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Conspicuous Consumption in a Recession: Toning It Down Or Turning It Up?

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The media concluded conspicuous consumption died during the recession. Ironically, products introduced during the recession by handbag manufacturers Louis Vuitton and Gucci display the brand far more prominently than those withdrawn during the same period. Not so for Hermès. Signaling status for certain consumers is shown to be recession-proof.

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SPECIAL SESSION

Conspicuous Consumption in a Recession: Trends, Motivators, and Perceptions

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EXTENDED ABSTRACTS

“Conspicuous Consumption in a Recession: Toning it Down or Turning it Up?”

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Luxury goods that prominently display their brands are out. The recession has led wealthy consumers to adopt more subdued designs that reflect taste rather than signal status. At least that is what the pundits in the press would have you believe. The financial crisis has aimed a “death ray” at the ethos of conspicuous consumption according to the *New York Times*. “The muted, logo-free look is gaining traction as the standard-bearer for a new kind of luxury: subtle, long-lasting and recession proof,” claims a report on the recession’s impact on luxury by ad agency JWT.

Have consumers really toned it down? Reports about how conspicuous consumption is out of vogue are based on interviews with consumers and presumed experts; no data or scientific studies are cited. Ideally, researchers would track consumer behavior longitudinally documenting purchases and the use of luxury goods used to signal status both before and during a recession. This research takes a more practical albeit less direct approach.

We focus on luxury handbags, considered by the Chicago Tribune the “21st Century American woman’s most public and pricey consumer craving.” We examine data on product offerings collected from luxury handbag superpowers Louis Vuitton (LV) and Gucci, the world’s top two luxury brands (Interbrand 2009), before and in the midst of the recession. We contrast what occurs with these two brands with what occurred at Hermès, a boutique brand concentrating on subtlety prior to the recession. If consumers are indeed demanding less conspicuous products, it would be reflected in these manufacturers’ product lines and we should observe LV and Gucci offering more understated designs. Or, if firms do not tone down their products, we should observe a marked decrease in profitability as they fail to meet customer demand. This is not what we find.

Our research finds evidence that Louis Vuitton and Gucci have changed their product lines during the financial crisis to offer significantly more conspicuously branded products. These brands are far more prominently displayed on new product introductions when compared to those products withdrawn. Further, both brands simultaneously increased prices significantly. Louis Vuitton’s new designer handbag line was priced an average of 31% higher than its product line one-and-one-half years earlier, while Gucci raised prices on 50% of those products the manufacturer did not remove, by 1% to 5%.

These tactics have not resulted in financial ruin. Profits for LVMH’s fashion and leather goods rose from \$814 million in June 2007 to \$815 million in June 2008 and on to \$919 million in June 2009. The percentage of LVMH’s revenues coming from the U.S. did not change between 2008 and 2009, remaining at 28%. The luxury goods division of PPR SA—the parent company of Gucci Group—recorded an increase in EBITDA from \$363 million in June 2008 to \$377 million in June 2009. Retail sales by Gucci, the division’s flagship brand, were up 2.4%, led by an “extremely robust showing from leather goods.”

In contrast, Hermès, which concentrated on understated designs before the recession, did not introduce more conspicuous products. This implies that desires amongst those consumers who sought understated designs prior to the recession did not change and many of those who do not exit the luxury goods market during a recession are still interested in logo-laden products, and perhaps even more so.

We posit a segmentation explanation based on consumers’ need for status. Consumers low in their need-for-status don’t use luxury goods to dissociate themselves from less well-to-do consumers (Han, Nunes and Drèze 2010). They bought quiet goods before the recession began, and they can reduce or postpone consumption without feeling their status is threatened. Hence Hermès, which caters exclusively to this customer segment, did not change its product line because doing so would be futile.

Conversely, high need-for-status consumers, who are also wealthy, use luxury as a mechanism to dissociate themselves from the have-nots. They feel a need to do this even in recessionary times, perhaps even more reinforcing that they are not impacted as much by the recession. This would shift demand for luxury goods toward loud products favored by this segment and encourage managers to alter the product lines accordingly. Hence, Louis Vuitton and Gucci steered their product introductions towards this segment and away from those that favor quieter displays.

