

Research on Why China's Luxury Market Sustained Prosperity Under the Covid-19

Yixuan Liu^{1,a,*}

¹*Beijing Normal University-Hong Kong Baptist University United International College (UIC),
2000 Jintong Road, Tangjiawan, Zhuhai, Guangdong Province, China, 519087*

a. uicfbm@uic.edu.cn

**corresponding author*

Abstract: In recent years, with the rapid growth of China's economy and the increase of per capita disposable income of consumers, China's luxury consumption market has witnessed rapid development. Under the impact of Covid-19, the luxury market in Europe and the United States showed a downward trend, while the Chinese luxury market continued to be prosperous, which played an important role in the luxury market in this special period. This article will start with the existing psychological theory of luxury consumption, based on China's special cultural and social background, and analyze the specific consumption motivation of Chinese luxury consumers and find out the uniqueness of their consumption motivation compared with that of Western consumers. This paper aims to provide useful references for research in the field of luxury consumption through the analysis of China's luxury market and consumer psychology, and provide theoretical guidance for practitioners in this field, such as luxury marketing teams when actually formulating market strategies

Keywords: Luxury market, consumption motivation, the influence of social and cultural background on the economy.

1. Introduction

With the development of China, since the 21st century, China's luxury market has generally shown an upward trend.

In 2020, when the global luxury goods market fell to US \$263.4 billion due to the impact of the New Coronary Pneumonia epidemic, the Chinese market achieved a 45% rapid growth, reaching US \$68.9 billion, and its share in the global market soared from 12% to 26%.

In 2021, as the epidemic situation tends to ease, the global luxury market will begin to recover, with a rapid growth of 21% and a total market size of 318.7 billion dollars. However, it has not recovered to the level of the same period in 2019, and the impact of the new epidemic still exists. China's luxury goods market has made further progress with 37% rapid growth throughout the year and reached 46% proportion of global luxury consumption [1].

Table 1: 2019-2021 Global/Chinese luxury market consumption.

2019-2021 Global/Chinese luxury market consumption						
(Unit: USD 100 million)	2019		2020		2021	
Luxury consumption in global market	3817		2634		3187	
Luxury consumption of Chinese	1527	40%	1237	47%	1465	46%
Luxury consumption in China	437	Global 12% Chinese 31%	689	Global 26% Chinese 56%	944	Global 30% Chinese 64%
Online luxury consumption in China	75	16%	141	21%	247	26%

Data sources: Yaok Group, 2020-2021 China Luxury Report

Calculation formula:

Proportion of luxury consumption of Chinese=Luxury consumption of Chinese / luxury consumption in global market

Proportion of luxury consumption in global market=Luxury consumption in China / Luxury consumption in the global market

Proportion of online luxury consumption in China=Online luxury consumption in China / Luxury consumption in China

Note: The Luxury consumption of Chinese refers to the total consumption of Chinese in the global luxury market

2. Research Aim

Through the background introduction, we can see that the Chinese market plays an important role in the global luxury consumer market. Though Since the end of the 19th century, there has been a lot of research on luxury consumption psychology in the West, which has been developed and improved to this day. However, the research on Chinese consumer psychology is relatively insufficient. And if the situation is refined to the impact of Chinese luxury consumption psychology under the epidemic background, the relevant research will be more limited. Therefore, this paper will discuss why the demand of Chinese consumers for luxury goods is such stable and booming even in the context of COVID-19, and finally help readers understand the Chinese luxury market and consumers' mentality.

3. Literature Review

Since the end of the 19th century, there have been many researches on the motivations of luxury consumption in the West. Since these theories have been developed for many years and tested by facts, they have authority and universality to a certain degree. Before studying Chinese luxury consumer psychology, let's review these theories.

In 1899, Veblen proposed *Conspicuous* as the motive of luxury goods. It defines for the first time that the main reason for consumers to buy luxury goods is their ostentatiousness [2].

