# Understanding luxury consumption in China: Consumer perceptions of best-known brands ☆

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## ABSTRACT

This study investigates the underlying motivations for luxury consumption among Chinese middle-class consumers by testing the relationships between psychological traits and attitudes toward the best-known luxury brands. The study examines three psychological traits that make Chinese consumers unique compared to their global peers: value consciousness (VC), susceptibility to normative influence (SNI), and the need for uniqueness (NFU). Results suggest that consumers evaluate the best-known brands more favorably as they become more value conscious, indicating that luxury products are not necessarily extravagant purchases in China. In addition, SNI positively relates to brand attitudes, which suggests that social influence is an important driver for luxury consumption. The relationship between NFU and brand attitudes depends on consumer knowledge. As consumers learn more about different luxury brands, they evaluate the best-known brands more negatively as uniqueness-seeking becomes a more important goal. These findings offer insight into consumer perceptions of luxury brands and provide managerial implications for marketers to build sustainable luxury businesses in China.

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## 1. Introduction

With a rapidly growing economy and an enormous population, China has become one of the most attractive markets for luxury brands in the world. According to a report by Goldman Sachs, China's luxury consumption accounts for 25% of the global market, making China second only to Japan in global luxury consumption (People's Daily, 2009). Despite the worldwide economic downturn in 2008, many key luxury producers report strong sales in China. For example, China is the number one market for Hennessy cognac and the world's second largest market for fashionable clothing and leather goods (China Daily, 2009). China's growth is also the main reason that Asia surpassed the United States in 2009 to become the second largest market for another luxury brand, Versace (Cavender & Rein, 2009).

China's middle-class consumers are becoming important targets of luxury brands (Unger, 2006). McKinsey & Company defines consumers in households with annual income of 40,001–100,000 RMB (i.e., USD $6060–USD $15,151) as the upper middle class in China (Farrell, Gersch, & Stephenson, 2006). This study refers to this group as the middle class for simplicity purposes. Although this consumer group is the main proponent of China's luxury market, their motivations for luxury consumption are not thoroughly understood. Without a good understanding of these motivations, companies cannot adequately address these consumers' perceptions of luxury brands, nor can they effectively meet consumer needs. Previous studies examine motives for luxury consumption in other countries (e.g., Clark, Zboja, & Goldsmith, 2007; Dubois & Paternault, 1995; Veblen, 1899), but those findings cannot be generalized to China without further investigation because Chinese consumers differ remarkably from their foreign counterparts (Atsmon & Dixit, 2009; KPMG, 2007; Phau & Prendergast, 2000). Therefore, this study explores the underlying motives of middle-class consumers in China by relating consumers' psychological traits to their attitudes and purchase intentions toward luxury brands.

The study examines three psychological traits that distinguish Chinese consumers from their global peers: value consciousness (VC), susceptibility to normative influence (SNI), and the need for uniqueness (NFU). The first trait, value consciousness (VC), refers to a tendency to seek the best features and performance of a product or service for a given price (Lichtenstein, Netemeyer, & Burton, 1990). Chinese consumers value the functional benefits (e.g., quality,

materials) of any particular purchase more than their peers in other countries do (Atsmon & Dixit, 2009). In addition, Chinese consumers save a much larger portion of their growing incomes than their counterparts in America, the United Kingdom, and Japan (Orr, 2004; Wang & Lin, 2009). Because luxury products are characterized by premium prices and have the highest ratios of price to quality (McKinsey & Co., 1990), this study attempts to answer one simple question: are luxury products perceived as worthwhile purchases by Chinese middle-class consumers? The answer to this question would help marketers of luxury brands evaluate the sustainability of the emerging Chinese market and better position their products for this market.

