

Impact of recession on luxury brands



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Impact Of Recession On Luxury Brands In India

Introduction:

Luxury has existed since times immemorial. Earlier it was just with products and services, however over the period of time as the markets have evolved Luxury Brands have come into existence. Luxury brands are unique in the sense that it is not the product which is being sold but solely the brand.

Brand in itself commands exorbitant prices and the prices to play an important role in creating value for the brand.

Indian consumers have been acquainted with Luxury brands abroad through imports, however now with the Indian markets becoming richer, leading Luxury brands haven't opened shop in the Indian market. India and other emerging markets are prospective markets for the Luxury brands.

Economic Scenario:

Post 2007, global economy has been reeling under recession. Recessionary pressure began with United States economy slowing down; however it has spread globally affecting all countries in some way or the other. Income level, employment have been affected badly. Consumption levels have gone down drastically.

Luxury Goods And Economic Recession:

Traditionally, luxury brands have not been affected by recession so much, since they have been catering to the higher end class, which is not so affected by the economic downturn. However, in recent past, the luxury has been catering to the inspirational customers, whose consumption patterns are affected due to economic recession. However, there has been no study

show how Luxury brands are affected by economic recession. Hence, there is a need gap to study how luxury brands are affected by economic recession.

Literature Review:

Luxury brands are a myriad in themselves. To begin with it is important to understand the different aspects of luxury goods, Indian markets, consumers of luxury products, their mindsets. No direct study has been undertaken so far to understand the effect of recession on Luxury brands, however there are few articles available online which discuss the recession and luxury brands. Further, there are a few books that talk about the rise of luxury brands in Asia. The literature review will focus on a book on the cult of luxury brands in Asia and a dissertation on the luxury consumers of India.

The Cult Of Luxury Brand

By Radha Chadha And Paul Husband

This book is a detailed study on the “lux-plosion” or the explosion of luxury brands in Asia. The book unveils the paradox of how luxury brands have managed to generate such a huge market in Asia. They also try to redefine the new age luxury brand consumer in Asia. The luxury brands in Asia have managed to create such a huge aspiration that they are no longer restricted to the upper crust of the society. Further, in the Indian context the authors reveal how farmers from interior Punjab own more luxury cars and how their wives splurge more on luxury brands breaking yet another myth that luxury brands are restricted to the metros. (Husband) Luxury brands in Asia work on a totally different paradigm. Radha Chadha and Paul Husband explain the paradox of simultaneously pumping up your product’s status while pumping it out to the masses. They crack the code of the cult, offering a tried-and-

tested approach to creating an explosive following for your brand. They outline a powerful model that explains the spread of luxury in developed markets such as Japan and Hong Kong, while predicting the future course for emerging markets such as China and India. They also examine the phenomenon of “genuine fakes”, impossible to tell from the originals and detracting from their sales. Their study establishes the fact that while new age luxury consumers purchase and splurge for self actualization, in the Maslow’s hierarchy model, the Asian luxury consumers fall a level short and luxury purchases are more of a self esteem boost for them.

The Recession What It Really Means For Brands By Nicola Clark

Clark states that marketers are confused regarding how the consumer feels about the recession leading to confused communication strategy. Author cites the Milward Brown report saying that there is a shift in the value system of Brits. From being major spend thrifts they have become quite frugal. People actually make a list before buying some product thinking about how it would make them look before their friends. Such is the impact of recession on people’s consumption that they feel guilty at the fact of spending on buying. (Clark, 2009)

‘Because you’re still worth it’ a survey in United Kingdom indicates that people are opting for smaller, inexpensive treats. The meaning of luxury has taken a different meaning. It has become an affordable luxury. Author cites that people look at some of the technologies as affordable luxuries.

Although, the author cites about change in consumer mind set the changing face of luxury has to be understood with reference to Indian context.

Shifting Consumer Values And Brand Perceptions In Recession By Vanella Jackson And Farah Bostic

Author cites that there is a change in the value systems of consumers and the pace of change is rapid. ' Now' Context has to be taken into account. The research was conducted in U. S, U. K and China. The research identified the differences in the three economies with regard to recession. Although the three countries were optimistic about the recovery, Chinese were least affected with the thought of recession.

Also the other common thing was that all of the sought to re-examine their values which would lead to a fundamental change in their relation with the brands, products and services they buy. With the recession affecting, the consumer's are more vigilant. They demand credibility and integrity, verifying the institutions credibility and sharing with others through internet. (Bostic, 2009)

Conspicuous consumption has given way to conscientious consumption indicating that people assign a moral value to their purchases too. (Bostic, 2009) Luxury Brands are still finding consumers but people have started distinguishing from Luxury and excess spending. There is more emphasis on real thing now.

Sense of Community: Consumers have started to feel like a community thinking about how their actions or purchases would affect the world at large. (Bostic, 2009) People share their views about brands and other attaches equal importance to their view. In view of this, people have been cutting down on their spends on Luxury Goods because now it's the quality of life which matters more.