Then in 1950, Leibenstein expanded the luxury purchase motivation to three types -- *Bandwagon*, *Snob*, and *Conspicuous*. Conformity is to obtain the recognition of the majority of people in society, so as to obtain the social value of the group; Uniqueness is to feel different from others to obtain

unique value; Show off is to show off their wealth and social status, in order to obtain the value of vanity. These three motivations reflect the *social orientation* of luxury motivations [3].

In 1992 and 1993, Mason also emphasized the importance of social status and social role play in luxury purchase motivation from the perspective of social orientation [4,5].

Since social-oriented motivation has gradually become the popular luxury consumption motivation, in 1994 Dubois and Giles proposed the purchase motivation of *Hedonist* and *Perfectionist*. He believes that hedonists buy luxury goods for self-realization, in order to obtain an emotional pleasure value; Perfectionists in order to obtain the guarantee of high quality and obtain quality value. These two kinds of consumption motives first exposed the role of personal-oriented motivation in luxury consumption [6].

According to previous studies, in 1999 Vigneron Franck and Lester W. Johnson comprehensively proposed a conceptual framework of prestige.

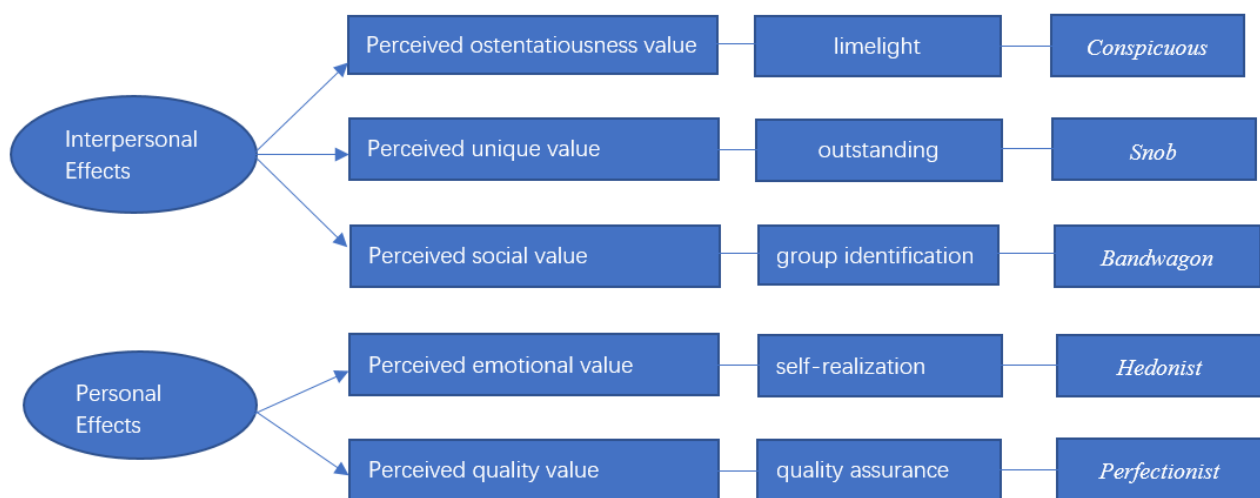


Figure 1: A conceptual framework of prestige.

It integrates the above five purchase motives -- *Conspicuous*, *Snob*, *Bandwagon*, *Hedonist* and *Perfectionist*. It combines the personal-oriented motivation and social-oriented motivation of purchasing luxury goods and believes that these five motivations exist in luxury consumption at the same time. At the same time, he used Self-Conscientious to subdivide consumers' psychology and divided consumers into two categories -- Public Self-consciousious and Private Self-consciousious. The impact of the corresponding reference group can be divided into two categories -- interpersonal effects and personal effects. The former affects the three luxury consumption motivations of western consumers: *Conspicuous*, *Snob*, and *Bandwagon*. And the latter influences two consumption motives: *Hedonism* and *Perfectionism* [7]. After this structure of consumer luxury consumption motivation was proposed, many other scholars' empirical studies also basically verified its rationality.

