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Impact of Psychological Needs on Luxury Consumption

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Abstract

This paper examines the impact of psychological needs on luxury consumption. Veblen's Theory of the Leisure Class (1899) invented the term "conspicuous consumption" to describe luxury goods and services, in which Veblen indicated the purpose of luxury consumption was to display wealth and social status. This paper integrates the following two papers: (1) Han and Zhou (2002), who proposed an integrative model, and argued that three variables, namely Country-of-Origin, Brand Name, and Price, were major predictors for overall product evaluation and purchase intentions; and (2) Han, Nunes and Dreze (2010), who proposed a taxonomy called The Luxury 4Ps, to explain the inductive and deductive psychological needs of luxury consumption.

Keywords: Psychological needs, Luxury consumption, Consumer behavior.

JEL: N35, Z12, Z13.

1. Introduction

Luxury goods, such as Cartier watches, Hermes handbags, and Chanel outfits, share characteristics that include high prices, superb quality, aesthetic design, heritage, reputation, exclusivity, desirability, inaccessibility, and clear reflection of personality (Dubois and Duquesne, 1993; Nueno and Quelch, 1998). In general, luxury can be divided into two categories, namely luxury services and luxury products. Restaurants, cruises, and hotels are deemed to be luxury services, whereas jewellery, sports cars, cosmetics, designer clothes, and brand-named goods, such as handbags, are regarded as luxury products.

Both types of goods and services belong to a luxurious lifestyle, but luxury services are typically recognized as high-end invisible luxuries, while luxury products are recognized as low-end visible luxuries (for further details, see McAleer and Mao, 2017). Research suggests that experiential services can generate greater happiness than material goods (Van Boven and Gilovich, 2003; Van Boven, 2005; Van Boven, Campbell, and Gilovich, 2010).

The modern luxury fashion industry originated in France, when Charles Frederick Worth arrived in Paris and invented haute couture in 1858 (Crane, 1997; Djelic and Ainamo, 1999). In the initial stages, made-to-order was used by haute couture houses, and most of the clientele came from the noble and upper classes. Veblen's *Theory of the Leisure Class* (1899) invented the term "conspicuous consumption" to describe luxury goods and services, in which Veblen indicated the purpose of luxury consumption was to display wealth and social status.

In the 1960s, Italian and American companies entered the luxury fashion industry at around the same time, and ready-to-wear clothes gradually replaced made-to-order garments. Italian and American companies not only considered the design and quality of their products, but also took into account consumer needs (Djelic and Ainamo, 1999). Rapid expansion in recent years in the number of consumers who are able to purchase luxury goods has been called the "democratization" of luxury goods (Ernst and Young, 2005; Okonkwo, 2016; Vickers and Renand, 2003).

Compared with the traditional clientele, new consumers of luxury services and products typically have different characteristics, lifestyles, desires, and purchasing behavior. Therefore, they also have different consumption motives and purchase intentions. Vigneron and Johnson (1999) indicate that consumer behavior regarding luxury goods is the result of multiple motivations, namely three types of interpersonal effects on luxury goods consumption: specifically the Veblen effect (Conspicuous Perception), Snob effect (Uniqueness Perception), and Bandwagon effect (Social Value Perception), and two types of personal effects, namely the Hedonism effect (Emotional Value Perception), and Perfectionism effect (Quality Value Perception).

Piron (2000) indicates that consumption is defined as one of four types, namely private necessity (such as Toothpaste), public necessity (such as Sunglasses), private luxury (such as Home Theater), and public luxury (such as Sports Car). Public consumption has strong visibility, regardless of whether it is a necessity or luxury, whereas private consumption, regardless of whether it is a luxury or necessity, has low visibility.

Han (2005) emphasizes that luxury consumption not only satisfies the functional needs of consumers, but also their psychological needs, due to bestowing esteem, prestige, and align joy to owners. Therefore, except for functional needs (Private Value), high-visible public luxuries also provide Social Codes through interpersonal effects to satisfy a consumer's psychological needs.

Conversely, low-visible private luxuries mainly provide Private Value to cater to the functional needs of consumers. In other words, except for functional needs, psychological needs under interpersonal effects also play an important role in luxury consumption, especially public luxury consumption.

The remainder of the paper is organized as follows. Section 2 considers the reasons for psychological needs, Section 3 examines the impact of psychological needs, and the final section provides some concluding remarks.

2. Reasons for Psychological Needs

Han, Nunes and Dreze (2010) proposed a taxonomy called *The Luxury 4Ps*. This taxonomy categorizes consumers into four groups, based on their wealth and consumption-related need for status, namely Patrician, Parvenu, Poseur and Proletarian.

Yang (2012) indicated that the wealthy group is comprised of Patricians and Parvenus. Patricians possess significant wealth, like inconspicuously branded, low in consumption-related need for status. Parvenus also possess significant wealth, but seek status through luxury consumption, and choose luxury consumption by using conspicuous signals. Their first concern is to dissociate themselves from those who cannot afford luxury products.

The less affluent group is composed of Poseurs and Proletarians. Poseurs, like Parvenus, seek status and prefer conspicuous products, but do not possess sufficient wealth to afford authentic luxury goods, and so have a tendency to purchase counterfeits. Proletarians are less affluent and are low in the need for status. Neither Poseurs nor Proletarians has a strong motivation to purchase either conspicuous or inconspicuous luxury products. Therefore, they are excluded from the current research. For further details, see McAleer and Mao (2016).

