

The Influence of Frequent Price Appreciation on Chinese Consumers' Psychological Motivations for Purchasing Luxury Goods

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Abstract:

The research background of this thesis is based on the rapid economic development of China, where the desire to purchase luxury goods is increasingly strong. More and more people are choosing to buy luxury goods to improve their living standards and symbolize their social status. Therefore, we decided to divide the research into several modules to study the multi-faceted positioning of luxury goods. The topics we studied include the market background of luxury goods in China, which includes the concept of luxury goods and the current status and forecast of the Chinese luxury goods market. The second research area is the reasons for the frequent price increases of luxury goods in China, including both objective and subjective reasons. The final research area is the psychological factors behind Chinese consumers' consumption of luxury goods, including the desire to display social status and personal achievement, the pursuit of quality and enjoyment of life, and following fashion trends. Our team members completed this research report through everyone's understanding of luxury goods and Internet search, and the research result is that luxury goods have great social significance and commodity value, which can highlight social status and fashion trends. More and more young people have the tendency to pursue luxury goods.

Keywords: China; Luxury goods; Consumers; Customers; Buy.

1. Introduction

As a kind of commodity symbolizing social status and personal taste, the value of luxury goods lies not

only in the material representation, but also in the social significance it carries. With the rapid development of China's economy and the rise of the middle class, luxury consumption has become a social phe-

nomenon, reflecting individuals' pursuit of identity and social status. However, in today's global consumer market, frequent price increases by luxury brands have become a normal phenomenon. However, this phenomenon has not diminished the enthusiasm of Chinese consumers for luxury goods, but has stimulated a stronger desire to buy.

As shown above, this study focuses on analyzing the influence of the price increase of luxury goods on the purchasing behavior of Chinese consumers, and discusses the psychological motivation of Chinese consumers' enthusiasm for purchasing luxury goods. This study is of great significance for the improvement of marketing strategies of the luxury market in the future and how to more accurately explore the inner psychology of consumers. This paper mainly discusses the psychological factors behind this phenomenon and uses literature analysis to search and read relevant materials and literatures. The advantage of this method is that it can well analyze the most essential psychological factors of Chinese consumers. The ultimate research goal of this study is to reveal the reasons why Chinese consumers continue to love luxury concept products.

2. The Background of the Luxury Market in China

2.1 The Idea of Luxury Goods

In fact, "luxury goods" is a borrowed concept. Oxford Advanced Learner's Dictionary explains it as a phrase that is a thing that is costly and enjoyable but not essential; Moreover, Cambridge Dictionary equally gives an interpretation of it as some opulent stuff which is pleasant to have but it is not necessary; Meanwhile, Merriam-Webster's Collegiate Dictionary describes it as a thing adding to happiness or comfort but not indispensable. According to these three books, the idea of luxury approximately boils down to three keywords—content, expensive, and unnecessary. Therefore, luxury items are also called dispensable stuff in life. Its international definition is a consumer commodity with a special, rare, and precious character and over the limit of the need of human existence and development. Economically, luxury items stand

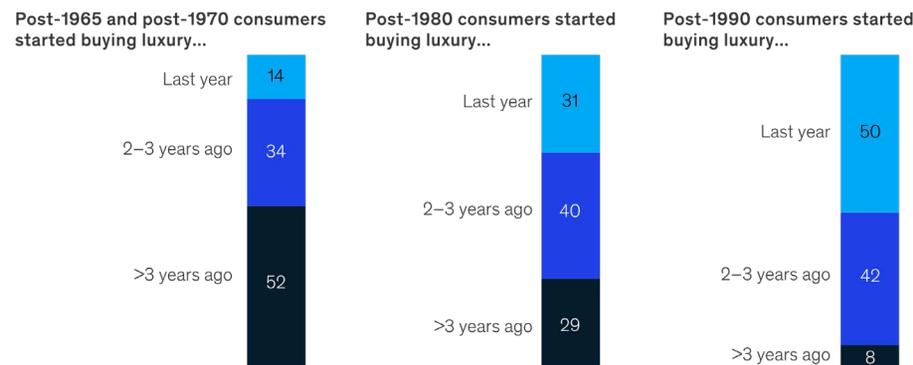
for a commodity with the highest rate of value to quality. On top of it, it similarly signifies the one with the greatest ratio of tangible worth to intangible worth. Thus the intention of luxury products purchases by customers is to gain the honour, uniqueness and scarcity that these are able to bring, rather than to care about their use value.

