of the overall business. Handbags are overall the most expensive items in the store. The lowest priced bag being $644 and the most expensive bag at $19,990. With the median price of a hand bag in the store being $1,360. The top leather goods categories combined on the list below contributed $1,148,000 out of $2,223,000 out of the list of top contributors. Notice that in the top men's category, sneakers ranked number two. The average price of sneakers in the store is $298 which is about ¼ of the average price of a hand bag in the store.

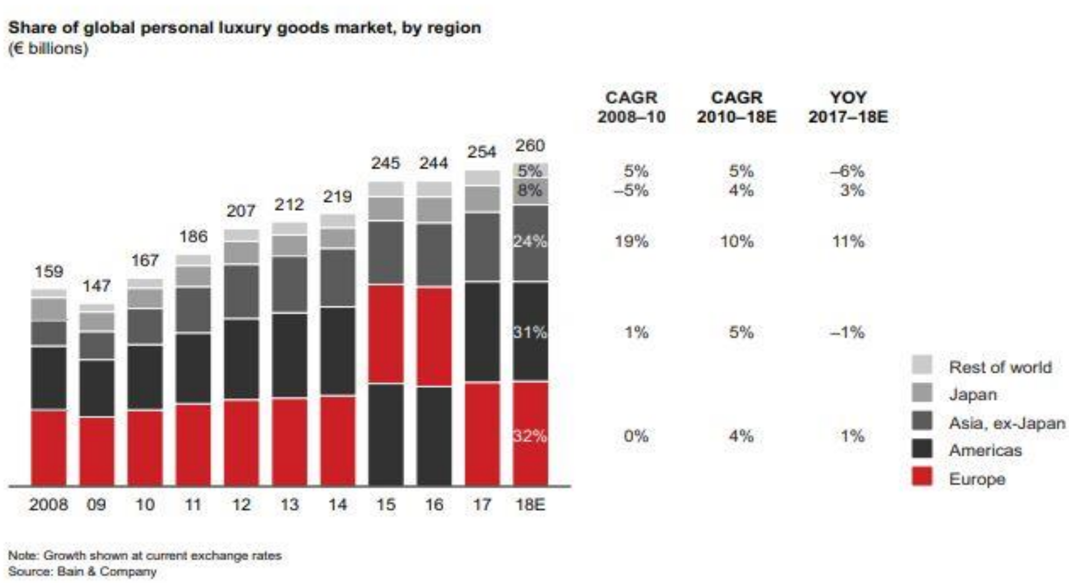
Section 6.1.2 Region Breakdown

Average basket is a key performance indicator that represents the dollar amount spent per transaction. So according to the data set, Singapore was the top spending region who spent an average of $1,360 per transaction. Singapore is currently ranked number 9 in GDP per capita with $62,005. Africa was number two the list at an average basket of $1,210. This was an unexpected result but there is supporting evidence of why this makes sense. There are many factors to consider including culture/trends in their home countries, item availability in their home countries, and the demographics. It not only takes money and time off from work to come to the US, but the most important part is a visa to step foot into the United States. According to the United States homeland security website, there are 38 countries that are exempt from the visa process and out of those 38 countries. None of those countries are located in Africa. In the visa process, each person needs to provide extensive proof needed that you are financially stable and there is no foreseeable reason that you will outstay your visa and stay in the US illegally. The people that are traveling needs to prove that they are financially stable. There is already of filter in terms of clients that are coming into the store.

Another key factor of the spending habits is the availability of the goods in their home countries. According to the brand's website there are 63 free standing stores around the world. There are 8 in Europe, 19 in America, 31 in Asia, and 5 stores in the Middle East. There are no free standing stores in Africa. The trends of the country is another huge determinant of their average basket. For example, in APAC countries the Pandora bag is one of the it bags. The average price of a Pandora bag in the store is $1,300 so that will increase the average basket of the people shopping from the region. In China, people are shifting towards athleisure and they are looking for t-shirts. The average price of a t-shirt in the store is $430, so they didn't even make it on the list in terms of their average basket although they are the second country in terms of the dollar amount spent. They are one of the biggest spenders worldwide and showing steady growth annually.

