

Are online luxury consumers Price Conscious?

A Study with reference to Indian Youth on Price Consciousness and Purchase Intention of Online Personal Luxury products

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Abstract - Luxury goods manufacturers have long been hesitant to adopt internet as a channel of distribution. Luxury goods are known for its high price and exclusivity. A luxury brand's concept of exclusiveness is seemingly incompatible with the ubiquitous accessibility provided by the mass medium internet. The purpose of this paper is to address the apparent contradiction by examining consumer responses to the Purchase Intention of Luxury goods and price consciousness of young masstige consumers. A structured questionnaire was administered to 168 customers who has previously shopped personal luxury online to test the consumer responses to price consciousness of the consumers and their online purchase Intention. The consumers were found to be moderately price conscious. The regression between Purchase intention and Price consciousness was done and it was found that that a unit change in price consciousness will change online purchase intention by 0.527 units.

Keywords: Online Luxury, Price Consciousness, Purchase Intention, Masstige, Personal Luxury

I. INTRODUCTION

Luxury goods manufacturers have long been hesitant to adopt the internet as a channel of distribution (Chevalier and Gutsatz, 2012). To date 40-50 percent of luxury good manufacturers do not sell online (Bain & Company, 2013; Roland Berger, 2017). Most specialist watchmakers like A. Lange & Söhne, Patek Philippe, or Vacheron Constantin do not operate monobrand online stores. Other luxury brands like Chanel or Chopard limit their online offering to US customers only. While online sales have shown strong growth of annually 29 percent for the past five years, stationary retail still accounts for more than 95 percent of the worldwide personal luxury goods market (Bain & Company, 2013). Today, the possibility to shop online is the second most important feature of a luxury brand website (Roland Berger, 2013) whereas it was considered least important ten years ago (Riley and Lacroix, 2003). Whether or not to sell online represents a multi-faceted business question. From a marketing perspective, most arguments both in favor and against online distribution (e.g. additional sales and convenience vs lack of touch and channel conflicts) equally apply to both luxury and non-luxury goods manufacturers. In luxury, however, an additional concern specifically applies: selling luxury goods online may erode the fragile perception of scarcity and thus brand desirability (Kapferer and Bastien, 2012;

Seringhaus, 2005). The apparent mismatch between a luxury brand's concept of exclusiveness and the mass

medium internet is often referred to as "internet dilemma" (Kapferer and Bastien, 2012, p. 247) or "love/hate relationship" (Chevalier and Gutsatz, 2012, p. 63). In contrast to mass manufacturers, luxury goods manufacturers limit the accessibility of their goods in terms of a selective distribution, high-end prices, and limited production in order to preserve brand desirability (Dubois and Paternault, 1995; Fassnacht et al., 2013). At the same time, in order to sustain the firm's long-term growth in sales and profit luxury goods manufacturers are tempted to sell more to either new or existing customers through either new or existing distribution channels (Keller, 2009). In essence, luxury goods manufacturers face the dilemma of making additional sales at the expense of perceived exclusiveness. It is this dilemma of making the inaccessible accessible which makes the online-distribution-challenge a luxury-specific one.

There is a paradigm shift in consumer behaviour of luxury buyers. Sinha et al. (2011) showed that urban youth are the major sources of luxury product consumption. They have less liabilities in the early part of their careers and so have a higher tendency to buy luxury brands. Indian luxury consumers are also value conscious and are on the hunt for stylist and aesthetically appealing products which are complementary in nature. In the study by Haataja Maria (2011), high price and good quality were considered as two main attributes of luxury products. Around two-thirds of the respondents had a positive attitude towards purchase of luxury products.

This paper is an attempt to empirically addresses the research question from both a managerial and a consumer perspective. First we discuss regarding the changes in luxury industry, later the shift in consumer perception with the onset of online shopping. Next the authors present the empirical evidences on Price Consciousness on the Purchase Intention of Online Luxury Products. We conclude with a discussion, managerial implications and directions for future research.