Thus our data support the notion that those who are still in the market for luxury goods still like the loud products and are willing to pay a hefty sum for them. As with most platitudes, 2008-9 is not the first time that observers have predicted the downfall of conspicuous consumption and a rise in “conservative consumption.” A general sentiment oft described is that consumers will economize out of necessity, but as incomes rise and frugality gives way to profligacy, consumers will eschew their wasteful ways of the past. Our findings suggest consumer researchers need to be certain conspicuous consumption has declined before saying it will never reclaim its previous place in consumer decision-making.

“The Ironic Effects of Credit Card Balances and Credit Limits on Conspicuous Consumption”

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During the current economic crisis, consumers are facing sobering amounts of debt. In 2008, the average outstanding credit card balance per household was \$10,679 (Nilson Report 2009) and approximately 13.9% of consumers’ disposable income went to service credit card debt (U.S. Congress’ Joint Economic Committee 2009). Additionally, the rising job losses are leading even those with good credit histories to incur unbearable amounts of credit card debt (Andrews 2009). Despite the staggering numbers virtually no research has examined how credit card debt affects consumer spending.

Previous research has documented a tendency by individuals to abandon a goal after failure (Cochran and Tesser 1996), particularly when goal failure represents a behavior that a person is trying to avoid. Because consumers try to avoid card debt, we suggest that carrying a balance makes consumers less focused on incurring credit card debt and subsequently increases spending. Moreover, we suggest this effect is strongest for people with high self-control. Because credit cards increase spending, and those with high self-

control strategically avoid using payment mechanisms that increase spending (Raghubir and Srivastava 2009), prior to a balance being incurred, consumers with high self-control should be more focused on avoiding credit card debt. However, once a balance has been incurred, it signals goal failure, which increases their spending and shifts their preference towards high-priced luxury brands.

However, research suggests that the more resources individuals have available for consumption, the weaker the proportional impact of any one unit of consumption on one's overall resources (Morewedge et al. 2007). This suggests that the perceived magnitude of the failure from incurring a credit card balance may depend less on the actual value of the balance than on the proportional impact of the balance to the resources that are available on the credit card (i.e., the available credit). This also suggests another ironic effect: that the influence of an outstanding balance can be attenuated by increasing the available credit on the credit card, while holding the value of the balance constant. Thus, once a balance has been incurred, we propose that increasing the available credit should reduce the perceived magnitude of the failure and actually lower consumers' preference for luxury brands.

Four studies were conducted to test our predictions. In study 1, half of the respondents were told to imagine that they had \$1,000 in their bank account and a credit card with a \$1,000 credit limit and no outstanding balance. The remaining participants were instructed that they had a credit card with \$1,500 credit limit and a \$500 outstanding balance. Participants were asked to choose between two pairs of gender neutral sunglasses: a pair of Louis Vuitton sunglasses and a pair of Ray-Ban sunglasses. As expected, those with high self-control were more likely to purchase the Louis Vuitton sunglasses when they carried a balance compared to when they had no balance. No difference was observed for those with low self-control.

Study 2a replicated the basic findings of study 1 and provided evidence that the magnitude of the failure moderates the effect of a credit card balance on preference for luxury brands. Specifically, it shows that increasing the available credit reduces the magnitude of the failure and lowers conspicuous consumption for high self-control individuals. Study 2b, provides process level support for the effects found in Study 2a; specifically, we demonstrate that increasing the available credit reduces consumers' spending by making them more focused on debt avoidance.

Study 3 replicates the findings of previous studies while ruling out different inferences about wealth as an alternative explanation. Specifically, we provided respondents with two credit cards (a high available credit card and a low available credit card), but kept the total available credit and the outstanding balance between the two cards the same; we only manipulated which card carried the balance. We find that consumer spending depends on available credit on the credit card that carried the balance. Specifically, when the balance is carried on a card with low available credit, it increases the likelihood of purchasing a luxury product compared to when it was carried on the card with high available credit.

In this era of economic crisis and pending credit card regulation changes, it is important to better understand the factors that influence consumer spending and conspicuous consumption. Findings from the body of literature in this domain are often integrated into policy guidelines to aid and educate consumers to help them spend wisely and avoid debt. Future research that informs industry or regulatory guidance is encouraged.