Below is a chart from Bain and Company study. They looked at the world wide spending in the luxury goods market. Europe is still the biggest market for luxury goods, followed by the Americas, Asian, Japan, and the rest of the world. Luxury goods are often cheaper in European countries because that is the origin of those products. There is no additional import or export taxes, shipping costs, and other additional cost factors. Europe is a huge shopping destination for people around the world because of its lower prices and better selection. Below, Figure 12 presents findings from Bain and Company showing the share of global personal luxury goods market by region.

Figure 12: Share of global personal luxury goods market by region from Bain and Company (Claudia D'Arpizio, Federica Levato, Filippo Prete, Elisa Del Fabbro and Joelle De Montgolfier 2019, 10)



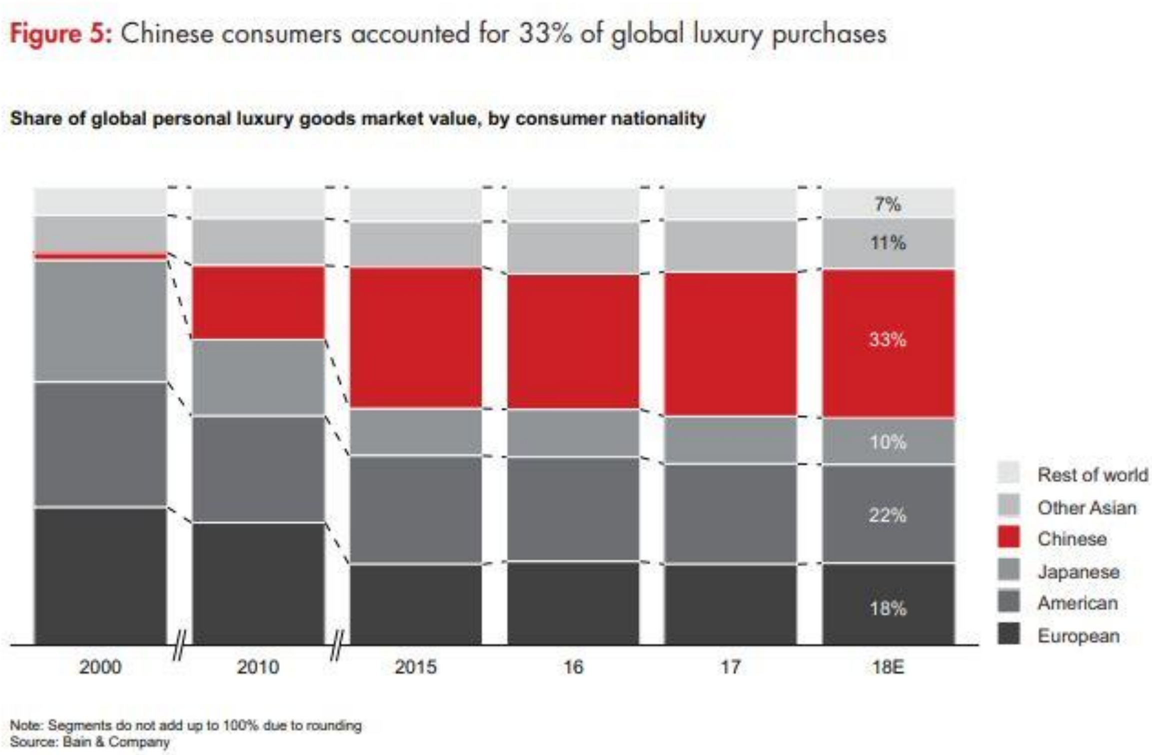
Section 6.1.3: Nationality

The chart below shows the nationality of the people that are making those purchases. You can see a huge shift in the regions. Chinese consumers accounted for 33% of the global luxury purchases. Bain and Company reported "Chinese consumers led the positive growth trend, with a 33% share of global luxury spending (up from 32% in 2017). Between 2015 and 2018, purchasing by Chinese consumers in mainland China contributed twice as much growth in absolute value as their spending abroad." It is interesting that Africa did not show up in the charts but is only accounted for in the 7% that are the rest of the countries that are not listed. Although African clients that shop in this boutique has very high quality purchases, there are not that many of them to be ranked in the top regions in terms of overall turnover. Below, Figure 3 presents findings from Bain and Company showing the share of global personal luxury goods market value by consumer nationality.