II. REVIEW OF LITERATURE

Levels of Luxury

The association between human beings and luxury goes through millennia, and it was often reserved for the elite in society. The luxury industry sector is a very stimulating and interesting area. Researchers are struggling to find definitions of the term “luxury management” and as many authors suggest, principal marketing and brand management rules do not apply for a luxury strategy. Luxury as itself goes back to the beginning of mankind and has developed over centuries. During the last decades, the luxury sector has undergone a large change. However, with rapid globalization, purchasing luxury items has come within the grasp of an ordinary person (Hader, 2008; Eng and Bogaert, 2010; Brun and Castelli, 2013) throughout the world (Wong and Ahuvia, 1998).

Entry-level luxury brands are just above the premium segment on the lowest luxury level, they are not even generally recognized as members of the luxury segment e.g. brands include Hugo Boss and Mercedes (Esteve and Hieu-Dess 2005). Medium-level luxury brands are widely recognized as members of the luxury segment, but are a step behind the forefront of luxury which includes Dolce & Gabbana, Escada and Moschino. Top-level luxury brands are established beyond doubt as leading luxury brands which include Armani, Cartier and Louis

Vuitton. Elite-level luxury brands are niche brands in the top segment and these brands determine the benchmark of the best quality and highest exclusivity. Furthermore, what is known as the Rambourg pyramid of luxury goods Willett (2015), not only brands but also the price points can be identified. The two most suitable levels, notably medium-level and top-level luxury brands of Heine’s pyramid can be assimilated with the accessible core and premium core of Rambourg’s pyramid, also brands such as Louis Vuitton, Cartier, and Gucci are in the two levels similar to Heine’s pyramid.

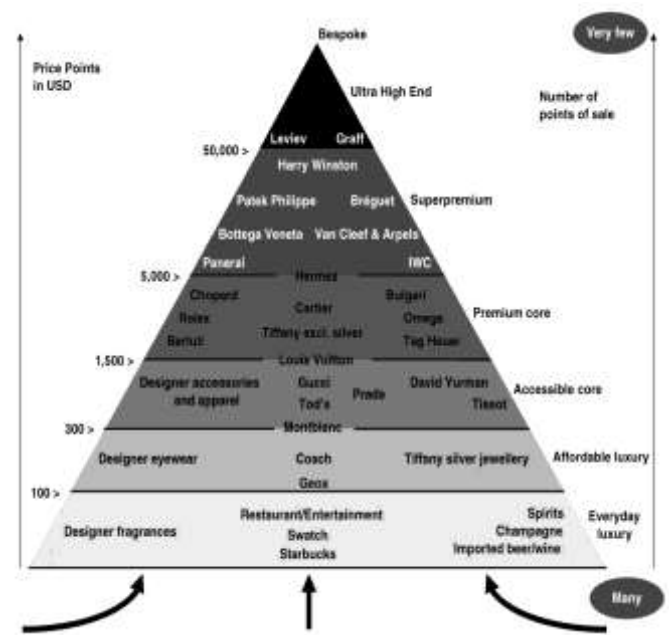


Fig-1: Rambourg’s luxury power ranking pyramid (Willett 2015)

The categorization of a luxury brand changes over time. There are brands climbing up the luxury ladder, such as the English fashion brands Asprey and Burberry since they were repositioned some years ago Phan et al. (2011), high-potential brands, such as the German chocolatier Leysier.

Dimensions of new luxury

The challenge that the brands face in the present day is how they precisely merge products and experiences that speak to all category of individuals. In order to fully react to the seismic macroeconomic and societal changes that continue to strengthen the evolutionary shift within the luxury industry, brands will have to transcend from the conservative luxury model of heritage, quality, and craftsmanship to discern new ways to inform their strategy. Because some luxury

brands are older than ten decades that endure quality of a particular luxury good for its appeal, and this is especially true for the conventional view of luxury. However, some consumers particularly those who are young and fashion-conscious prefer a product with a fresh and unusual look and an exclusive aura rather than actual rarity Hanna (2004). To attract this category of consumer, the brand image focused on a label, a logo or a symbol is crucial. This is the idea behind accessible luxury (or new luxury) as opposed to old luxury (or traditional

luxury), which targets elite consumers and relies on product authenticity based on precious materials, heritage, craftsmanship, and natural rarity. Instead, new luxury targets the upper middle market, positioned at a lower price and includes three types of products (Silverstein and Fiske, 2003).