4. Research Method

This paper integrates the relevant theories and secondary datas of luxury consumption psychology through various journals and databases including CNKI (China National Knowledge Infrastructure) and combines them with the behavior of Chinese consumers in the luxury market disclosed by major accounting firms and media in the context of the epidemic. This paper mainly analyzes relevant data and phenomena through *the conceptual framework of prestige* and explains why the Chinese luxury market continues to flourish even in the context of the epidemic in combination with China's social and cultural background.

5. Results

5.1. Interpersonal Effects

Influenced by traditional Confucianism for thousands of years, China has formed a unique human society. Generally speaking, the reason why Chinese people value human relations so much is that they need human relations to facilitate and dredge the convenience and change of personal life, the growth, and prosperity of individuals, the prosperity and development of families, etc. Its operation background and the composition and operation of Chinese society itself. That is, the family and village members live together and support each other for a long time. The strengthening of Confucian ethics is closely related to the provisions of Chinese traditional laws on individual obligations [8].

In such a society where all members of the society are closely connected, Interpersonal Effects have far more influence on the luxury consumption behavior of Chinese consumers than on other countries' consumers.

Ostentatiousness Value. Among Chinese luxury consumers, a considerable part of them is motivated by showing off. These consumers do not consume out of recognition and need for luxury goods, but intend to show off their economic strength by showing their ability to consume luxury goods.

This phenomenon not only reflects the individual's pursuit of social recognition in Chinese culture but also reflects the characteristics of China's current economic and social development. According to sociologists' analysis, luxury consumption is a reflection of specific social psychology during the transition from a deficient society to a rich society. When people face their sudden increase in wealth, they will not hesitate to choose the symbol of wealth -- luxury goods to show their economic strength, which is to meet a psychological release after the sudden increase in wealth. Although this consumption mode has irrational elements, from the perspective of marketing, it is also a phased and natural psychological demand [9].

Unique Value. In the long-term social communication with surrounding groups (same social class, age stage, etc.), The desire to stand out from the community through owning luxury goods, a minority consumption behavior, has also become a consumption motivation of some consumers. In the context of Chinese society, compared with the luxury consumption behavior of consumers in other countries, Chinese consumers are pursuing "uniqueness" more for the purpose of showing their own uniqueness in the surrounding groups, rather than really yearning for personalized aesthetic pursuit.

Social Value. Like the previous two points, the "social" factor also shows that luxury consumption is not only physical or material consumption but also a symbolic consumption for Chinese consumers.

The research shows that nearly 50% of Chinese consumers in the survey use luxury goods as commercial gifts. The phenomenon of luxury goods as commercial gifts is quite common in China. Especially the richest class of Chinese consumers, the proportion buying luxury goods as commercial gifts is as high as 70% [10]. It can be seen from this that it has become a common phenomenon to choose expensive and aesthetic luxury goods as a social means in China's human society.

In addition to the social aspect of sociality, we express our social identity through luxury goods. Luxury goods are a symbol of privilege and status in China, and people use consumer goods to classify social status. For example, Chanel No. 5 is a symbol of the status of female consumers, while Rolex watches can reflect the status of male consumers. The social recognition brought by this stereotype is also valued by Chinese consumers.

5.2. Personal Effects

Since the Reform and Opening Up in 1978, China's economy has developed significantly and the overall level of social consumption has continued to improve. At the same time, in the process of

opening up, the consumption concept of Chinese consumers has gradually been affected by developed countries. Influenced by western consumerism and hedonism, Chinese consumers no longer stick to the consumption motivation formed under the influence of Confucianism. The personal-oriented luxury consumption motivation -- Emotional Value and Quality Value also show their influence.

Next, based on these two points, this paper will analyze how the Personal Effects, which are jointly affected by traditional ideas and trendy ideas, decide the luxury consumption behavior of Chinese consumers.