2.2 The Traits of Chinese Customers Who Buy Luxury Goods

Recently, the age bracket of Chinese luxury items consumers was gradually younger than before. Most people in China who are keen on purchasing those items are the young generations. Generally speaking, they were born in 80s and 90s. The previous study found that their average age is 37, which is far less than it in some western nations, for example, the United Kingdom and the United states and so on. Besides, they contribute to the majority of consumption amount of luxury products in China. In 2018, the consumers born in 80s accounted for 40% of the all-aged customers and the consumption amount of those people is more than a half of the entire one in China [1]. Additionally, in accordance with Mckinsey Quarterly, the main reason is that China is a developing country and its economy is still growing. Hence, as the fast and prosperous development in this country, these individuals simultaneously and rapidly and accumulate their own wealth and now, they are just in their prime of their life and career, which might illustrate why they are the principal clients of luxury brands. On the other hand, the more youthful people born in 90s represents around 30% of all of the customers and contribute to more than 20% of consumption amount of luxury products. With the individuals who acquire luxury products in the future, they have a wider horizon and get interested in a host of novel things. In addition, for some reason, these are basically the only child, which means that they could probably receive more considerable financial support from their parents. Along with this, young generations can also be divided into two categories. One is that some people who are genuinely capable of affording those extravagant things and another one is that using most of their income to buy a piece of luxury commodities sold at a relatively cheap price [2]. Certain youths whose income does not support the regular purchase of luxury goods will also borrow money to buy them in order to intend to show their own personality [1].

Young Chinese consumers are new to luxury; half of post-1990 consumers started buying luxury goods just last year.

Time range of first luxury purchase by consumer generation, %



Source: China Luxury Report 2019

McKinsey
& Company

Fig. 1 Young Chinese consumers are new to luxury.

As can be seen in figure 1, in comparison to other generations, they similarly have peculiar opinions and preferences for luxury goods consumption. More specifically, they are willing to put greater emphasis on personality, social value and the story behind the brand. According to *China Luxury Market Report 2022* issued by Bain Capital & Company, an international professional luxury goods consulting company, it predicted that Chinese consumers under the age of 25 are going to be the elementary folk in the luxury articles consumption market by 2025, occupying 65% to 70% of all. Compared with other generations, they also have a unique attitude and pursuit of luxury consumption, which is manifested by paying more attention to personality, social value and the story behind the brand. Precisely it also forecasted the amount of these customers will account for 65% to 70% [2].

It is noteworthy that there is a huge difference between Chinese luxury consumers and the counterparts in other nations. First of all, the majority of individuals who acquire luxury goods in China are normally aged under 40 and most of them are young entrepreneurs, actors, stars, Internet celebrities and second-generation successors of wealthy families. However, in western developed countries, most of the main consumers who go shopping for luxury items are essentially between 40 and 70 years old. By comparison with consumers in states whose economy just starts to take off, people in developed countries are increasingly rational about making purchases of luxury goods. Industrialists and the wealthy class with economic strength are the cardinal consumer groups of luxury goods. Secondly, for Chinese clients, the daily purchase

of luxury commodities is principally concentrated in clothing, perfumes, watches and other personal items, having strong social purposes, such as reflecting identity, highlighting wealth and emphasizing personal taste. In European countries, the United States and other countries, luxurious and splendid mansions and personal yachts are regarded as desirable as well as extravagant stuff and symbols of personal wealth. That is to say, consumers in China are still to buy luxury products for satisfying their vanity and the sense of achievement, while the customers in developed countries is more rational, except for a exceedingly small number of wealthy class, the middle class is more willing to invest more money in education, travel and others. However, in these countries, the need for luxury goods is constantly declining [3].

Therefore, it can be concluded that those who go shopping for luxury commodities in China are now fundamentally the groups born in 80s, 90s or even 00s. Compared with some other states, especially those who buy luxury goods in western countries, the consumption of luxury goods which shows a young-age trend is a typical feature of Chinese luxury goods consumers.