- **Accessible super-premium goods.** Products that are priced at near the top of their category that middle-market consumer can afford.
- **Old luxury brand extensions.** Lower priced versions of goods that traditionally only the wealthy could afford.
- **Masstige (merging mass with prestige).** Premium products midway between mass-produced and first class, which are well below the highest priced goods in their category.

Dalton (2005) notes the trade-off between exclusivity and availability because exclusivity is essential for true luxury, while accessible luxury goods must be widely available. D'Arpizio (2007) proposes a classification of luxury brands with three levels of luxury, observing that different performance is achieved in different markets. In general all luxury brands are characterized by elitism, heritage and uniqueness. This segment includes the brands historically associated with luxury and manufacturers of precious products that traditionally drove the market. Indeed, before the crisis, these brands dominated one of the most important luxury markets. Japan with a growth rate of up to three per cent annually. Aspirational luxury brands that achieve their status by being recognizable and distinctive are represented by such brands as Gucci and Louis Vuitton. These brands exhibited the largest rate of luxury goods growth in the US, Accessible luxury brands, which are more affordable than their aspirational "relatives". Consumers purchase brands such as Coach and Hugo Boss to own a status symbol. This category is largely purchased by middle-class households in Europe and the US, which is nearly two

and a half times greater than the global average for accessible luxury sales growth. This suggests that sales growth in the Asia-Pacific region is driven by the high degree of entry-level access to luxury goods.

Consumer Behaviour of Youth with Online Luxury Products

"Youth" means "every person between the ages of 15 and 35 years" (adopted from UNESCO, 2012). A significant percentage of youth population in India attains some sort of financial independence around the age of 25 years. The youth who are less than 24 years old mostly depend upon their parents for financial assistance. But the present youth segment of India, is unique in terms of its sheer size, consumption of products/services, intellectual ability, pester power, trend setting capability and positive attitude towards modern technology. The young generation of the current era considers shopping as an experience rather than a mere act of purchasing a product. Possessed with lesser commitments, the youth purchase or use products/ services at their will. Further, they are also capable of influencing the consumption at even household level. Hence, the marketers and retailers operating in the country have a daunting task ahead of them in targeting and tracking a

unique set of young consumers for their products and services.

Srichan Sriviraj et al. (2007) has studied the consumer behavior of young consumers towards purchase of luxury products in three countries namely the United Kingdom, Thailand and China. The research shows that UK and Thai respondents do not purchase products to show status or for possessive reasons; however, some Chinese respondents have bought luxury products to achieve status in society. There is hardly any relation of gender and purchase of luxury brand products. In terms of motivation, this research has suggested that the Snob, Perfectionist, and Hedonic effect motivate UK and Thai consumers into purchasing luxury products. Luxury consumers in China buy luxury brands as they are motivated by the Hedonic and Perfectionist value of luxury brands. Husic et al. (2009) studied the luxury market to understand the various factors that influence the purchase of luxury brands. The results show that in this market, luxury consumers feel that quality is an important attribute of luxury brands. There is a snob effect' observed among the consumers because they want to buy unique and exclusive product so that they can differentiate themselves from others.