"Effects of Perceived Income Distribution, Equality, and Economy on Preferences for Conspicuous Consumption"

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It is widely believed that increasing income equality should reduce conspicuous consumption (Bagwell and Bernheim 1996). It is also believed that conspicuous consumption should drop in a recession, due to falling incomes and rising income equality (Moses 2008). Yet recent findings reported that boosting equality may backfire and increase conspicuous consumption among relatively poor consumers, as it allows those who consume to "leapfrog over" a larger portion of the population stacked in middle tiers (Ordabayeva and Chandon 2010). These arguments assume that consumers have an accurate perception of the income distribution and how it is changing. To correctly interpret them and to recommend effective strategies to reduce conspicuous consumption in a recession, it is important to test the role of perceptions. In this research, we examine the effects of perceived and actual income distributions on people's preferences for conspicuous consumption and test the roles of beliefs about equality and economy.

Specifically, we test whether conspicuous consumption is motivated by the perceived or the actual income distribution, income level or income rank, and examine how it changes depending on consumer beliefs about equality and economy. We predict that, due to its implications for social position, conspicuous consumption is predicted by income rank (i.e., position in the income distribution) rather than income level. Specifically, it is driven by rank in the local, rather than country-level, income distribution, consistent with social comparison theory (Festinger 1954). Further, because it is difficult to know the shape of the actual distribution, the effect of local rank should be moderated by perceived rather than actual distribution equality. Consistent with the "leapfrogging" hypothesis (Ordabayeva and Chandon 2010), high perceived equality should reduce conspicuous consumption among relatively rich consumers, but it should ironically boost conspicuous consumption among relatively poor consumers. We believe this ironic effect of equality could reverse when anticipating a recession.

In the first study, participants from a representative sample of US households used the Distribution Builder tool online (Goldstein, Johnson, and Sharpe 2008) to build the distribution of income that they believed was prevalent in the US. Afterwards they made three choices between inconspicuous and conspicuous consumption (renting an economy car vs. a premium car for a high school reunion, spending on necessities vs. luxuries if anticipating a salary bonus, saving on home decoration vs. home maintenance if anticipating an increase in expenses). We computed each participant's percentile in the perceived, country-level, state-level, and local area (core based statistical area)-level income distributions and GINI indices of the perceived and corresponding state- and local area-level income distributions. As predicted, percentile in the local income distribution predicted consumption decisions better than income level or percentile in the perceived, state- or country-level income distributions. The effect of local income rank was moderated by the GINI index of the perceived distribution. High perceived equality led to weaker preferences for conspicuous consumption among the top 50% of local earners, but it led to *stronger* preferences for conspicuous consumption among the bottom 50% of earners. Hence boosting perceived equality may indeed backfire for relatively poor consumers.

In the second study, we tested whether this ironic effect of equality would be similar in an economic expansion and a recession. This study was conducted in the lab, it focused on relatively

poor consumers (who are at a higher risk of overspending) and actually provided the local distribution of a status product. The participants read that they were going on a beach vacation with their classmates and that they brought old unbranded sunglasses with them. At the beach, old sunglasses put them at the bottom (tier 5) of the distribution of sunglasses in their group, which led them to consider spending €90 on higher-status tier 3 sunglasses instead. The distribution of sunglasses was equal (with 15%, 25%, 15%, 40%, 5% of people in tiers 5-1) or unequal (with 15%, 15%, 15%, 40%, 15% in tiers 5-1), and the vacation was taking place in the time of an economic expansion or a recession (we provided basic facts about an expansion or a recession). The participants chose between spending €90 on tier 3 sunglasses and saving the money. As expected, when anticipating an expansion bottom-tier people were more likely to spend the money in the equal (vs. unequal) distribution. But anticipating a recession decreased their overall likelihood to spend, even more so in the equal distribution. A pilot study showed that this could be due to people's desire to fit in and to strengthen bonds with others in recessionary times. This showed that a recession may reduce the conspicuous consumption of relatively poor consumers, especially when equality increases at the same time.

Overall these findings improve our understanding of the macro-level and individual-level factors that drive conspicuous consumption. They show that merely changing people's beliefs about equality may be sufficient to shift their preferences for conspicuous consumption, which could be especially useful for increasing savings in this recessionary period.