Veblen's (1899) theory of the leisure class is the foundation of status consumption research, and sheds light on how people use wealth and goods to compete with each other and to bolster their social status. Yang (2012) indicated that, in a pecuniary competition system, consumers try to distance themselves from those in a lower class, while mimicking the behavior of those in a higher class.

Simmel (1903) proposed the upper-class theory of fashion. First, lower classes adopt the status symbols of classes above them as they attempt to climb the social status ladder. Second, the upper class abandons fashions that are adopted by the lower classes as they attempt to distinguish themselves from the latter. This theory was mixed with Veblen's (1899) theory of the leisure class, which led to the birth of a newly termed "trickle-down theory".

Eastman (1999) defines the motivational process by which an individual strives to improve their social standing through the conspicuous consumption of consumer products that confers and symbolizes status, both for the individual and the surrounding significant others.

Luxury 4Ps and Status Consumption cannot explain why Patricians are low in a consumption-related need for status, and Parvenus are high in a consumption-related need for status. Furthermore, Han et al. (2010) indicate that Patricians do not attempt to dissociate from other groups, and the theory of Status Consumption does not necessarily hold for Patricians. Veblen (1899) proposed that consumers strive for social status through comparing and competing with each other for material resources.

McAleer and Mao (2016) deduced that, in a highly collectivist country, consumers may purchase luxury goods to gain external social status. Therefore, Patricians will use luxury goods to extend the status gap with the other group, in which case the theory of Status Consumption may apply to Patricians.

Based on Existentialism ideas (Sartre, 1946), Bourdieu (1984) examines status consumption by introducing a new construct called “Cultural Capital”. Holt (1998) indicates the generative mechanism for a model of social organization is competition for various types of capital within social fields. According to Bourdieu’s (1984) theory, social life can be perceived as a multidimensional status game, in which people compete for three types of capital, namely economic, social and cultural capital. Economic capital refers to financial resources, social capital describes an individual’s organizational affiliations and networks, and cultural capital refers to a set of socially rare and distinctive tastes, skills, knowledge, and practices (Holt, 1998).

Bourdieu (1984) considered that cultural capital is distinct from the other two types of capital because it is fostered in an over-determined manner, and can be converted into both social capital and economic capital. Milner (2004) proposes a theory of status relations, which indicates that status symbols can either be material (high-visible, such as public luxuries), or symbolic (low-visible, such as the post-nominal letters PhD).

Yang (2012) indicates that consumers tend to use harder-to-achieve symbols to signal social status because, by using such status symbols, they can successfully avoid being confused with those who possess only those symbols that are easier to achieve.

Patricians always possess high cultural, economic and social capital. Therefore, they tend to use harder-to-achieve (Cultural or Social titles) over simple economic capital. They prefer inconspicuously branded luxury and are low in the consumption-related need for status. Parvenus possess wealth, but lack cultural or social capital. Therefore, they choose luxury consumption by using conspicuous signals to achieve social status.

Yang (2012) indicates a realization that consumers with higher cultural levels tend to be less likely to seek conspicuous products, means that luxury marketers can use cultural capital indices to segment their luxury market more precisely, and customize their products by offering them different segments. Consequently, Patricians are more likely to choose luxury experiential services over luxury goods than are Parvenus.

Therefore, in a country with a large number of emerging middle-class luxury consumers (such as China), high-visible luxury commodities will be easier to develop than their low-visible luxury counterparts. Similarly, in a more mature luxury market, low-visible luxury will be given a greater weight.

3. Impact of Psychological Needs

Wong and Ahuvia (1998) indicated that many luxury products are the same in Asian and Western societies, but consumers in different societies might not buy the products for the same reasons. Empirical research has shown that consumers in collectivist cultures hold perceptions of, and attitudes toward, luxury brands that differ from those of consumers in individualist societies (Phau and Prendergast, 2000; Wong and Ahuvia, 1998). In short, behavior is driven by attitudes (Alder, 1997).

Consumer attitudes are derived from their values, and hence are closely interconnected with

culture (Mooij, 2004). Value is the core element of culture (Hofstede, 2001). As a result, researchers believe that cultural and ethnic groups influence consumer values, attitudes and behavior, including attitudes regarding status and psychological needs.

Han and Zhou (2002) proposed an integrative model, and argued that three variables, namely Country-of-Origin, Brand Name, and Price, were major predictors for overall product evaluation and purchase intentions.

According to Han and Zhou's (2002) model, except for the price element, consumers have high anticipation for a product's brand name and Country-of-Origin, regardless of their culture, status, or psychological needs. As a result, luxury commodities are typically regarded as rational and conspicuous consumption.

4. Concluding Remarks

The paper examined the impact of psychological needs on luxury consumption. Veblen's Theory of the Leisure Class (1899) used the term "conspicuous consumption" to describe luxury goods and services, in which Veblen indicated the purpose of luxury consumption was to display wealth and social status.

The discussion integrated the two papers: (1) Han and Zhou (2002), who proposed an integrative model, and argued that three variables, namely Country-of-Origin, Brand Name, and Price, were major predictors for overall product evaluation and purchase intentions; and (2) Han, Nunes and Dreze (2010), who proposed a taxonomy called The Luxury 4Ps, to explain the inductive and deductive psychological needs of luxury consumption.

The reasons for, as well as the impact of, psychological needs were discussed. It was argued that behavior was driven by attitudes, cultural and ethnic groups influenced consumer values, attitudes and behavior, including attitudes regarding status and psychological needs, and luxury commodities were typically regarded as rational and conspicuous consumption.

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