2.3 The Current Situation of Chinese Luxury Market

Since the reform and opening up, China's economic growth has shown a tendency of speedy development. Its total GDP exceeded that of the United Kingdom in 2005, Germany in 2008, and Japan in 2010. At the moment, China's economy is the second largest in the globe. Notwithstanding that China's per capita GDP is relatively lower,

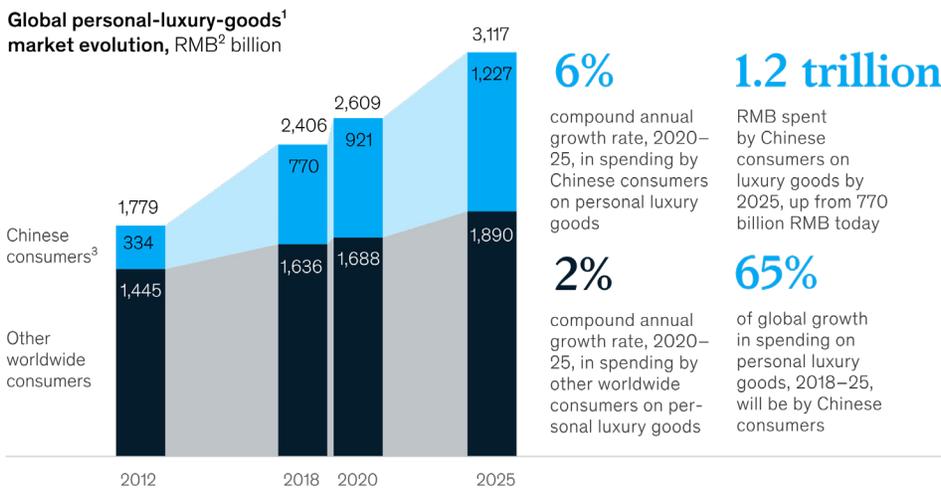
the grow in consumers' spending power and the surge of potential customers have prompted luxury brands from various countries to settle in China. While global sales of luxury articles keep falling, China's luxury mart is going up at a steady rate of 20% to 30% annually, which is a fact hard to ignore. Now the sorts of luxury articles entering the Chinese mart have been quite diverse, in accordance with the survey conducted by Bain Capital & Company in 2009 on the Chinese luxury mart, including: clothes, footwear, jewelry, purses, watches, cosmetics, fragrances, cars etc. The annual growth rate of luxury goods from 2009 to 2010 was about 23%, which is tempting every luxury brand. So luxury companies are also sparing no effort to grab more market shares in this [4].

Not surprisingly, nowadays, China's luxury market is still surging fast. According to previous research, the *China Market Report* shows that the mainland luxury market which has declined under the influence of the pandemic,

will usher in a recovery in 2023, achieving a year-on-year growth of 12%. In 2024, the mainland luxury market is expected to achieve mid-single-digit growth. Having a look at the globe, the consumption of mainland consumers in 2023 accounted for 22% - 24% of the total global luxury goods consumption, and the mainland market accounted for about 16% of the total global luxury consumption [5].

Besides, China's sales of luxury goods perhaps rise even further in 2025. As can be seen in figure 2, according to the report of McKinsey Quarterly, the affluent upper-middle class in China will be the engine of global spending on high-end shoes, bags, jewelry, and watches. Additionally, it also presents an enticing prospect for the world's designer brands. In fact, Chinese luxury spending is anticipated to double to 1.2 trillion RMB by 2025, delivering 65% of growth in the global mart [6].

China is winning half of the luxury world.



6%
compound annual growth rate, 2020–25, in spending by Chinese consumers on personal luxury goods

1.2 trillion
RMB spent by Chinese consumers on luxury goods by 2025, up from 770 billion RMB today

2%
compound annual growth rate, 2020–25, in spending by other worldwide consumers on personal luxury goods

65%
of global growth in spending on personal luxury goods, 2018–25, will be by Chinese consumers

¹Ready to wear, accessories, watches and jewelry, and beauty.
²Fixed exchange rate of €1 = 7.3 RMB.
³Both domestic and overseas spending.
 Source: China Luxury Report 2019; China Luxury Report 2017

McKinsey & Company

Fig. 2 China is winning half of the luxury world

Meanwhile the forecast of Bain capital equally shows that China will become one of leading luxury markets worldwide, and the proportion of mainland consumers in global luxury goods consumption is going to increase to 35% to 40%, and the proportion of mainland markets is going to rise to 24% to 26% [5].

Thus, there is a conclusion based on those previously mentioned studies, the prospect of the luxury market in China is prosperous as well as promising and in the future, the sales of luxury items in China is also going to grow

gradually and stably.

3. The Reasons for the Luxury Goods Frequent Rise in Price in China

3.1 Objective Reasons

The first is the impact of inflation. Inflation reduces the purchasing power of money, and luxury brands raise prices to maintain the value of their products and services.

