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New Luxury: The Transposition of a US Consumption Trend in Belgium

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Abstract

Trading up is a trend where consumers accept to pay premium price for remarkable kinds of goods in order to obtain better quality, taste or aspiration without being at a too high level of luxury. This trend induces the development of the opposite one: trading down. Trading down allows customers to buy specific types of goods at the lowest price. Our aim in this paper is to describe this phenomenon briefly and its consequences at consumer's models level and to analyze the possible emergence and development of trading up in Belgium. In order to do that, authors have analyzed causal factors of the trend in its birth country and have examined if these were also present in Belgium. According to the results a focus should be set on that double phenomenon in order to be able to answer consumer's needs changes identified in the new consumption model.

Résumé

Le Trading Up est une tendance selon laquelle les consommateurs acceptent de payer un prix premium pour des biens remarquables, c'est-à-dire des produits et services possédant de plus hauts niveaux de qualité, de goût et d'aspirations que les autres produits de même catégorie mais qui toutefois ne sont pas assez chers pour être « hors d'atteinte » par les classes moyennes.

Le Trading Up s'accompagne cependant d'une tendance inverse de consommation : le Trading Down. Le Trading down consiste à rechercher et acheter les prix les plus bas pour des biens non émotionnellement impliquant pour le consommateur.

L'objectif de cet article est de décrire les conséquences de ce phénomène en partie double sur le modèle traditionnel de consommation et d'analyser la potentielle émergence de cette tendance en Belgique. Pour ce faire, les auteurs ont analysé les facteurs causaux de la tendance dans son pays d'origine et ont transposé ces facteurs à la Belgique. Selon les résultats obtenus, il apparaît que cette tendance semble être à nos portes et qu'une attention toute particulière doit y être apportée en termes d'implications managériales.

Full text:

Trading Up & Down

Definition

Trading up is a trend where consumers accept to pay a premium price for remarkable kinds of goods that we call New Luxury – products and services that possess higher levels of quality, taste, and aspiration than other goods in the same category but are not so expensive as to be out of reach (Silverstein and Fiske, 2005). These goods appeal to the consumers' emotions while feeding their aspirations for a better life.

This trend also knows the opposite trend. Consumers are spending less on a variety of goods to acquire more of what they need and want. They are operating a real treasure hunt, looking for the best goods at the lowest price. This opposite trend is called Trading Down.

The consequences of this dual trend are that, as consumers shop more selectively, a great number of goods categories tends to polarize. Actually consumers are inclined to trade up to the premium products in categories that matter to them (cars, clothes,...) but trade down by buying a low-cost brand or private label in categories that are less important to them (domestics goods).

This market bipolarization leads to a problematic situation for the middle market companies that only offer unattractive products at a mid-price level while consumers try to avoid them as much as possible. This middle course is becoming a wasteland (Silverstein, 2005).

This phenomenon has been largely studied in the US market but little has been done about it in Europe. That is why we will focus on Belgium in the second part of this article. But we can easily assume that it is a global and durable phenomenon because this is nothing new after all. People around the world have been seeking to enrich their lives and kindle their senses and emotions through wonderful goods for centuries. The difference is that goods are more available today to the public at large and there are vastly more premium goods and services to trade up to.

Impact on the Consumption Model's Evolution

This polarization has an impact on the global consumption structure.

We will analyze the changes that occur in the consumption model by integrating the trading up and down trend.

Traditional consumption model

Ten years ago, the core of the market was the mass market. The top and the bottom of the range used to concern very specific goods bought by few consumers (very expensive top luxury goods vs low-cost products). National brands were very successful and used to propose a large range of products for this part of the market. This model is known as the “lozenge model”. (Kapferer, 2005)

Place Figure 1 about here

Integration of the Trading Up & Down phenomenon

For more and more categories of consumer goods and services, there occurs a purchases' polarization leading to a consumption profile such as an hourglass, narrow in the middle representing mass market products sold at mid-price. However it clearly shows the emergence of New Luxury or “Masstige” leaders that have supplanted traditional leaders, selling very expensive products to meet a luxury need that is nowadays present in every social class. In order to afford these kinds of goods, consumers have to save money at other categories' expenses. Therefore they buy private labels, which represent the first step before buying hard discount products. (Kapferer, 2005)

Place Figure 2 about here

Consumers seem to look out for good bargains and try to adopt rationale rules in their purchasing behaviour, leading them to alternative way of consumptions like hard discount. This leads to an enlargement of the hourglass base.

At the same time, they focus on the wellness consumption and they set the priority on their emotional needs and pay premium price for remarkable goods such as New Luxury products that enable them to bring wealth to their lives. This behaviour explains the enlargement of the hourglass top.

