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An exploratory study of consumers' perceptions: What are affordable luxuries?

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ABSTRACT

Specialty media outlets such as *The Wall Street Journal*, *Forbes*, and *Business Insider* have increasingly featured articles that stress the growth of the affordable luxuries market. However, "affordable" and "luxury" are two terms that do not conform to luxury goods literature. While the concept of luxury has been traditionally associated with expensive, difficult to find, and exclusive products, the aforementioned business periodicals seem to suggest that a number of products such as specialty coffee, chocolate, and other commodities can be considered affordable luxuries. We conducted an exploratory investigation to determine whether millennial consumers differentiate between the terms "luxury" and "affordable luxury," which products they perceive to be affordable luxuries, and the price range they are willing to pay for affordable luxuries. Our exploratory study (1) shows that consumers hold similar quality expectations for luxury and affordable luxury products, (2) reveals differentiating descriptors for luxury and affordable luxury products, (3) suggests that consumers see these products as a way to enhance one's image, and (4) offers pricing guidelines for such products.

1. Introduction

The luxury market has become one of the fastest-growing industries in the world, growing at roughly 10–15% annually since the early 1990s (Fionda and Moore, 2009; Matthiesen and Phau, 2005). The Boston Consulting Group has estimated the global market of luxury goods to be approximately $400 billion and to be growing at a rate that has outpaced all other consumer goods industries (Meyers, 2004).

The rise of the wealthy class in developing countries, the increasing buying power among working women, lower production costs (Truong et al., 2009), and socio-cultural factors such as the media's attention to luxury products (Fionda and Moore, 2009) have affected the growth of the luxury market. As a result of reduced production costs, luxury brands have developed reasonably priced premium products to attract middle-class consumers who desire to follow the lifestyles of richer classes (Atwal and Williams, 2009). Consequently, with an annual market growth rate of about 15% (Wang, 2013), it becomes clear that the term "luxury," which has been traditionally associated with being very exclusive and as highly prized goods available only to the wealthiest of people, has seen itself subjected to an evolution in recent years (Case, 2004; Meyers, 2004). What have emerged are products that are termed "affordable luxuries."

In order to make their products available for a wider array of consumers, many luxury brands have expanded their product lines by offering more affordable versions of their products, such as Luis Vuitton pens and wallets. This has enabled high-end brands to capitalize on the trading-up phenomenon that has become familiar within the middle class.

"Trading up" describes the behavior that people are willing to shop for cheaper goods in one category in order to free up resources for higher spending behavior in other categories, such as luxury goods (Kapferer and Bastien, 2009). By trading up, more people can occasionally afford to spend money on luxury goods over different product categories. Boston Consulting Group Senior VP Michael J. Silverstein notes that new luxuries are no longer only about aristocrats, but also "… about average Joes on the street who want to buy premium-price products that have real technical, functional and emotional benefits" (Meyers, 2004, p. 2). The trading-up phenomenon has been extended to an array of products and services, which include coffee products, hair salons, and spas. Younger consumers who attribute considerable importance to how they are perceived by their peers are inclined to trade up to signal their good tastes and expensive lifestyles.

Consider the case of the California music festival Coachella, a fairly elite annual music event in the desert with a limited number of hard-to-

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obtain tickets. Not only are tickets and camping spots expensive, the remote location can also make getting to and from the music festival a quest. By tapping into consumers' desire for exclusivity and added emotional value, all of these characteristics illustrate how a music concert can fit into the traditional definition of "luxury."

Practitioners have advised marketers and brands alike to focus their efforts in targeting the next spending generation: millennials. Further, marketing efforts should encourage millennials to share their authentic consumer opinions in order to enhance brand loyalty (Mulligan Nelson, 2012). Given millennials' high income during the current stage of their lives in comparison with previous generations, we could expect this cohort to direct their disposable income to affordable luxuries.

Despite the growing practitioner interest in the trading-up phenomenon and affordable luxuries, there are few empirical studies that focus on millennials' understanding of the differences between luxuries, affordable luxuries, and necessities. This topic is worth both scholarly and managerial attention because millennials represent the largest consumer generation in history since they are expected to spend more than $200 billion annually and more than $10 trillion in their lifetimes (Mulligan Nelson, 2012). Affordable luxuries could play a significant role in millennial spending habits because, while this generation ranks as the most educated in American history, they also have a considerable amount of debt (i.e., mostly in student loans) that might limit their spending capabilities. In other words, while this cohort might appreciate the value of luxury products, their access to them might be limited due to large debt restricting their net incomes.

The purpose of this study was to analyze how affordable luxuries are defined and what motivates customers to allocate spending to such products. Our goal was to begin an investigation as to what extent millennial consumers differentiate traditional and affordable luxury products. While the topic of consumer behavior has related to affordable luxuries, traditionally referred to as "premium products," has not been addressed in scholarly literature, specialized industry outlets such as *The Wall Street Journal*, *Forbes*, and *Business Insider* have covered this topic from a practitioner perspective. Since there is no widely accepted definition of "affordable luxuries" in academic literature, this study implemented two surveys to assess which products millennials consider to be affordable luxuries and the reasons behind their purchase intentions.