“Judging a Book by Its Cover: How Consumers Perceive Conspicuous Consumption by Others”

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During tough economic times, consumers experience a heightened sensitivity to the level and type of conspicuousness of a seller (Williams 2008) and the source of affluence supporting the conspicuousness (Christopher et al. 2005). However, evaluation of others is highly context sensitive (Gawronski and Bodenhausen 2006) and differs depending on social settings (Gawronski, LeBel, and Peters 2007) and social roles enacted by targets (Barden et al. 2004). Consequently, we study how consumers—during the recession—perceive conspicuous consumption in commercial contexts. This research investigates how conspicuous consumption affects consumers' person perception of sellers, proposing that consumers infer personal characteristics from conspicuous consumption that, in turn, affect attitudes and behaviors toward the focal seller. Furthermore, we show how inferences consumers make about sellers' conspicuous consumption are moderated by the presence of a relationship and the nature of the commercial relationship.

Five studies—all conducted during the economic crisis—examine consumers' attitudes about sellers who engage in conspicuous versus modest consumption (e.g., level of caring, competence) and consumers' subsequent behavioral intentions. We demonstrate that in a communal (exchange) relationship, consumers perceive that sellers who engage in conspicuous versus modest consumption are less caring (more competent), which in turn drives less (more) favorable behavioral intentions. As a result, conspicuous consumption by sellers (such as service providers) affects consumer response (such as WOM and purchase intentions) in systematic ways—suggesting that firms may wish to use consumption cues to signal qualities in ways that improve their relationship building efforts with their customers.

Five studies provide support for the underlying psychological process while at the same time establishing boundary conditions on the phenomenon of interest. Studies 1 and 2 were a 2 (relational norm: communal/exchange) x 2 (conspicuous consumption: yes/no) between-subjects experiments. In study 1 scenarios, we manipulated relational norms based on relational norm definitions. In study 2, we manipulated relational norms by varying the profession of the seller (communal as medical doctor, exchange as financial advisor). We manipulated conspicuousness based on the seller's possessions (such as the watch, clothing, and car). We found that behavioral intentions decline when communal service providers engage in conspicuous consumption, while behavioral intentions increase under the exchange norm and the seller engages in conspicuous consumption.

Study 3 was a 2 (relational norm: communal/exchange) x 2 (conspicuous consumption: yes/no) x 2 (customer relationship/none). A three-way interaction in this study finds that the effects of conspicuous consumption on service provider attitudes depend critically on the existence of a provider relationship. The customer relationship makes salient relational norms, which translates to the attitude effects consistent with studies 1 and 2; in the absence of a buyer-seller relationship, the effects are not observed.

Study 4 examines the moderating role of the target's consumption focus (i.e., work-related or personal conspicuousness). Study 4 was a 2 (relational norm: communal/exchange) x 2 (conspicuous consumption: yes/no) x 2 (target's consumption: work-related/personal) between-subjects experiment. The target's consumption factor examined whether the conspicuousness was reflected in business trappings (e.g., designer furniture, expensive equipment, etc.) or personal consumption (e.g., designer clothing, expensive car and watch). When conspicuous consumption is personal, the behavioral intentions are highly similar to prior studies; however, the behavioral intention effects were not significant for work-related conspicuous consumption—establishing a boundary condition on the impact of conspicuous consumption cues.

Study 5 was a 2 (relationship norm: communal/exchange) x 2 (source of affluence: luck/earned) between-subjects experiment. The seller engaged in conspicuous consumption in all conditions. In the earned conditions, behavioral intentions are higher under exchange versus communal norms—consistent with the notion that earned income facilitates consumer inferences about competence (Christopher et al. 2005). In the luck conditions, behavioral intentions are higher under communal than exchange norms—which we argue occurs because the affect driven connection in a communal relationship creates a “luck may rub off” effect. More generally, the source of wealth is shown to be a boundary condition on consumers' responses to conspicuousness.

Our findings contribute to the literature by i) examining conspicuous consumption as perceived by others (rather than how and why consumers engage in such consumption), and ii) extending research on the importance of social and relational norms on consumer behavior in commercial contexts.