Limitations of the Hourglass Model

When analyzing this model, it seems that it doesn't fully represent the market reality.

Actually, in which category could we put a Rolls Royce? Certainly not in the New Luxury part, as we know that this kind of product generates high margins but also high volume strategies.

The larger supply of luxury products and the enlargement of the consumers target which they are dedicated to have led to consider these product as different markets with their own particularities.

Literature shows that different types of luxury products exist and has to be managed according to their own characteristics.

However, authors have different points of view about how to segment the luxury market.

In order to improve the hourglass model, we have analysed literature about luxury and tried to find out the different typologies, and particularly the one that could fit the best to implement the new model.

Place Table 1 about here

Hourglass Model Improvement

According to this literature review, we have chosen one of these typologies which could help us to implement some improvements to the hourglass model.

We have selected ALLERES' segmentation in order to:

- take into account a very complete vision of luxury. Actually it seems that only 2 levels can not fully represent all the different characteristics of the luxury world. When a new designer enters the market, he can't directly reach the highest status of inaccessible luxury. This can only be achieved with the reputation of the brand and of the designer, and this can only be built through experience and time. However, it would be unfair to directly associate a brand new designer with "democratized luxury". For both reasons we think that an intermediary level is necessary to fully represent the complexity of the luxury sector.
- take into account brand image dilution. Actually, the pyramidal structure is quite appropriate to take these related risks into account. The lower you are in the pyramid, the greater the dilution danger is. The galaxy structure and the plate structure ignore these brand image effects. In terms of management, ignoring these risks could be a big mistake that has already been disastrous for some luxury brands as Pierre Cardin, who, due to multiple inappropriate brand extensions has lost the prestige inherent to his brand.

The model incorporating D. ALLERES' segmentation is represented below:

Place Figure 3 about here

Transposition of the US tendencies in Belgium

In order to later appreciate the globality of this new consumption model, we shall further take a great interest in showing the transposition in Belgium of US consumer's behaviours. Indeed, if several researchers have already observed this trend in the US, we'll try here below to appreciate its importance and application in Belgium. Are Belgian consumers, like American one's, apt to develop trading up and down tendencies? Are they more rational for traditional goods and more sensitive to emotional goods?

We will focus on trading up which we identified as generating the other changes: the development of trading down (need to free money for trading up) consequently leading to the narrowing of the middle market.

Trading up is being driven both by supply and demand forces.

Silverstein and Fiske (2003) show that on the demand side, trading up is due to a combination of several demographic and cultural changes: higher real incomes, rising home value, cash windfall courtesy of discount retailers, role of women and changing family structure, higher levels of taste, education, and experience and emotional awareness and “permission” to spend.

As far as supply is concerned, the authors identify forces such as changes in retailing, entrepreneurs on a personal journey, access to flexible supply-chain networks and global resources.

In order to analyze the potential transposition of this phenomenon in Belgium, we will concentrate our analyses on the demand point of view to identify the similarities or differences between the behaviour of Belgian and American consumers. This transposition will be done using national statistics available at www.ecodata.com, www.laborstat.ilo.org, and www.statbel.fgov.be.

We will therefore systematically compare those trends in the US and in Belgium to validate or not the possible emergence and development of trading up in Belgium.

Higher real incomes:

Real incomes rose by more than 50 % from 1970 to 2000 and are still growing now in US. US families have thus more money to spend on new luxury goods or wellness equipment and services.

Place Table 2 about here

According to those data, it seems that we can identify the same tendency concerning incomes (+ 47,24 % analyzed on a shorter period than in US) in Belgium.

Rising home value:

In US, we can pinpoint a growth of the number of home owners (+ 78 %). This tendency is namely linked to a lower mortgage rate which allows the acquisition of more valuable homes.

A similar trend also emerges from the following data for Belgium:

- Growth of estate capital
-

Place Table 3 about here

- Low mortgage rates
- Lot of interesting financial propositions
- Aids and grants of the government namely for young buyers

Cash windfall courtesy of discount retailers:

The reduction of the margin in the retail sectors and the presence of “every day low price” concepts in the US can be linked to the reduction of the number of actors in the Belgian retail sector and the development of stores like Lidl and Aldi in Belgium (524 food discounts in 1986 vs 891 in 2002 -AC Nielsen-). The Belgian consumer is thus also enthusiastic about the “every day low price” products and services and has numerous opportunities to free liquidities for other spendings (new luxury for instance).