Secondly, monetary policy and interest rate decisions will also affect consumers' purchasing power and market luxury products demanding. Moreover, in the context of the global economic downturn, luxury brands maintain their market and profits by raising prices, which is also a mechanism for the brand market to repair itself.

Secondly, because of the imbalance between supply and demand. In some cases, such as many limited edition or special edition products, such as co-branded products, price increases may be used as a strategy to manage market demand and maintain the scarcity of the product. Especially in China's luxury market which demand has a continue growth context, although the overall economic situation is facing no small pressure, the consumption power of high net worth people is still the main source of income for most luxury brands.

Finally, tariffs and trade policy. Tariff adjustment and trade policy changes may affect the cost and final price of imported luxury goods, such as tax adjustment and interest rate hike, which will greatly affect the money that luxury goods sold and make instability fluctuations. To supplement, the government's consumption tax policy and economic regulation measures will also affect the price of the luxury market.

3.2 Subjective Reasons

Luxury brands maintain their upmarket positioning by regularly raising prices, which enhance brand value and scarcity. For example, Hermes and LV, etc., through the price strategy to attract high spending power customer groups. And price increases are also a way to hedge against inflation and rising costs, to maintain their profit margins. For most luxury brands, price increases are not only a means of market positioning, but also a strategy to maintain brand value. By raising prices on goods, luxury brands are able to maintain their characteristic scarcity and uniqueness, thus attracting consumers who are looking for something different and a high quality of life. For Chinese consumers, the rising price of expensive goods is often regarded as the improvement of brand worth and social status. This psychological perception prompts them to buy luxury goods more actively, so as to demonstrate their financial situation and social position.

The price increase strategy can stimulate the desire of consumers to buy, especially for those who believe that the higher the price, the higher the value of consumers. Especially in China, luxury consumption is often closely associated with face culture and the symbol of social status, and price increases may increase consumers' perception of social status.

Increase in raw material and production costs:

Despite the high margins on luxury goods, rising raw material and production costs remain an important factor. For example, leather, gold and diamonds are commonly used as raw materials for most luxury goods, and their price fluctuations will affect the final product price. The second is rising labor costs, which are also a factor driving up prices, especially in China and other big producers.

4. Psychological Factors Influencing Chinese Consumers' Purchase of Luxury Goods

For some consumers, buying luxury goods is also a self-rewarding way to satisfy their own desires and enjoyment. Senior white collar workers are more likely to have this mindset; they might use an overdraft or even their entire month's salary to purchase luxuries as a self-gift. Luxury companies typically have a rich cultural past, and people purchase luxury goods to demonstrate that they understand the values and culture of the brand. This kind of psychology is reflected in all consumer groups, especially those who pay attention to the texture and details of the product. At the same time, luxury goods have a social function. Consumers show their social status and achievements by owning luxury goods, thus expanding their social networks. This kind of psychology is especially obvious in the high-income group, they need to use luxury goods as "identity authentication" to get the recognition of the upper society as soon as possible. Not only that, luxury goods are generally considered to be high quality, high artistic products, and luxury goods are also purchased in pursuit of the emotional value of the product. This kind of psychology is reflected in all consumer groups, especially those who pursue a high level of spiritual enjoyment. To sum up, the psychology of Chinese consumers buying luxury goods is complex and diverse, involving the pursuit of social status, self-reward, brand identity, display of social functions and the pursuit of emotional value. These psychological factors jointly affect consumers' purchase decisions, and are also important factors that luxury brands need to consider when conducting marketing.

4.1 Show One's Social Standing

One of the main reasons people purchase luxury products is to show off their achievements and social standing. Luxury goods are a type of consumer items that go beyond what individuals need for existence and development. They are considered non-necessities of life and have distinctive, uncommon, and limited qualities. They provide not only use-value commodities, but also high value-added commodities. The intangible value is often

higher than the visible value. The charm of luxury brands lies in their rich and luxurious image, which is conveyed to consumers through the brand visual identity system. From a sociological point of view, luxury goods used to be the objects of the aristocracy, representing status, identity and superior privilege, and was a symbol of the image of the aristocracy. Despite the increasing democratization of modern society, people's pursuit of „wealth concept“ has not changed, and luxury brands just meet this instinctive need to satisfy people's sense of accomplishment. In addition to showing their social status, Chinese consumers will also pursue the quality of the product itself and enjoy life when buying luxury goods.

