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ScienceDirect
Journal of Consumer Psychology 21 (2011) 199–205
Journal of CONSUMER PSYCHOLOGY

Short Article

Conspicuous consumption in a recession: Toning it down or turning it up?☆

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Received 10 November 2009; revised 3 November 2010; accepted 5 November 2010
Available online 8 December 2010

Abstract

The 2008 recession reportedly led to the demise of conspicuous consumption with wealthy consumers abandoning luxury goods that prominently display their brands for more subdued designs. Utilizing data collected before and in the midst of the recession from designer handbag manufacturers, Louis Vuitton and Gucci, we find products introduced during the recession actually display the brand far more prominently than those products withdrawn. Data from Hermès and luxury ads in *Vogue* magazine also indicate manufacturers did not tone things down. Our results suggest conspicuous consumption endures in recessions; consumers who do not exit the luxury goods market are still interested in logo-laden products.

Keywords: Conspicuous consumption; Recession; Brand; Brand prominence; Luxury; Logo

Luxury goods that prominently display their brands are out. At least according to the pundits, who claim the most recent recession has led wealthy consumers to adopt more subdued designs that reflect taste rather than signal status. In November 2008, the *New York Times* reported the recession had prompted a reconsideration of what is acceptable consumerism, and that "$2,000 logo-laden handbags and Aspen vacations can seem in poor taste" (Williams, 2008). Four months later, the national "newspaper of record" proclaimed the financial crisis had "aimed its death ray" at "the very ethos of conspicuous consumption" (Dewan, 2009). Have wealthy consumers really toned it down?

Reports about how conspicuous consumption is out of vogue appear based solely on interviews with consumers and presumed experts. Undoubtedly, consumers are claiming they are being less conspicuous. But this narrative may be intended to avoid appearing insensitive while others suffer. A rigorous sociological study would ideally have researchers track consumer behavior longitudinally, documenting purchases and the use of luxury goods to signal status both before and during a recession. This would require enormous foresight and resources. We take a more practical albeit less direct approach by examining data on product offerings collected from some of the world's top luxury brands before and in the midst of the recession. If consumers did indeed tone things down, they should have demanded fewer conspicuously branded products. This should be reflected in product lines, and we should observe firms offering more understated designs during the recession. We observe the exact opposite. Yet if luxury goods manufacturers failed to meet consumers' demand for less conspicuously branded goods, profitability should have suffered. This is not at all what we observe.

We find that the two luxury handbag superpowers, Louis Vuitton and Gucci (Interbrand, 2009), indeed changed their product lines during the worst financial crisis since the Great Depression but only to become significantly more conspicuous. Our results indicate these brands are far more prominently displayed on new products introduced during the recession when compared to those products withdrawn. This tactic has not resulted in financial ruin; in fact, the divisions of parent companies LVMH and PPR SA, respectively, appear to have

☆ The authors would like to thank the Marketing Science Institute for their generous assistance in funding this research.
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1057-7408/$ - see front matter
doi:10.1016/j.jcps.2010.11.002

Table 1
Change in product line from January 2008 to May 2009.

	Louis Vuitton		Gucci	
	Number of SKUs	% of original product line	Number of SKUs	% of original product line
January 2008	236	100.0%	229	100.0%
During recession				
Removed Products	142	60.2%	213	93.0%
Kept products	94	39.8%	16	7.0%
Added products	101	42.8%	72	31.4%
May 2009	195	82.6%	88	38.4%

fared exceptionally well during the period in question. We also find these manufacturers strategically trimmed their overall product line, resulting in far fewer offerings while simultaneously increasing prices for handbags they sold directly to consumers. Of course, trimming the product line and raising prices is in line with conventional marketing wisdom; introducing more conspicuously branded products is less obviously so.