Role of women and changing family structure¹ :

The role of women in the society evolves both in the US and in Belgium. In Belgium, the percentage of working woman (more than 15 years old) rose a lot (25 % in 1960 vs 45 % in 2000), the number of children decreased (125.000 births in 1980 vs 110.000 in 2002) while woman get married less often and at an older age (66.000 weddings in 1980 vs 42.000 in 2001, 24 years in 1985 vs 31 in 2003). Moreover, the number of divorces grew with time (14.500 in 1980 vs 29.000 in 2001). Woman starts their family at a more mature age and thus there are more single person households while people earns more and so spare money for new luxury.

Higher levels of taste, education, and experience:

The educational level of American people rises. They are more sophisticated, more adventurous and they like to travel. Concerning Belgium we can analyze the following data :

¹ www.laborstat.ilo.org, www.statbel.fgov.be

- Percentage of graduates from the superior secondary schools has increased from about 30% in 1987 to about 55% of the population (source : Direction Générale Statistique et Information Economique – Enquête sur les forces de travail)
- Increase of 50 % (1998 to 2005) of the number of short trips and increase of 40 % (1998 to 2005) of the number of long journeys (source : Direction Générale Statistique et Information Economique – Enquête sur les voyages)

These data allows us to think that the Belgian consumer, like the American one, is now looking for adventure, knowledge and experiences.

Emotional awareness and “permission” to spend :

Even if, at this level, it is difficult to find data to validate or not the trends, it seems that, like in the US, the Belgian consumer now feels less guilty when spending money on well-being and unnecessary goods or goods with specific images, ... Since the sixties, we have observed a legitimization (May 68) of the consumer actions which has allowed people to be more conscious of their emotions and to find fulfilment in them. Communication messages still continue to give to the consumers a sort of “permission to spend” on specific goods mainly in the sectors of well-being, cars, cosmetics, and so on.

As a conclusion for all those consumer changes, we can assume that the ideal environment for the development of trading up is, as far as the demand is concerned, also present in Belgium. Considering that the supply will adapt its characteristics to meet the consumers’ needs (for example : development of hard discount at food and non food level – cars e.g.-) we can suppose that trading up will be soon more present in Belgium. As a consequence, this should be interesting, for European companies, to be ready to offer products and services to capture this potential of consumption freed by the development of trading down and by the mutations in the consumers’ purchasing behaviour. Some opportunities do still exist for hard discounters in non-food sectors which are, for the moment, not really well developed in Belgium.

Limitations and further research

At the end of this analysis, we can assume that trading up will be or is already a consumption trend present in Belgium. Now that we have checked the potential international range of this trend it will be interesting to investigate the European data in order to evaluate how important that phenomenon is. Actually, even though Brussels is the capital city of Europe, Belgium is a

small country, and Southern European consumers could adopt some different consumption characteristics.

It is also interesting to note that some authors have already studied the Asian trend in terms of Luxury (Chadha R. & Husband P., 2006)

Moreover, as we have focussed our analysis on the demand-side point of view, we have noticed that consumers are ready to include the consequences of trading up in their purchasing behaviour. But what about the supply and the companies' response to this trend? It will be interesting to further investigate the supply forces in Belgium and in Europe to check if they are ready to adapt their supply policy to new consumer's needs in compliance with trading up management strategies.

Finally, we wish to say that the first part of this paper was dedicated to the implementation of an improved consumption model integrating the trading up & down trend. This model has not been validated yet. In order to do so, we should investigate one or different specific activity sectors (cosmetics, cars, e.g.). Even if the proposed model is closer to reality, it doesn't provide any information about the way of classifying products among the different parts of the model. We can easily assume that the classification will be made thanks to price level and volume strategy, but will probably differ from one product category to another. It will then be interesting to determine the distribution key by studying one or several specific sectors and try to extend the breakdown to a larger scope².

² The investigations here proposed will be carried out in the Ph.D. of the authors