Parker (2010) studied the latent demand for luxury goods across India. It showed how the demand is divided and concentrated across the cities and regional markets of India. Truong et al. (2010) explains that people with intrinsic orientation do not show a preference for buying luxury brands. The advertising campaigns of luxury brand companies are aimed at people with extrinsic orientation. Hence they could be ignoring consumers with intrinsic orientation, who do not identify themselves with these ads. Hence luxury brand companies should see how to reach these consumers with intrinsic orientation and at the same time they should maintain a good relationship with consumers of extrinsic orientation who buy luxury brands because of conspicuous consumption. Kamolwan Tovikkai, Wiwatchai Jirawattananukool et al. (2010) have conducted a study to see the influence of individual value, achievement of status in society and demographic variables on purchase of luxury fashion brands by Thai female students. Quantitative research method via survey was used for this research. Data was collected by using survey questionnaires. The results show that there are two factors which have an important role in determining the purchase intentions of Thai female students on luxury fashion brands. One of them is achievement of social status and the other is attaining personal values like hedonic value and uniqueness value.

Qin Bian et al. (2010) researched that luxury brands are associated with —indulgence of the senses, regardless of price. Consumers buy luxury brands primarily for symbolic reasons to reflect their status and social goals. Luxury brands have a low ratio of functional utility to price and

high ratio of intangible utility to price. Since luxury is a subjective concept, the perception of consumers about luxury brands will differ for different market segments. Sinha et al. (2011) showed that urban youth are the major sources of luxury product consumption. They have less liabilities in the early part of their careers and so have a higher tendency to buy luxury brands. However, Indian luxury consumers are also value conscious and are on the hunt for stylist and aesthetically appealing products which are complementary in nature. The key challenge is to educate the customers about the luxury industry. According to A.T.Kearney (2011) report, luxury consumers follow global trends and hence luxury brand companies are using digital and social media to connect with these consumers. Mishra (2011) examined the relationship between materialism and consumption innovativeness among urban Indian. The study tried to establish the fact that more materialistic Indian consumers tend to possess greater consumption innovativeness in comparison to the less materialistic consumers. Haataja, Maria et al. (2011) have used qualitative data collection techniques with open ended questions to analyze the knowledge, opinions, personal tastes and style, thoughts and feelings of the respondents with respect to the luxury sector. According to the study, luxury goods were generally perceived as something expensive, unique, exclusive and something extra often having a brand name. In the study by Haataja Maria (2011), high price and good quality were considered as two main attributes of luxury products. Around two-thirds of the respondents had a positive attitude towards purchase of luxury products. The market segmentation has been divided into desktop Cinderella's, trench coat tigers and golden dolls. Gupta (2012) in his paper explains that the preference of people towards foreign brands can be different for different demographic segments. This is also influenced by demographic variables like age, gender, income and education. Luxe Avenue Publication et al (2012) in their research have pointed out a conflicting relationship between Generation Y using social media and luxury brands. According to them, the youth buy luxury brands not just for the feeling of luxury but also to make their dreams of an aspirational lifestyle come true. It also reveals how millennials are strongly influenced by peer pressure. All millennials were born in a more transparent universe due to easier communication thanks to technology. Hence they are very interested in enhancing their image among their peers. They generally value a —Just Do It attitude. Luxury brand companies should target their marketing campaigns to the consumers rather than just the product. It is also found that luxury should not be perceived as merely expensive products only bought by old snobs, but as an experience which could help fulfil the Millennials' desire for a deeper meaning of life. The current generation are mostly influenced by posts on social media and other online media. So, the marketing campaigns to attract them should be

people-centred rather than a product-centred approach. This will help the Generation-Y market to keep growing with increasing buying power.

