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Research on High-End Watch Consumption Behavior from the Perspective of Mental Accounting Theory

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Abstract: As an important part of the luxury market, the psychological mechanism behind the consumption behavior of high-end watches has become a hot topic in the academia and the industry. This study investigates the fundamental concepts, characteristics, and developmental trajectory of mental accounting theory, the current status, trends, and consumer profiles of the luxury watch market, and the specific applications of mental accounting theory in luxury watch consumption behavior. The findings of this paper indicate that the source of funds, intended use, and emotional value within mental accounts significantly influence consumers' purchasing decisions, with notable differences in the structure of mental accounts across various income groups. At the same time, it is found that brand loyalty is positively correlated with consumer satisfaction, in which brand culture plays a key role. This study will help to deeply understand the psychological mechanism of consumers when buying high-end watches, and provide theoretical support for the formulation of market strategies and consumer behavior prediction of luxury brands.

Keywords: Mental accounting theory, High-end watches, Luxury consumption.

1. Introduction

With the rapid development of China's economy and the continuous improvement of living standards, luxury watches, as symbols of status and prestige, have garnered significant favor among Chinese consumers. In recent years, the proportion of luxury goods in the Chinese market has been increasing annually, positioning China as the second-largest consumer of luxury goods, trailing only Japan [1]. Concurrently, major luxury brands have entered the Chinese market, intensifying competition to an unprecedented level [2]. However, the decision-making process for consumers purchasing luxury watches is highly complex, influenced not only by traditional factors such as price, quality, and design but also profoundly shaped by individual psychological factors. Traditional frameworks of consumer decision-making theory struggle to fully explain the paradoxical phenomena observed in luxury consumption. Understanding the psychological mechanisms underlying luxury watch consumption is of paramount importance for the formulation of market strategies by luxury brands, the prediction of consumer behavior, and the enhancement of consumer satisfaction.

With the development of behavioral economy, mental accounting theory has been widely used to explain People's Daily behavior decisions. The theory describes the process of individuals psychologically coding, classifying and evaluating events when they make daily consumption decisions. It is a series of cognitive operations used by people to organize, evaluate and track financial activities [3]. In addition, the study of people's deviation from rational decision-making based on

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psychological theory has become one of the commonly used economic analysis methods in academia [4]. Therefore, this study introduces the mental accounting theory in the field of behavioral finance, and by revealing the structure of consumers' mental accounts when purchasing high-end watches, brands can more accurately grasp consumers' needs and psychological changes, so as to develop more effective marketing strategies. At the same time, this study also helps to enrich the application of mental accounting theory in the field of luxury consumption, and provides new perspectives and ideas for academic research in related fields.

This study employs luxury watches as its research subject, utilizing systematic data retrieval and questionnaire surveys to investigate the fundamental concepts and characteristics of mental accounting theory, while concurrently analyzing the current landscape and evolutionary trajectories of the luxury watch market. The purpose is to explore how the mental accounting theory affects consumers' purchase decisions, and the differences and changes in the mental account structure of different consumers when they buy high-end watches.

By citing relevant literature, this study is able to construct a theoretical framework at the theoretical level. For instance, the elaboration of mental accounting theory and its applications by Shen Yutian and his co-authors. provides a foundation for understanding the structure of consumers' mental accounts [3]. Guo Haosheng's research reveals the behavioral characteristics of luxury consumers in the digital age, which offers reliable theoretical support for this study [5]. Additionally, the literature review by Gupta and his co-authors, through a comprehensive systematic analysis, not only summarizes the main characteristics and trends of luxury consumption behavior, providing a rich theoretical background and empirical support for subsequent research, but also explores in depth the psychological motivations, social impacts, and market strategies of luxury consumption from multiple perspectives, offering valuable theoretical frameworks and empirical foundations for this study [6]. Yang Sijia's exploration of compensatory consumption psychology further enriches the psychological mechanisms of luxury consumption behavior [7]. The analysis in Wang Jiefei's research provides practical guidance for the formulation of market strategies for luxury brands [8]. By integrating the research findings of these studies, this study further investigates how mental accounting theory affects the purchasing decisions of high-end watch consumers and the differences and changes in the mental account structures of different consumers when purchasing high-end watches, providing theoretical support and practical guidance for the formulation of market strategies for luxury brands. However, there are also some deficiencies and limitations in the existing research. For example, some studies lack a comprehensive comparison of different cultural backgrounds and consumer groups, which makes it difficult to reflect the universality and particularity of mental account theory in luxury consumption behavior. On the other hand, there is also a lack of in-depth research and discussion on the specific application mechanism of mental account theory in luxury consumption in the digital age.