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Table 1

Review of luxury typology propositions

Authors	Typology	Type of structure
<p>CASTAREDE J. (1992)</p>	<p><u>3 levels</u> 3 Circles in which they class different sectors. <u>Circle 1</u>: elite Products: art, haute couture <u>Circle 2</u>: more affordable products : watches, luggage, Prêt-à-porter <u>Circle 3</u> : accessible products : perfume, wine, cosmetics</p>	<p><i>Circular structure</i> Brand image dilution is taken into account : the further you go from the centre the more accessible you become</p>
<p>TWITCHELL J. (2002)</p>	<p><u>3 levels</u> <u>Technoluxe</u>: The initial response to technical innovation is “it’s a luxury, we don’t need it”: from electricity to mobile phone <u>Populuxe</u>: Stuff that came flooding into the market place after World War II, as result of 2 separate developments: the ability to mass produce highly designed products and a venue where to display their use : the movie’s, Disneyland <u>Opuluxe</u>: this is the stuff that gives luxury its current reputation: Gucci shoes, Armani clothes</p>	<p><i>No specific structure, no order</i></p>
<p>ALLERES D. (1997)</p>	<p><u>3 levels</u> <u>Inaccessible</u> : very prestigious products made by the most prestigious brands, at very high prices: haute couture Chanel, bags by Hermes <u>Intermediary</u>: limited extensions of prestigious brands and creations of new designers: Mugler, Gaultier <u>Accessible</u>: large brand extensions of brands with lower quality criteria and larger distribution channels: Dior cosmetics</p>	<p><i>Pyramidal Structure</i> Brand image dilution is taken into account: the pyramid is topped by the most prestigious products, the basis represents by the extensions of these brands.</p>
<p>SICARD M-C (2003)</p>	<p><u>0 levels</u> Different planets are represented by the different sectors where the brand is active. These different sectors are not classified in a hierarchical order. Every sector brings its characteristics to the brand.</p>	<p><i>Plate & non hierarchical structure</i> Brand image dilution is not taken into account Luxury is seen as a galaxy where different planet are orbiting: perfume planet, prêt-à-porter planet</p>
<p>VERNIER E. & GHEWY P. (2006)</p>	<p><u>2 levels</u> “Grand luxe”: traditional prestigious brands at a high price. “Democratized luxury” : more accessible products dedicated to a larger audience (mass market oriented)</p>	<p><i>Hierarchical structure with only 2 levels</i></p>

Table 2

Growth of income 1981-2000

	Total net taxable income 10 ³ €	Growth of income (nominal)	Growth of income (real (base 1981=100))
1981	41.953.745,55	184,03%	47,24 %
2000	109.112.320,56		

Table 3

Growth of estate capital 1970-2004

(Trends tendances 2005)	1960/1970	2004
Sold houses	38.830	80.421 (+107 %)
Flats	13.000	38.000 (+ 192 %)

Figure 1

Graphical representation inspired from the Lozenge model of consumption (Kaferer, 2005)

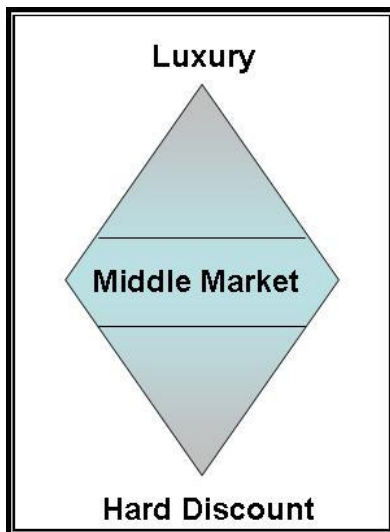


Figure 2

The hour glass model (Geerts, 2007)

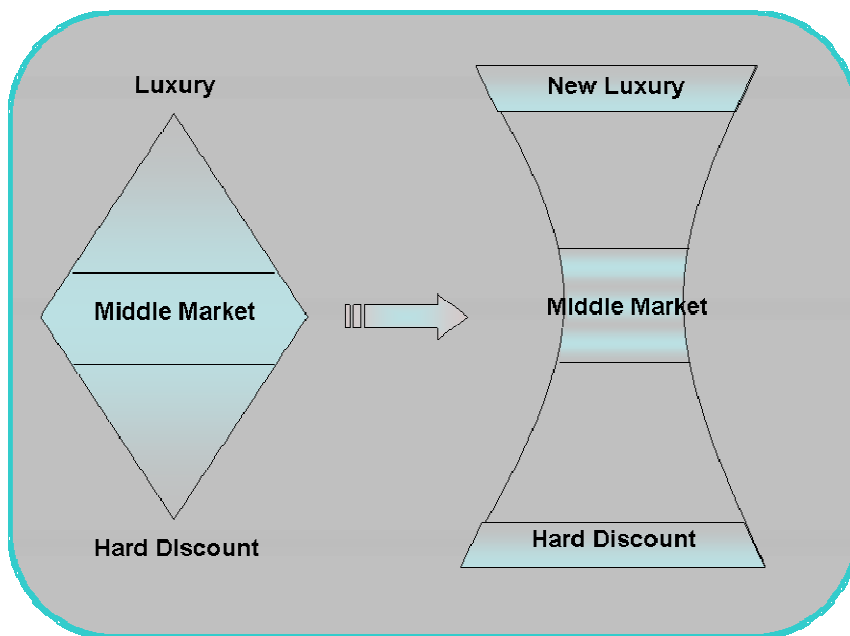


Figure 3

New consumption model (Geerts, 2007)