Price Consciousness of Young consumers

Luxury pricing Luxury pricing has traditionally been of minimal interest to researchers because of the general consensus that luxury brands should never display prices, neither in their advertising campaigns nor at the store. The main rationale for not displaying prices is that most luxury products are bought as gifts without telling recipients their price and that such products should be fantasized so that the price has no meaning for consumers (Kapferer & Bastien, 2009, 2012). In luxury, "price does not have to be explained rationally: it is the price of the intangibles (history, legend, prestige of the brand)" (Kapferer, Klippert, & Leproux, 2014: 3). More pragmatically, the goal of luxury managers is to make clients "price-insensitive fans" of their brands (Kapferer, 2012: 460), which is easier when prices are not displayed. Only a few studies explore the influence of price on consumer behavior in the luxury sector (Fassnacht, Kluge, & Mohr, 2012; Kapferer et al., 2014). Most of these studies discuss the influence of price level from a purely theoretical point of view. Some researchers suggest that luxury brands should be constantly raising their prices, as high prices are "an indication of good quality [...] a sign of self-worth which authenticates success and status" (Allsopp, 2005:18), and "necessary for the product to become sacred and endow the buyer with its luxurious effects" (Kapferer, 2012: 455). Others consider masstige strategies and the potential drawbacks of lowering prices in terms of brand dilution (Kapferer, 2012; Kim & Lavack, 1996). One study identifies price level as an empirical variable likely to operationalize the introduction of downscale extensions (Dall'Olmo Riley, Pina, & Bravo, 2013), while another explores odd and even pricing practices (Fraccaro & Macé, 2014) in the luxury sector. However, no empirical research has yet investigated the specific influence of price display, though showing prices has become a common practice in today's luxury sector.

Beyond the luxury sector, in the general literature on pricing, the relationship between price and perceived quality is statistically significant and positive (see for example the meta-analysis proposed by Rao & Monroe, 1989) but may depend on the amount of prior information held by consumers (Woodside, 1974). Typically, consumers who have little previous experience with the product (i.e., hold little intrinsic information) associate buying the product with potential risks and uncertainty and may use its price as one external cue among others (e.g., brand name, product warranties, packaging, store, country of origin) to assess its quality (Grewal, Krishnan, Baker, & Borin, 1998). Miyazaki, Grewal, and Goodstein (2005) further demonstrate that the relationship between price and perceived quality is stronger when a price cue is paired with

another consistent extrinsic cue. But how do consumers evaluate a price cue? According to adaptation level theory (Helson, 1964), judgments and behaviors are the results of adaptation to the environment. Applied to pricing, adaptation level theory suggests that consumers evaluate a price cue by comparison with a reference price, that is to say, the price they anticipate paying or consider reasonable to pay for a particular good or service (Kalyanaram & Winer, 1995; Monroe, 1977). This reference price reflects an adaptation to the prices displayed in retail advertisements or stores (external reference price) or recalled from memory (internal reference price). A downscale extension, which implies an objective price reduction, will likely reinforce consumers' perceptions about a brand's lack of differentiation, particularly regarding quality (Aaker, 1997; Dacin & Smith, 1994). However, this rationale only works when consumers hold prior information and are able to form reference prices. When this is not the case, consumers are likely to compare current prices with a median price and therefore rate quality as average (Rexheisen, 1982; Woodside, 1974).

III. RESEARCH METHODOLOGY

Initially, literature review was conducted to identify the prevalence of price consciousness paradox of online luxury consumers. The scale items were identified from the literature. The scale items were validated during questionnaire designing. Structured questionnaire was framed.

Research design

A survey was used to collect the data for this study. An online survey was created using the online survey software and questionnaire tool, google forms. Respondents were given a web link, which directed them to the questionnaire. Google forms automatically recorded and stored the responses for data analysis. Respondents of the age group 18 to 35 who has shopped luxury goods online were found out from online shopping sites, social media groups of online shoppers, courier services while they deliver personal luxury goods.

The data collection took place over a two-month duration of October and November 2018. The desired number of complete and valid surveys was 168.

The target population for this study was Young working professionals in Kerala, who were in the age range of 18-33 at the time of this study as per World Health Organization (2001) definition. A balanced gender response was also desired in order to receive a sample of the consumers in the Kerala.