Compared to my findings, there were a few differences in the results. Since the store that I collected the data from is in the United States, there is no way to compare the breakdown of countries' percentage of the luxury goods market.

There was information about the nationalities of the clients that did shop in the store. According to my results, Europeans only accounted for 12% of the overall business compared to the Bain study at 18%. This can be explained by the lower costs of the luxury goods in Europe. Since most luxury goods are based out of Europe there is a lot lower shipping costs. In addition, there are no export and import taxes added onto the price. So the European shoppers will tend to shop in their home countries or other countries in Europe with the lower costs and easy access. The local clients who lived in the United States contributed about 66% of the overall business compared to the study only 22%. This can be understood because the store is located in the United States. The United States is a melting pot and people of other nationalities will also be counted as American because they are currently residing in the United States. This will bloat the number of Americans in the results as well. Chinese people in my results only contributed 10% of the overall sales in the store compared to the Bain study where they contributed 33%. Since the Chinese people are traveling, they may choose other shopping destination where they would buy more. One example is any European country with the help of lower prices. The Chinese shoppers are the second nationality after the local American shoppers.

Figure 13: Share of global personal luxury goods market value by consumer nationality from Bain and Company (Claudia D’Arpizio, Federica Levato, Filippo Prete, Elisa Del Fabbro and Joelle De Montgolfier 2019, 10)



Section 6.1.4: Breakdown of Client Segments

Previous research has been done by The Boston Consulting Group, “The New World of Luxury” broke down the luxury shoppers in five different categories. Those include the aspirational mass market households, rising middle class, new money households, old money, and beyond money households.

According to their study, the aspirational mass market includes 115 million households worldwide. This group includes people who have average jobs and backgrounds who aspire to have an above average lifestyle. Their annual income is at least 55K Euros and contributes to about 30% of the global luxury sales. It has hard to exactly line up the categories from the Boston group to the brand’s break down of clients. But the consumers in the small category who spent $1,000 or less contributed 16.6% of the overall business while according to The Boston Group, they contributed about 30% of the global luxury sales.

The rising middle class accounts for 25 million households whose annual income is at least 110K Euros. This group is in the middle class who has well-paying jobs. They contribute about 25% of the global luxury sales.

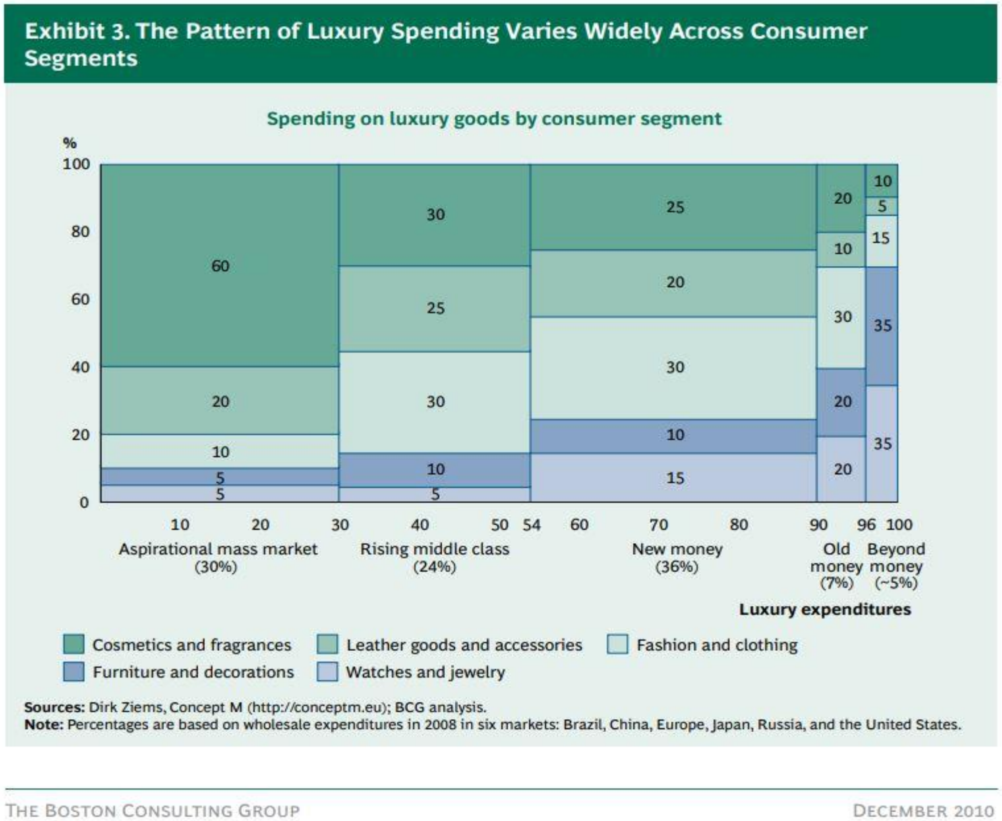
New money households accounts for six million households. They have a high net worth of at least 750K Euros in assets. This group did not inherit their wealth but built their wealth themselves. They contribute about 33% of the global luxury sales.