4.2 Pursuing the Quality Life and Enjoying It

The desire for a high quality of life is one of the primary psychological reasons why Chinese consumers purchase luxury products, consideration of cost performance, brand identity, social status symbol, showing off psychology, and the trend of rational consumption. Some consumers buy luxury goods to show off, by owning luxury goods to show their wealth and social status. To some extent, this

psychology reflects consumers' lack of confidence and desire for social approval.

4.3 Follow the Fashion Trend

The main force to buy luxury goods is mainly the post-90s group. This group has the highest proportion of purchases of beauty brands, and women are the main buyers. The unit price of beauty products is relatively low and the categories are rich, so it has become the most important luxury consumption type. Behind the „influx“ of major luxury executives shows China's pivotal position in the world market for luxury goods. The “China Luxury Goods 2022 Report” claims that... According to image 3, which was published by the VIP Research Institute, the Chinese market for luxury goods is expected to reach 956 billion yuan in 2022, which represents 38% of the global luxury goods market. The Chinese continue to be a significant contributor to the consumption of luxury goods worldwide. By constantly updating fashion items at the fastest speed, luxury brands use exaggerated and eye-catching designs to attract more young people to buy, which also makes young people more inclined to follow fashion trends [7].

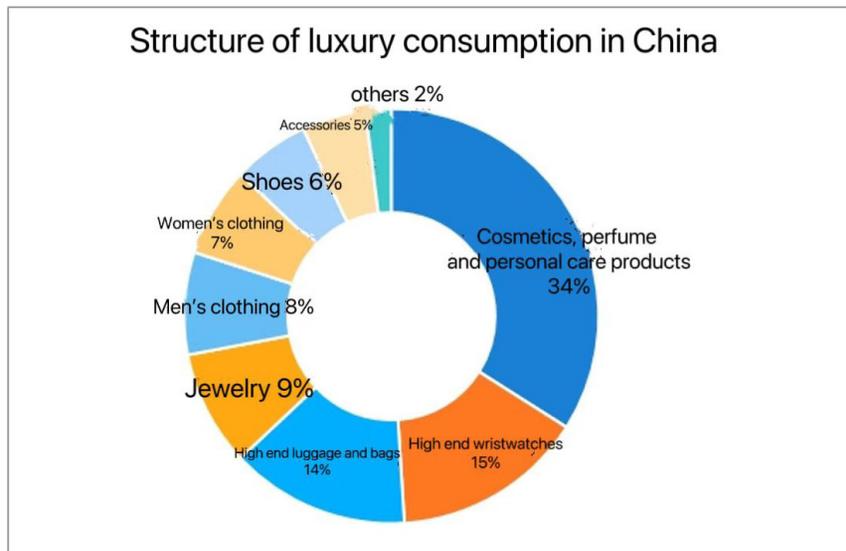


Fig. 3 Structure of luxury consumption in China

5. Conclusion

The significance of this research includes three important aspects.

Understanding the motivations of Chinese consumers. The study of how the price rise in luxury products stimulates Chinese consumers to make more purchases of them can give a deep insight into the consumption motives of Chinese consumers, such as the following of fashion trends, attitudes towards luxury brands and the appeal to high-

light personal status.

Driving the design of future luxury commodities. By studying the trend of rising prices but increasing sales of luxury articles in China, people can understand the age brackets and preferences of the major customers who purchase luxury goods, especially it might help luxury brands to release products that cater to them in the future.

Provide reference for other Chinese and foreign brands. Figuring out the consumer psychology of Chinese consumers behind this tendency can provide practical and

feasible business plans for not only some foreign brands but also Chinese counterparts to target their existing and potential clients by improving their products. By doing so, they could probably promote the development of these brands in a more efficient way.

In conclusion, due to the current economic depression, the situation of consumption in the world is not optimistic, while in the luxury market, it shows a opposite trend. The price rise of luxury products mainly attributes two reasons. On the one hand, the Some objective factors contributing to the rise in the luxury items price are such like the material cost increasing because of the inflation in certain countries. On the other hand, it is equally a strategy made by luxury corporations to filter and refine their quality and loyal clients. Nevertheless, in China, there are still a bunch of individuals to gain luxury articles in order to show their own personality, manifest their social standing as well as meet their inner vanity. Besides, the reason why they are so enthusiastic about those things is because they tend to desire for prevalent things. More importantly, women are the major customers among them.

Therefore, at the moment, the key for luxury companies to root the Chinese market is to grasp the likes of young Chinese consumer. Additionally, those brands might ame-

liorate the categories, styles, and advertisements of their products to satisfy their requirements through understanding the psychological factors of Chinese consumers.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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