Survey Instrument

The survey was estimated to take approximately 8-10 minutes for a thorough completion. The structured questionnaire included simple multiple choice and open ended questions. Existing scale on price consciousness of

luxury value perception was adopted or modified . The construct was measured using a five-point Likert scale, with 5 being strongly agree and 1 being strongly disagree. These included demographic questions, the construct price consciousness was analysed with existing scale that was taken from Klaus-Peter Wiedmann et al., 2007 as well as open-ended questions to evaluate shopping behaviours. The demographic categorization questions were presented in either multiple choice or open-ended formats, in order to ensure that the respondent fell within the desired specifications.

IV. MAJOR RESULTS

Regression Analysis showing Relationship between Price Consciousness and Online Purchase Intention

Variables	Unstandardized Coefficients		Standardized Beta	t - value	p - value
	Beta	SE			
Constant	6.718	1.087		6.180	0.000
Price Consciousness	0.527	0.102	0.369	5.153	0.000

Here the beta value corresponding to price consciousness is found to be significant as the corresponding p-value is less than the significant level 0.05 and the constant is also significant. The beta value indicates that a unit change in price consciousness will change online purchase intention by 0.527 units. Then the regression equation explaining the relation between price consciousness and online purchase intention can be written as

$$OPI = (0.527 * PC) + 6.718$$

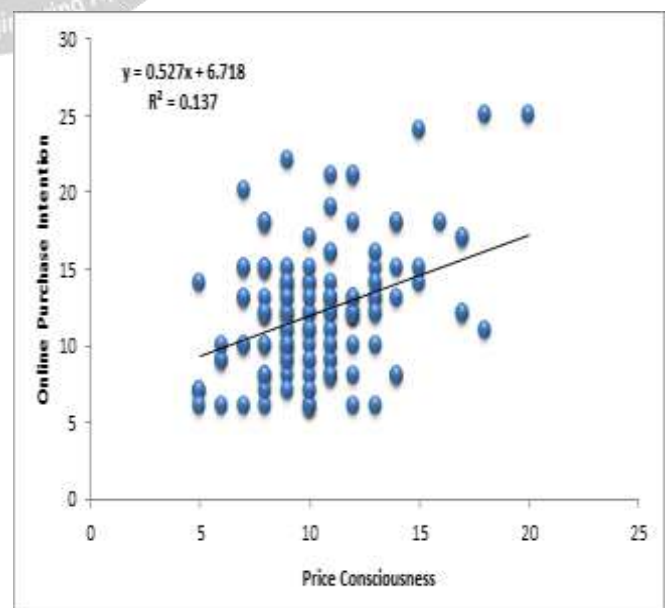


Fig 2: Scatter Plot showing Relationship between Price Consciousness and Online Purchase Intention

V. FINDINGS & DISCUSSIONS

Based on the findings it is evident that Price consciousness of online personal luxury goods buyers has a positive relationship with Online Purchase Intention, where by luxury marketers who cater to young online luxury consumers need to consider the antecedents of Perception towards Online Luxury Shopping for creating a conducive atmosphere for consumers to purchase personal luxury goods online.

The study shows that there is a positive correlation between Price consciousness of youth buying products online and their purchase intention. The correlation value is 0.370 which is positive and moderate. When a regression analysis was done it was found that the beta value corresponding to price consciousness is found to be significant as the corresponding p-value is less than the significant level 0.05 and the constant is also significant. The beta value indicates that a unit change in price consciousness will change online purchase intention by 0.527 units. The scatter plot depicting the relation between the dependent and independent was also drawn and it also reveals this fact pictorially.