The five key shifting values according to the authors are

Trust and transparency, Conscientious consumption, Feeling of Community, People power and New Spirituality. (Bostic, 2009)

Effect Of Recession On Minds Of Affluent Consumers By Unity Marketing

An agency in United States undertook a research to understand the effect of recession on Luxury brands. The research aimed at answering questions like how has the meaning of luxury changed for the affluent customers post recession. The article cites that a majority of respondents faced a setback due to the loss of their additional incomes in form of bonus and it lead to fall in the consumption of Luxury goods. This situation is similar to the rise in Luxury goods in India among the BPO employees with the newly found income source. It could have had an impact on the sales in the short run, but what could be the long term impact on these consumers with regard to consumption of luxury products.

Shopper Behavior In Recession Can Have Long Term Implications By Gill Aitchison

Author points out that in times of recession almost all the retailers are resorting to discounts as a means to survive in the market in this lean period. Consumers are shifting to the low-cost private labels as they feel the pinch of down turn. (Aitchison, 2009) Author says that the consumption of luxury may rise immediately after recovery as it would again be a way flaunting one's financial success. For now, people have settled down for a modest way of living with more and more people opting for a holiday in their country. It indicates that people are at peace with the new found frugal life. But the article raises new questions like would this recession have a long

term impact on the minds of the consumer or would the shopping pattern return to the earlier ways.

Impact Of Personal Orientation On Luxury- Brand Purchase Value By Shu-Pei Tsai

Undertaken across Asia-Pacific, Europe and North America, the study classifies luxury consumption into two- socially oriented and personally oriented. The socially oriented consumption assumes people to buy goods only to impress others. The two factors in social orientation are – Social Salience and Social Identification. (Tsai, 2005) The personal orientation dimensions include

Personally attractive benefits: Product provides hedonic pleasure for self and acts as self-gifting, wherein the consumer rewards himself with the luxury product

Personally symbolic benefits: it facilitates the expression of consumer's internal self

Personally utilitarian benefits: the product matches with individual's attitudes and taste for quality

These three personal orientation dimensions are quite opposite to the social concept of buying luxury goods to impress others. (Tsai, 2005)

This research was undertaken in 2005 when the boom period was about to begin. Now with the recession looming large after the boom period, how these personal orientations would have affected the patterns of consumption of luxury products

Inside The Affluent Space: A View From The Top To Anticipate The Needs Of The Emerging Affluent By Sue Philips, Sharanya Sita Ram, Chin Mun Hong And Geoffrey Yan

This research was undertaken by American Express across Asia-pacific countries like India, China, Singapore, Hong Kong and Australia. It was meant to understand the needs of the emerging affluent and how the mass affluent would behave in future. It provided five insights

Experiencing wealth: The luxury goods are bought to celebrate success, it could be purchase of first diamond, yacht etc.. It could be also spent on passions. Indians in specific desired luxury to be present in every mundane detail. It could be as simple as ordering a specific variety of coffee from a particular place.

Social Superiority: In India it was the prime motivator of purchase of luxury goods, it was meant to display prowess in terms of wealth before others.

Towards connoisseurship: Highly present in the mature markets like Japan and Singapore, it was absent in the Indian context

Quest for deep rooted Authenticity: In culture like India's authenticity is given prime importance, authentic and traditional occupies prominent space in luxury markets.

Inner wealth: It was again a phenomenon of developed markets, the affluent desired the ultimate which money could not buy, and they desired inner wealth. Luxury saw a shift from acquiring material possessions to indulging in one self. (Sue Phillips, 2008)

Source: (Sue Phillips, 2008)

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The Recession And Its Impact On Luxury: JWT

The paper was published as a part of research undertaken by JWT. The paper analyzes how face of luxury has changed and the factors affecting this segment.

To begin with the major questions which the paper sought to answer were

- Difference of prospects for Luxury brands in Developing and developed markets?
- Impact of recession on Luxury consumption?

Worldwide luxury sector market saw a twenty percent decline in year-on-year sale in 2008, which could be around 10% for the year 2009 according to Bain Consulting. The decline is caused due to multiple reasons.

Prior to recession, the Luxury marketers adopted the strategy of 'Luxury for all', there by introducing the masstige luxury brands which made a luxury accessible to a greater chunk of population. However, now with the economic downturn the numbers have comedown rapidly. (JWT Trendletter, 2009)

The spending has comedown drastically as the number of riches have come down and those who have the money are not spending it due to their new found frugality. In times of recession it is considered vulgar to flaunt one's financial success. (JWT Trendletter, 2009)

Rise in Populism: Suddenly populism is on rise, the new way of living life is living simple. Poor consider the rich to be responsible for their ills; hence there is a general mis-trust. As such, the rich have toned down in their

consumption patterns. Globally the CEO's are taking a pay-cut. Number of millionaires in United States fell from 9. 2million to 6. 7million. (JWT Trendletter, 2009)

Decrease in Corporate Spending: With all leading US companies feeling the pinch, there is absolute cut down on Luxury Gifts handed down to their employees earlier. No longer can companies like AIG, which have been bailed out afford to offer such things. (JWT Trendletter, 2009)