2. Analytical Framework of the Luxury Watch Market

With the improvement of people's living standards, luxury goods have entered the vision of consumers [9]. According to a survey conducted by Bain on 1,471 luxury consumers in more than 10 cities in China, Rolex, Omega and Cartier are the three watch brands they are most likely to buy [10]. Furthermore, the COVID-19 pandemic catalyzed a paradigm shift in luxury retail architecture, with online sales penetration doubling from 12% to 23% between 2019-2020, fundamentally altering mental accounting frameworks in high-value acquisitions [6]. As shown in Table 1, the booming trend of high-end watch market can be clearly seen.

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Table 1: Market Sales Forecast for China's Quartz Watch Industry from 2019 to 2025.

Year	Forecast sales (ten thousand units)
2019	2068.19
2020	2088.87
2021	2109.76
2022	2130.86
2023	2152.16
2024	2173.69
2025	2195.42

Source: China Watch Market Analysis Report 2020 - In-depth Analysis of the Industry and Research on Development Trends.

The high-end watch market today exhibits notable characteristics of diversification and segmentation. From a product perspective, major brands are making relentless efforts to innovate and introduce new offerings. For example, Patek Philippe combines modern simple lines with exquisite watchmaking technology inherited for hundreds of years. In its new complex function watch, it not only integrates advanced tourbillon technology, but also has a simple and elegant dial design, which not only meets the modern aesthetic pursuit of simplicity and fashion, but also perfectly retains the brand's profound watchmaking culture. Similarly, Rolex continues to push boundaries by introducing innovative high-tech ceramic materials for the bezels of its iconic Oyster Perpetual series. This enhancement not only ensures durability but also elevates the timepieces' aesthetic appeal, thereby meeting consumers' dual demands for both quality and style.

In terms of market distribution, Europe, North America and other traditional luxury consumption countries still dominate the high-end watch market by virtue of their profound consumer culture and high-income level. Taking Switzerland as an example, as the birthplace of high-end watches, it is home to numerous domestic brands that hold a significant share of the global high-end watch market. The exquisite craftsmanship and brand influence of the Swiss watchmaking industry are deeply ingrained, attracting high-end consumers worldwide. However, it is noteworthy that the Asian market has emerged as a formidable force. Emerging economies such as China, Japan, and Southeast Asia are becoming pivotal growth drivers in the high-end watch market, leveraging their vast consumption potential and rapidly expanding consumer demand. In particular, the Chinese market has witnessed a sustained surge in high-end watch consumption in recent years. With rising income levels and evolving consumer attitudes, an increasing number of consumers are willing to invest in high-quality, prestigious timepieces. According to data from market research institutions, the annual growth rate of China's high-end watch market has maintained double-digit figures over the past few years. Consequently, numerous international high-end watch brands have intensified their market presence in China, opening more retail outlets and hosting various product launches and brand events to capture market share. Moreover, as the domestic luxury market continues to flourish, China's share of the global luxury market has risen rapidly, increasing from 19% in 2010 to 33% in 2018. It is projected that by 2024, Chinese consumers will account for 40% of the global luxury market [5].

3. Research on Mental Account and High-end Watch Consumption Behavior

Early studies concentrated on the application of the mental accounting theory in the consumption decision-making of luxury goods, especially with high-end watches being an important component of the luxury market. When consumers purchase high-end watches, they make decisions in accordance with the different sources and uses of funds in their mental accounts. For instance, certain consumers may perceive year-end bonuses or windfall gains as "extra income" and exhibit a propensity to allocate such funds toward the purchase of high-end watches, thereby fulfilling their

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aspirations for a luxurious lifestyle. The existence of such mental accounting leads to a degree of flexibility and irrationality in consumer decision-making. Specifically, consumers may adjust their purchasing behavior based on the perceived balance and anticipated returns of their mental accounts across different contexts. This phenomenon underscores the nuanced and context-dependent nature of consumer behavior, driven by the psychological categorization of financial resources.