VI. MANAGERIAL IMPLICATIONS

Till date luxury was considered as a segment that was exclusive and consumers didn't really bother about the price of the products. Off late with the changing paradigm of online shopping and consumer behaviour of masstige consumers the scenario is changing. This is in contradiction with the studies done by Tellis & Gaeth, 1990; Groth & McDaniel, 1993; Lichtenstein et al, 1993; Vigneron & Johnson, 1994 & 1999. who said that high price of luxury is particularly perceived as an indicator of high quality, exclusivity, as well as status and prestige – high price even making certain luxury products or services more desirable to certain consumers. The Gen Y consumers are price and Quality conscious in their purchase patterns, this is getting applied for the luxury purchase too. They search the different websites for comparison and look for offers and price drops. Luxury goods while selling online hesitated to participate in offers and sales as it is done for non luxury goods. Offlate the great surge in sales of online shopping sites like flipkart and Amazon during Deepavali and Independence day BIG SALE is a big revelation for luxury brands who are available online. The luxury brands having their presence online need to realise the fact that consumers are becoming more price conscious and at the same time choosy and need to spread their platter for them. Price deals and offers are welcomed by the masstige consumers and needed to be adopted as a managerial strategy by the luxury brands.

This further throws light to the fact that Indian luxury consumers are gradually maturing. Traditionally they were buying just to “impress others” but now that are motivated

to buy luxury brands online to attain inner- satisfaction, unique experience and excellent quality. Therefore the findings of this study will help luxury brand companies to closely look at the factors that drive Indian consumers to buy exorbitantly priced luxury brands and then accordingly design their penetration and expansion strategies to gain foothold in the growing Indian market.

VII. CONCLUSION

From the perspective of self-concept, this research shed some light on the behaviour of young luxury consumers, which are viewed as the newcomers to the luxury market. With its large population and growing purchasing power, this market segment is of strategic importance to the luxury market, especially in the slow economic environment. As members of youth enter their prime earning years, retailers and other members of the luxury market must revise their marketing strategies to cater to these consumers' needs and behaviour patterns. Successful strategies may encourage a lifetime of loyalty to a brand. One reason that young consumers entered into the luxury market is the emergence of “New Luxury” products (Lode, 2008; Shea, 2013; Silverstein and Fiske, 2008; Stein and Sanburn, 2013). These products are ones “that possess higher levels of quality, taste, and aspiration than other goods in the category, but are not so expensive as to be out of reach” (Silverstein and Fiske, 2008). For example, Tiffany & Co., Louis Vuitton, and Coach added lower priced items (i.e. items under \$300) to their merchandise mix in an effort to attract younger aspirational consumers. In essence, these brands made luxury more affordable and accessible (Shea, 2013). By providing luxury products at a lower entry-level price point, brands provide young adult consumers an opportunity to interact with the brand and hopefully develop a relationship that will continue when they have higher earnings (Panteva, 2011; Shea, 2013). Some luxury fashion brands such as Marc Jacobs (Lamb, 2012) are presently enhancing their product lines to appeal to younger adult consumers.

A focus of luxury fashion brands should be to position their lower priced products as gateways to conspicuous consumption and brand loyalty. Young consumers are very passionate and often evangelical about the brands they like. They frequently discuss and share brand information (usually online) with friends and strangers about brands they have purchased or are considering (Stein and Sanburn, 2013; Thomas et al., 2007). Historically young adult consumers have played a significant role as fashion innovators (Beaudoin et al., 1998; Goldsmith and Hofacker, 1991; Gutman and Mills, 1982) with the development of a strong brand loyalty at a young age having lasting financial implications (Danziger, 2005; Grotts and Johnson, 2012; Shea, 2013).

Current marketing strategies that display affluence and heritage may not be the most effective way to advertise online luxury products to the relatively young consumers. Results from this study indicate that effectively targeting this new luxury consumer requires an understanding of their personality dimensions and consumption motivations. Personal Luxury brands should be price effective as they go online as the young consumers are price conscious.

VIII. DIRECTIONS FOR FUTURE RESEARCH

There are a few limitations for this study which provide a path forward for future research work. First, the score of this study is confined to personal luxury goods, Second, this research is restricted to only working youth. Third, the results of this study showed moderate positive negative relationship between Perception towards Online Luxury Shopping and Price Consciousness which is contradictory to various studies conducted in the past (Tellis & Gaeth, 1990; Groth & McDaniel, 1993; Lichtenstein et al, 1993; Vigneron & Johnson, 1994 & 1999). Therefore, the findings of this study can be further validated by future studies in this domain

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