Old money accounts for 1 million worldwide households. They have a high net worth and its inherited wealth. This group contributes 7% of global luxury sales. Beyond money households accounts for 0.6 million households worldwide. They are similar to old money but they purchase brands to match their lifestyle. This group avoids ostentatious displays of wealth and contributes 5% of the global luxury sales. It is fair to assume that these are the store's very important clients. The percentages match up almost exactly with 12.2% of the store's turnover and 12% according to the Boston consulting group. (Jean- Marc Bellaiche, Anontella Mei-Pochtler, and Dorit Hanisch 2010, 6)

From the results I found, small clients make up 50% of the overall clients, but only contribute 16.6% of the overall turnover in this particular brand. These people are the people from the average backgrounds who have average jobs, but they want to be a part of the elite lifestyle. This group of people tend to gravitate towards the logo pieces, to show that they are well off and they can afford to wear those pieces.

On the other hand, the people that are elite with old money and beyond money tend to gravitate towards the things that are less showy. They will buy the ready to wear with no logo or they will gravitate towards made to measure. They purchase brands that match their lifestyle as they often have the same circle of friends. They are less than one percent of overall luxury market consumers but they contribute 12% of the overall turnover in the luxury market. Below is the chart that illustrates the pattern of luxury spending across consumer segments and confirms the breakdown of luxury shoppers.

Figure 14: The pattern of luxury spending across consumer segments from The Boston Consumer Group (Jean- Marc Bellaiche, Anontella Mei-Pochtler, and Dorit Hanisch 2010, 6)



Conclusion:

The luxury market has been steadily increasing in the past years. It is important for companies to realize the underlying factors in demand to better market to their clients. There are numerous theories studying the demand of luxury goods. Companies segment their clients in order to meet needs from people in all different backgrounds. It is helpful to see how men and women shop differently and also to see how people from different regions shop differently in order to better market themselves. Companies need to look at not just the overall turnover, but also the quality of sales, and the key performance indicators. Demographics, psychology, and culture all play an enormous role in the way people shop. Although luxury fashion is a huge industry already, there is still tremendous room for growth as developing countries continue to gain wealth. The underlying factors of demand is imperative for companies to understand in order to best serve their clientele, better market to different sectors, and maximize their profits.

In this paper, I looked at the underlying factors of demand and analyzed how people of different demographics shop differently. I reviewed previous research done on this topic and found various theories and results. Culture, society, and the human psychology all have a play in the demand for luxury goods. I collected data from a luxury retail outlet store to understand the different shopping habits of different demographics. I also found how this particular brand breaks down clients segments by the dollar amount spent and compared it to previous research done on the breakdown of luxury retail segments. From the data that I collected, it is shown that women purchase less items, but more expensive pieces. Women contribute 66% of the overall turnover in the store. There is a huge growing demand for luxury items from the Unites States, China, APAC countries, and African countries. The key performance indicators and the overall sales results are all very telling about the shopping differences between the different demographics. People from different segments will demand different items. For example, I found that people from low client segments have a higher demand for logo pieces because they want to show that they are well off. People of high client segments have a low demand for loud logo pieces because they only want to buy high quality goods that match their lifestyle. Luxury retail companies need to understand the underlying factors of the demand in order to serve their clientele and maximize profits.

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