Gucci and Louis Vuitton cater to two segments of consumers simultaneously, those who favor conspicuously branded goods to signal to the masses that they are not like them, and those who favor inconspicuously branded products to signal to their peers that they are like them (Han, Nunes, & Drèze, 2010). It appears Gucci and Louis Vuitton shifted their product lines to target the former, who are more likely to remain in the market for designer handbags given their high need for status. If this were true, luxury goods makers that cater to only one group or the other would be unlikely to affect changes in how prominently they display their brands. This is exactly what we observe for brands including Hermès, an extremely understated brand, as well as Prada, Dolce & Gabbana, and Fendi, which concentrate on consumers who favor conspicuously branded goods. Admittedly, this research is far from conclusive. However, as far as we know, ours is the first empirical investigation with respect to how conspicuous consumption changes or doesn't change during a recession.

Conspicuous consumption and marketing in a recession

Thorstein Veblen coined the term Conspicuous Consumption in his classic treatise The Theory of the Leisure Class (1899) to describe extravagant spending on products intended chiefly to display wealth and thus signal status. Consumers frequently pay higher prices for functionally equivalent goods because they crave the status associated with material displays of wealth (Bagwell & Bernheim, 1996). As work on materialism by Richins (1994) rightly points out, people make inferences about others' success based in part on the things they own. Consumers purchase status goods to try to distinguish themselves from other consumers or to imitate them, resulting in a "snob" or "bandwagon" effect, respectively (Leibenstein, 1950). It is not just the products themselves, as brands can send meaningful social signals about the type of person using that brand (Wernerfelt, 1990).

We know a fair bit about conspicuous consumption, but we know far less about how consumers think about consumption decisions during a recession. While the literature in consumer psychology has yet to address this question in detail, economists find consumers spend less and look for lower prices when times are tough. Work by Ang (2001) revealed that during the 1997 Asian economic crisis, risk aversion, value consciousness, and a shift away from materialism led to a serious decrease in consumer spending. However, Zurawicki and Braidot (2004) found higher income households reduced and eliminated various expenditures to a lesser extent than middle-class families during the Argentinean economic crisis of 2001–2002. But the wealthy did cut back too. Using data from U.S. Consumer Expenditure Surveys, Bils and Klenow (1998) found that luxuries and durables are more susceptible to business cycles than necessities and nondurables. Taken together, these studies support the notion that consumers cut their consumption during recessions, usually in proportion to their wealth and/or income, and that expenditures on luxuries are more susceptible to being cut.

How might we expect luxury goods companies to respond? Strategically, strong organizations are right to view economically challenging times as opportunities to overtake competitors (Srinivasan, Rangaswamy, & Lilien, 2005). In fact, firms that increase advertising do no worse than firms that cut advertising during a recession, but the former are more likely to pick up market share after the recession (Biel & King, 1990; Meldrum & Fewsmith, 1979). Practitioner-oriented pieces encourage firms to consider maintaining prices and re-segmenting the market during recessions. They note that price-cutting can be shortsighted; when prices fall during a recession, consumers often become less willing to return to higher price levels during the economic recovery (Pearce & Robinson, 2002). Firms are advised to revise their segmentation and targeting strategies in anticipation of a recovery while adjusting for shifts in customer behavior during the recession (Pearce & Michael, 1997). The luxury goods companies we focus most on (Louis Vuitton and Gucci) appear to have heeded this advice, and their strategy appears successful. Other companies (e.g., Hermès, D&G) did not alter their segmentation strategies by changing their products or advertising to comply with directives to tone things down.

The data

The most common definition of a recession calls for two straight quarters of declining GDP. In January 2008 economists were still debating whether or not the U.S. economy was even *heading* into a recession, yet in retrospect the National Bureau of Economic Research concluded in December 2008 that the U.S. technically had been in a recession since December 2007 (Lim, 2008). The economic crisis really hit its peak in September–October 2008 when institutions including Lehman Brothers, Merrill Lynch, Fannie Mae, Freddie Mac, and AIG either failed, were acquired under duress, or were taken over by the government. The bottom fell out during the first week of October 2008 when the stock market plummeted and the Dow