'Luxury Shame' is a new term which has emerged in times of recession. It's considered vulgar to flaunt one's financial success in times of recession, ultra-rich are embracing a culture of frugality. (JWT Trendletter, 2009)

Closer look at the Luxury Lapse in Japan: Having accounted for around half of the global market for Luxury, Japanese market is shrinking at a rate of around 10% in 2009. Before that it has experienced fall in consecutive years in 2007 and 2008. The prime reason for Japanese boom was that in absence of large homes and large cars, Luxury products were the only way to show off their wealth. Also, Japanese culture is driven by group harmony, whereby for the sake of feeling of inclusion people bought luxury brands. With recession, the income levels have taken a hit and the concept of 'Luxury Shame' arose in Japanese culture leading to people abandoning Luxury Brands. Post- Recession, young buyers who used to buy Luxury Brands feel that luxury is meant for 'rich old dandies'. There is a shift in their attitudes towards luxury. Now there is a rise in low-price fashion with people queuing up before H&A's of the world. (JWT Trendletter, 2009)

The Indian Consumer And Luxe: How Far Is “ New” Luxury By Johann John Matthai

This dissertation by a MICAn is a study on the consumers of luxury brands in India while uncovering the intricacies and peculiarities in their consumption patterns. This study was conducted in 2008 across three cities – Mumbai, Ahmedabad and Delhi. The study is not very detailed however; the study throws up four main kinds of luxury consumers – The Disinterested, The Romantics, the Calculated & the Brand Conscious. The dissertation dwells on the details of their attitudes, perceptions, shopping behaviors, their purchase basket, the motivators, values, beliefs and so on.

Identified Knowledge Gaps

The book by Husband & Chadha talks about the growing cult and also predicts the future of luxury brand sin Asia. However, published in 2006, the book does not discuss the luxeplosion in the light of the current economic slowdown. So, the first gap in the study is “ will the luxeplosion in Asia continue to grow in the new economic context”

Further, the authors have studied markets like china, Japan and Hong Kong which are far more developed than India. The context of study does not focus exclusively on India. It is my humble opinion that what works for china or Japan might not apply to India. India in itself is very diverse. Hence the second knowledge gap is “ will recession impact luxeplosion in India?”

The dissertation, although relatively recent (2008) too has not considered recession as a parameter of impact on the purchase behavior and intentions of luxury consumers. “ Should luxury consumers in India be re-defined in the context of the current recession” or do they display a different behavior

during recession? Has recession impacted their purchase behavior and intentions? This is the third knowledge gap identified from the dissertation reviewed.

Impact of recession has not been so severe on the luxury market so far and hence there are not many studies undertaken to study the impact of recession on luxury market. All the available information is recent with no major studies during the previous recessions. Also all the major studies conducted so far with regards to impact of recession have been limited only to mature markets like Europe and America, there is no research undertaken with emphasis on India. India is still among the fastest growing luxury markets but there would be some change in the psyche towards luxury in Indian consumers. Masstige luxury brands saw rapid growth due to the rise in income levels of individuals due to the IT Revolution. Now with the job market badly hit, how would the consumers react to this situation. Hence there is a need to conduct such a study in the Indian context

Research Problem

Based on the identified knowledge gaps, my research problem may be stated as the following:

“ To understand the changing trends and attitudes towards Luxury brands among average Indian consumers during the times of economic downturn”

Research Objective

1. To study the consumption trends of Indian consumers in the luxury segment over the past decade

2. To understand the impact of recession on the purchase of luxury brands in the context of lux-plosion in India

3. To understand the underlying attitudes, perceptions and shopping behavior of luxury consumers in India to evaluate whether or not recession has an impact on their shopping habits

Approach Note

In order to understand the impact of recession on luxury consumers, it is essential to research the attitudes of luxury consumers in India in the past and compare them with their current beliefs and attitude. Hence, the study will be possible only by conducting in depth interviews with consumers of luxury brands. Further, a significant portion of these consumers should have graduated to the purchase of luxury brands before the current slowdown in order to understand whether or not the slowdown has impacted their purchase behavior, altered their attitudes and value systems towards luxury brands.

India is not yet a mature market in terms of Luxury brands. Hence, the definition of luxury may vary when compared to international standards. In India the premium goods are also considered as luxury products. This would have to be kept into consideration during research.

A sample size of 20 consumers across Ahmedabad, Delhi or Mumbai belonging to SEC-A would be chosen to conduct the in-depth interviews.

To understand the industry perspective, industry experts would also be interviewed. This would provide us with the insider perspective of the industry towards recession.

Expected Contribution:

India is a growing market for luxury brands but the current recession has halted the growth path. There is a need to understand how the luxury industry shapes up post this recession. Hence, there is a need to study the impact created by the recession on the luxury markets. Current study undertaken would help to address this issue and probably be one of the first researches under taken to understand the impact caused by recession on luxury brands.

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