Emotional Value. Luxury consumption in China never lacks the gene of history. The luxury consumption of Huizhou merchants and Shanxi merchants originated from their inferiority -- they failed to achieve political success and covered up their failure through luxury consumption and brought their identity closer to the upper-class society, while the luxury consumption of literati and bureaucrats in the JIN and HAN Dynasties was out of the decadent and free and easy social atmosphere; In addition to the traditional influence, the extravagant style of modern Shanghai was also influenced by western materialism, money worship, and hedonism. Besides showing off and comparing, it also reflects the attention to personal enjoyment [11].

It can be seen that the consumption motivation of Chinese consumers' luxury goods is a mixture of history and modernity. It embodies the sustenance of Emotional Value, including catharsis and self-satisfaction.

Quality Value. With the improvement of the economic level, the per capita disposable income of consumers has also increased, and the choice of consumers has become larger, and people no longer only focus on basic function satisfaction, but also gradually improve the requirements for product quality. In the public's understanding, the high price of luxury goods represents its rare raw materials, exquisite workmanship, and considerate after-sales service. Therefore, it has become popular to choose luxury goods that can better meet the quality needs of consumer goods.

6. Discussion

6.1. Positive Effects of Luxury Consumption

Drive Consumption Enthusiasm. Although luxury consumption is still a kind of minority consumption in the world, we have to admit that it plays a role as a vane in leading the consumption trend.

Improve Consumers' Life Quality. Luxury can effectively improve the quality of life and spiritual satisfaction of consumers whether in their emotional value or in their quality value.

6.2. Negative Effects of Luxury Consumption

Capital Outflow. As China's luxury market has not yet formed a mainstay supply, most Chinese luxury consumers will choose foreign luxury brands to meet their needs, so they should be alert to the resulting capital outflow.

Waste. Luxury goods are rare and expensive, which makes it difficult to meet the needs of sustainable development. For example, the production of leather bags and shoes requires a large number of wild animals to be killed, which undermines the ecological balance.

Bad Social Atmosphere. It is easy to encourage irrational consumption behavior and ethos. In particular, if China, as a developing country, is full of extravagance, it is not conducive to the long-term development of society.

Intensify Social Contradictions. The luxury consumption of the rich class will, to some extent, aggravate social contradictions and conflicts. After the reform and opening up, great changes have taken place in the social stratum structure of our country. The luxury consumption of the rich class is easy to induce hatred of the rich among the bottom people. Due to vigilance against possible social disharmony.

6.3. Recommendations

For Luxury Brands. In the context of the continuous decline of the European and American market economy, luxury brands can consider setting up sales outlets in China one after another for long-term investment.

For The Government. Adjust consumption tax timely and establish a scientific and reasonable consumption tax system for luxury goods. Balance the gap between the rich and the poor, indirectly improve the image of luxury goods and their consumers, and promote social harmony.

For Society. Strengthen the education of the whole people's consumption concept, and establish healthy and reasonable values and consumption concepts. Although luxury consumption is personal consumption behavior, its overall trend should not be contrary to social consensus such as sustainable human development.

7. Conclusions

This paper mainly studies the luxury consumption motivation of Chinese consumers and analyzes its causes and its impact on the Chinese luxury market.

To sum up, first of all, under the impact of covid-19, the European and American market economies continued to be depressed, while the epidemic situation in China was well controlled, its economic situation was less impacted and recovered well, therefore, the Chinese market had objective advantages. But in essence, the sustainable prosperity of China's luxury consumer market is determined by the special consumption motivation of Chinese consumers -- they pay unique attention to the social impact of luxury consumption. This conception makes Chinese consumers different from western consumers, who are more focused on their own needs. And this special motivation ultimately leads to the elasticity of Chinese consumers' demand curve for luxury goods being less than that of foreign consumers during the period from Covid-19.

Above all, I hope this paper can provide a useful reference for the study of China's luxury market and consumer psychology.

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