Early research also found that when consumers buy high-end watches, they tend to pay attention not only to the value of the watch itself, but also to the brand story, historical heritage and cultural connotation behind it. Together, these factors constitute an important part of the consumer's mental account and influence their purchase decisions. Therefore, luxury brands must gain a deep understanding of the structure of consumers' mental accounting to develop effective marketing strategies that cater to their personalized needs. With economic development and evolving consumption habits, luxury goods are no longer merely items for ostentation. In the contemporary context, the purchase of luxury products is also influenced by factors such as the gender (see Figure 1) and age of the consumer demographic, as well as the unique cultural characteristics of the society in which they reside [11]. This highlights the multifaceted nature of luxury consumption, which is increasingly shaped by demographic and sociocultural dimensions.

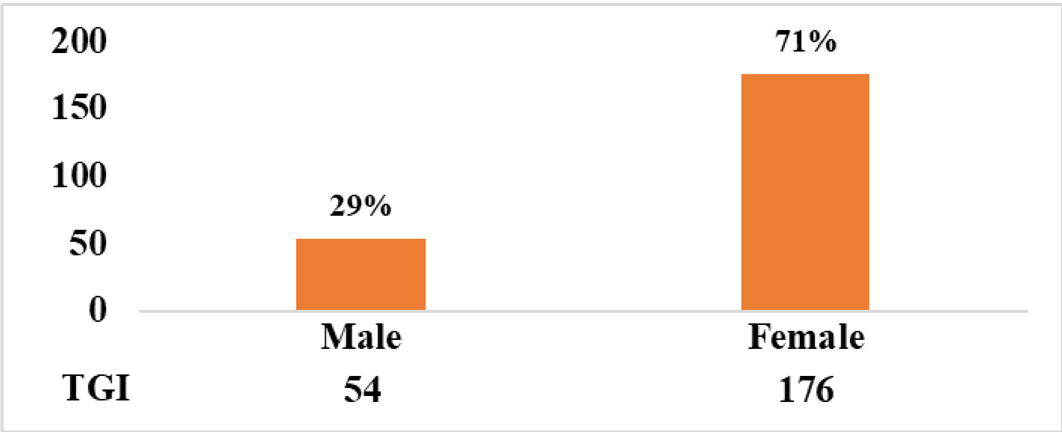

Figure 1: Gender distribution of luxury consumers in China.

Recent research has begun to focus on the relationship between brand loyalty and consumer satisfaction in the context of high-end watch brands. Studies indicate that consumers with high brand loyalty tend to exhibit greater satisfaction with the brand's products and services. These consumers are more willing to pay premium prices for the brand and actively participate in its promotional activities. The formation of such brand loyalty is closely linked to the perceived brand value and emotional value within the consumer's psychological account. Furthermore, the level of brand loyalty is often associated with the brand's image. Notably, "compensatory consumption behavior" refers to a psychological adaptation mechanism where consumers engage in purchasing behaviors to compensate for perceived deficiencies or gaps in their self-worth or self-esteem. This type of consumption is more prevalent among middle- or lower-tier consumer groups, serving as a substitute to mitigate psychological disparities arising from a lack of self-value or dignity [7]. Brand loyalty is a complex process in the high-end watch market. When purchasing high-end watches, consumers not only pay attention to the value of the watch itself, but also value the historical inheritance, cultural connotation and innovation ability of the brand. Together, these factors constitute an important part of the consumer's mental account and influence their perception and attitude towards the brand. When consumers are satisfied with the brand's products and services and its brand positioning, they are more likely to become loyal customers of the brand and recommend it to others. Through the research on these loyal customers (see Figure 2), it is found that the motivation and psychology of luxury