1.1. A new generation of consumers: millennials

To understand current consumer behavior trends for affordable luxuries, it is necessary to take a closer look at millennials. According to the 2014 *Ipsos Affluent Survey*, affluent adults (i.e., people 18+ with at least $100,000 in annual household income) currently represent 23% of U.S. households with an estimated population of 67.5 million (Ipsos, 2014). Within this well-off population, there are more Gen Xers and millennials than baby boomers (Satter, 2015).

Millennials, or Generation Y, typically include all people born between 1977 and 1994 and are described as having a high degree of independence and autonomy (Hawkins and Mothersbaugh, 2012) with a tendency to be highly brand and fashion conscious (Morton, 2002). As millennials begin to enter life cycle stages that involve purchasing homes, starting families, and running companies, affluence as well as the desire for luxury and upscale products will emerge (DeVilling, 2015). With its enormous size of over 70 million in the U.S., this group has the potential to significantly influence the market throughout all stages of their lives. As a result, it will be essential for companies to position themselves to capture a share of this cohort's consumption (Morton, 2002; Paul, 2001).

In addition to their immense size, millennials have developed into more sophisticated consumers relative to previous generations since they are the first to always have been connected globally through the Internet. This constant access not only serves as a primary and more advanced resource for information (Nowak et al., 2006), but also serves as the "backbone of their lives" (Pitta, 2012). Perhaps as a result of constant digital connection, Millenial consumers are not only interested in purchasing goods, but they also strive to make their lives better by investing in the experience and status associated with those items. For millennials, life should be enjoyable and fun, yet they still want to be successful in their professions (Nowak et al., 2006). They tend to be brand loyal and form strong feelings and relationships with their brands of choice (Pitta, 2012). Further, to keep up with fashion trends and stay hip among their peers, this consumer group is often associated with a tendency to spend money rather than save it (Morton, 2002). This propensity to spend money, combined with the goal of signaling fashion consciousness and status to other people, makes millennials very attractive consumers for the luxury good market. We assume that the millennial entrance to the aforementioned luxury market will be gradual, and as a result, this generation is likely to start seeking hedonic indulgences that match their current social and economic standing.

1.2. What is Luxury?

To analyze the luxury market and affordable luxuries, it is necessary to understand how "luxury" is defined. Luxury finds its roots in the very core of the times of royalty, where social stratification differentiated the nobility of kings, royal family, and priests from others (Kapferer and Bastien, 2009). While the history of luxury consumption is thousands of years old, the first forms of luxury brands emerged in the 19th century (Chevalier and Mazzalovo, 2008). Industrial production of the first luxury brands of silverware, glassware, and china (e.g., Baccarat, Wedgwood, Lalique) originated in England and France (Nueno and Quelch, 1998). In the 20th century, technological advances made these products available to the masses and a large middle-class population "who are no longer at a financial distance from luxury" (Atwal and Williams, 2009, p. 339). Thus, luxury brands developed downward brand extensions by introducing "masstige" brands (Truong et al., 2009).

Western society's democratic model, where each person has an equal chance of succeeding in any aspect of life, makes it possible for an individual to achieve a specific destiny through work (Kapferer and Bastien, 2009). However, even in a so-called "equal" society, the human need for social differentiation has not disappeared. Because of this, the luxury industry plays a major role in providing a means for differentiation. In a process termed "democratization of luxury," brands have become a social marker for stratification with the only obstacles to reach the desired goods being people's financial limits (Kapferer and Bastien, 2009).

As the demand for luxury brands has risen, luxury consumption has remained of keen interest among scholars who consider it a remarkable cultural trend and an economic activity in contemporary society. Researchers from a variety of disciplines, including anthropology (Isherwood and Douglas, 1979), cultural psychology (Csikszentmihalyi and Halton, 1981), psychology (Kemp, 1998; Veblen, 1899), economics (Bagwell and Bernheim, 1996), and marketing (Dubois et al., 2005), have investigated how and why people persistently seek "luxury" goods. Despite the abundant body of literature on luxury consumption, there is no consensus on a definition for luxury brands because of difficulties to define what constitutes a "luxury good."

Chevalier and Mazzalovo (2008) define a luxury brand as "one that is selective and exclusive, and which has an additional creative and emotional value for the consumer" (p. 8). A "a luxury good must satisfy three criteria: it must have a strong artistic content, it must be the result of craftsmanship, and it must be international" (Chevalier and Mazzalovo, 2008, p. xi). Central to the conceptualization of luxury brands is "conspicuous consumption," proposed by Veblen in 1899. Conspicuous consumption proposes that luxury goods provide symbolic and functional utilities to satisfy physical needs and gratify a