

Of needs and wants

Poring over the demand for luxury goods

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As the origin of their name indicates, luxury goods refer to the indulgence of the senses irrespective of the cost of doing so. These goods are defined in economics as upscale goods for which demand increases faster than the increase in income at the household level. These upscale goods are bought not to meet a need, but to satisfy a desire to acquire them. In that sense, the defining line between needs and wants sheds light on an essential attribute of luxury goods.

By doing away with the classical theory's central premise of the rationality of economic agents, behavioral economics has brought forth a clearer understanding of the causal factors determining demand for luxury goods and its unremitting growth worldwide.

What factors make luxury products so coveted despite their excessive cost?

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Factors behind the desire to acquire

The association of higher-priced luxury goods with ***better product quality*** is a factor underlying demand. Certainly, luxury goods are manufactured with quality materials that make the final product durable and of superior value. Yet, quality materials used in manufacturing luxury goods does not fully account for the excessively high prices of these goods.

Another factor is ***exclusiveness***. Many consider luxury and exclusivity to be directly linked. So shoppers desire luxury items because they expect to be among the privileged few who own them. This explains how items of limited editions draw strong demand no matter how high their prices are. However, the exclusivity of luxury goods is a factor that is being threatened as markets for these goods have grown rapidly in recent years.

More people are having access to luxury products on online platforms and in stores all over the world. Yet, brands are maintaining the perception of exclusivity that consumers require through personalization of items and the possibility of customization.

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A third factor would be ***psychological***. In effect, consumers are induced to purchase luxury goods for two psychological reasons: how they feel about themselves and how others would identify them. Self perception is in constant evolution and the acquisition of certain luxury items has the capacity to alter the way one feels and sees him/herself. Therefore, splurging in the acquirement of luxury goods boosts one's self esteem and conveys a feeling of satisfaction and power. Also, since luxury items are considered as status symbols, consumers tend to seek the conspicuousness imparted by their purchases of these items.

Individuals unconsciously desire to show off their ability to acquire expensive items. In that sense, luxury products are a means of displaying wealth.

Peer pressure, peer contagion, and the aspiration to fit into the wealthy class, are also strong determinants of demand for luxury goods. Consumers who seek upward mobility more often than not acquire luxury items.

A market that keeps on growing

Based on an analysis conducted by *Bain & Company*, the luxury market worldwide is expected to have grown at a rate of approximately six percent at constant exchange rates, reaching €260 billion by the end of 2018. This increase would be the result of an observed positive trend in all the regions.

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Europe's luxury market grew at the slowest pace of one percent at current exchange rates. That was due to an increase in the Euro's exchange value, which had a negative impact on tourist demand for luxury goods.

In the same period, China's luxury market recorded a 20 percent growth at constant exchange rates. The high expansion rate is attributable to modifications in customer experience strategies and a revision of the alignment of local prices of luxury goods with international prices.

The luxury goods market in Japan, which was expected to witness sturdy growth in 2018, in fact grew at a moderate three percent rate, whereas the rest of Asia – excluding China – saw luxury goods markets expand by seven percent mainly due to the economic growth in South Korea.

On the American continent, sales were boosted owing to a strong economic growth. With the U.S. dollar's exchange value on the rise against a basket of major currencies, the decline in tourist spending on luxury goods was more than compensated for by local demand. Consequently, the luxury goods market grew by about five percent.

In Lebanon, sales of luxury goods have been suffering a decline for the past six years, reaching 53.55 percent below base year level at the end of 2018. This decline reflects perfectly the dire state of the economy and weakened purchasing power of households.

A close examination of the luxury goods market reveals the following main drivers of growth.

First, Chinese consumers play a crucial role in boosting the purchase of luxury goods whether in their homeland or abroad while travelling. This nationality is considered the accelerator of the growth of the luxury market.

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Second, millennials and generation Z are taking over and becoming the main luxury purchasers. This shift in the age group of consumers towards a younger generation means that all luxury brands should remodel and reshape their

products and their marketing strategies in order to appeal to this rising class of customers.

A third factor affecting the growth of the luxury goods market would be a shift in tastes and trends towards a more casual style. In fact, in a world where social media is playing a key role in influencing the lives of its users and shifting their tastes, even older generations are being inclined into adopting the style of millennials which is a more casual style. Indeed, the category of streetwear has experienced a massive growth since 2017, leading all luxury brands to include in their collections a variety of items such as t-shirts, sneakers, hoodies, and the like.

Responding to market growth

The worldwide expansion of luxury markets warrants a change in brand strategy and designer response.

From the perspective of suppliers of luxury goods, a delicate balance needs to be maintained between, on the one side, preserving the attributes of **exclusivity and uniqueness** that attract customers to luxury goods, and on the other, rendering the luxury brand readily recognizable to the largest number of people, including those who cannot afford it, and this in order to retain a basic purpose of luxury goods, namely that of **displaying wealth**.

In the digital age, it has become easier than ever to reach people and make a design or logo rapidly identifiable. All what luxury brands have to do (and that's what they are currently doing) is to be active on different social media platforms to reach the highest number of users. However, brands should definitely steer away from abundantly supplying their products. In fact, the more limited the access to a certain luxury item, the more it would be desirable.

Owners of luxury brands are first and foremost business enterprises that need to expand their customer base in order to maximize profits. Yet they would also have to maintain the exclusivity attribute of their branded products. This intricate balance is rendered more problematic given the fact that the largest

portion of buyers of luxury goods are millennials who care more about experience than the acquisition of tangibles. Luxury brands, therefore, should adopt certain marketing strategies to insure the continuity of their success. Here are some of them:

First, creating a story behind every product that delivers in hidden messages the values and ethics of the brand, rather than producing unrelated items. These stories would involve emotionally the customer and would create a connection between him and the item he would choose, and later on between him and the brand.

Second, adopting **sensory branding**, a method in marketing that engages different senses of the customer. This strategy appeals to the customer on the emotional level and ensures the creation of a more memorable experience.

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Third, **supporting a cause**, because doing so would give an additional incentive for millennials and customers in general to purchase the products of your brand.

Global demand for luxury goods seems to be on a robust ascending momentum, with the global luxury goods market expected to reach €320 billion to €365 billion in 2025 according to *Bain & Company*. This growing demand is complemented with a growing variety of brands. Luxury brands should work on their marketing strategies to continue to appeal to customers whose choices have become broader than ever. Luxury goods markets are in constant change whether it is through seasonal trends or through changes in the segment of the population that make up the customers so brands should keep monitoring the market.

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