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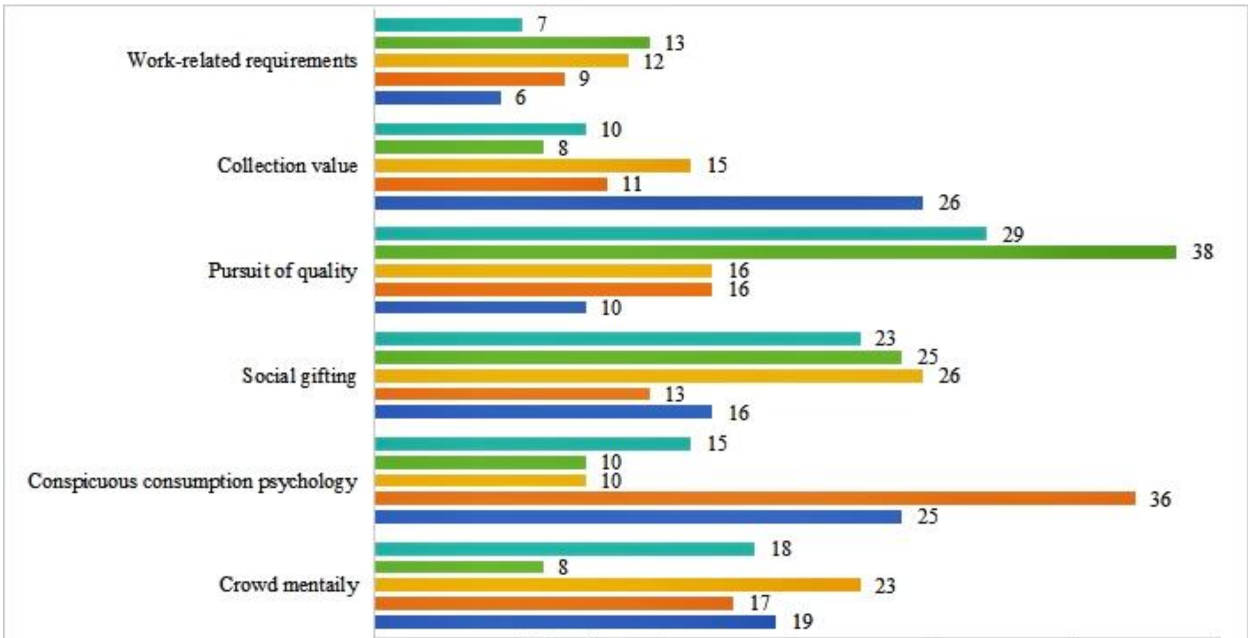
consumption of men and women aged 30 to 40 are somewhat similar, that is, most of them are due to the yearning and pursuit of their own life quality, and the pleasure that luxury brings to their body and mind; On the other hand, it is due to the needs of the workplace [8].



	Crowd mentaily	Conspicuous consumption psychology	Social gifting	Pursuit of quality	Collection value	Work-related requirements
In line with to a great extent	18	15	23	29	10	7
In line with to a certain degree	8	10	25	38	8	13
Uncertain	23	10	26	16	15	12
Not in line with to a certain degree	17	36	13	16	11	9
Not in line with at all	19	25	16	10	26	6

Figure 2: Survey Questionnaire on Luxury Goods Purchases.

However, there may also be problems in the long-term purchase of each product, so when consumers consider purchasing, they will pay more attention to the disadvantages of the product only when they see enough advantages of the product, but people will value the advantages of the product regardless of whether there are disadvantages [12]. This may also explain why consumers remain loyal to the brand even when they find problems with the product.

Therefore, even though high-end watches are increasingly being surpassed by smartwatches in terms of functionality and design, their unique brand advantages and premium image continue to attract consumers who are willing to pay for them.

4. Conclusion

Through an in-depth analysis of the development of the high-end watch market and consumer behavior, this study reveals that the theory of mental accounting occupies a significant role in consumers' purchasing decisions. The study found that consumers' deep pursuit of quality, personalization and cultural connotation is an important influencing factor for the development of high-end watch market. Different consumers have different mental account structures when buying high-end watches, which are affected by personal experience, cultural background, social status and other factors. At the same time, there is a significant positive relationship between brand loyalty and consumer satisfaction. Based on the findings of this study, luxury brands can develop differentiated

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marketing strategies for consumers with different mental accounts. In terms of design, it is essential to introduce diversified design styles to attract a broader consumer base. Simultaneously, by enhancing the quality of products and services, a positive brand image can be established, thereby strengthening consumers' sense of brand identification.

Despite the achievements of this study, there are still shortcomings. For example, the research data are mainly based on questionnaire surveys and in-depth interviews, and the sample scope is relatively limited, which may not fully reflect the consumption behaviors of different groups. Future research should further expand the perspective and explore the application of mental account theory in different consumption scenarios, so as to provide more comprehensive and in-depth theoretical support for the development of the luxury industry.

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