The second trait, susceptibility to normative influence (SNI), refers to individual differences in the tendency to conform to social norms. Social norms exert great influence in China because of its collective culture. Research suggests that motives for luxury consumption differ to cultures, so that consumers in individualistic cultures purchase luxury brands mainly for self-expression, while consumers in collective cultures are primarily driven by social needs (Wong & Ahuvia, 1998). Collective cultures emphasize group harmony and individual responsibility to the group, so following social norms is a core goal that guides each individual's behavior (Kim & Markus, 1999). For example, consumers from collective cultures tend to choose products that conform to group norms (Kim & Markus, 1999). Thus, a critical issue for understanding luxury consumption is to identify the social norms that guide Chinese middle-class consumers, norms that are shaped by two competing forces: Chinese traditional values and modern Western cultures. To provide insight into Chinese consumers' changing mindset, this study attempts to shed light on two related questions: what are the dominating social norms among the middle-class consumers in China, and how do the norms influence luxury consumption?

Another unique characteristic of wealthy Chinese consumers is their lack of knowledge about luxury brands. Investigations from leading marketing research firms find that most Chinese consumers can name only one or two luxury brands in any product category (Atsmon & Dixit, 2009; KPMG, 2007). In other words, the best-known brands may represent the whole category of luxury products in China. In addition, Chinese consumers have difficulty identifying luxury brands because of their rather limited experience in the market as well as the vagueness of the luxury concept (Kapferer & Bastien, 2009; Vigneron & Johnson, 2004). A pretest with 105 respondents listing all the luxury fashion brands they knew found that over one quarter (25.7%) of the respondents named brands that are barely luxury brands (e.g., Nike and ELLE). To address the general lack of knowledge about luxury brands, this study focuses on only the best-known luxury brands in China.

The third psychological trait examined in this study is need for uniqueness (NFU), which reflects an individual's tendency to distinguish oneself from others (Snyder & Fromkin, 1977). NFU is an important determinant for consumer possession acquisitions and their display (Tian, Bearden, & Hunter, 2001). Understanding the relationship between NFU and brand attitude toward the best-known luxury brands would provide brand owners with valuable information to better position their products and meet consumer needs more effectively. NFU may negatively relate to brand evaluation of the best-known brands, because uniqueness-seeking consumers prefer less popular products (Lynn & Snyder, 2002) and the best-known luxury brands are also the most popular ones in China (TIME Magazine, 2007). On the other hand, luxury, by definition, is exclusive, which may be particularly true in China where only a tiny fraction of the population own luxury brands (Roberts, 2007). In other words, NFU can also positively relate to brand evaluation, especially when consumers are not aware of other brands that represent prestige and uniqueness. To further clarify this relationship, the model adds one construct—consumer knowledge about luxury brands—to test how consumer knowledge affects the relationship between NFU and brand attitudes.

This study suggests several marketing implications. First, the findings offer useful information for market segmentation in China's market by delineating the psychological characteristics of consumers who pursue luxury products. Second, this study sheds light on the dominating social norms among Chinese middle-class consumers and, thus, can help owners of luxury brands to better communicate product values and develop market positioning that appeals to consumers' specific needs. Third, this study reveals the role of consumer knowledge in shaping consumer perceptions of the best-known luxury brands, and, therefore highlights an important, long-neglected variable that should be considered in market segmentation and positioning strategies.

## 2. Literature review and hypothesis development

This study focuses on three consumer traits: VC, SNI, and NFU. In addition to their relevance to the specific needs of Chinese consumers, these factors also directly relate to luxury consumption, as suggested by a variety of discussions (e.g., Amaldoss & Jain, 2005; Clark et al., 2007; Commuri, 2009; Han, Nunes, & Drèze, 2010). This section discusses how the conceptual framework is developed, and Fig. 1 presents the framework

### 2.1. Value consciousness (VC)

By definition, product value can be expressed as the ratio of overall benefit to total cost (Zeithaml, 1988, p.14). Consumers naturally prefer options with the lowest cost when the requirements for product benefits are met. However, compared to other consumers, high value-conscious consumers are more sensitive to the benefit/cost ratio and, therefore, tend to exert extra effort to seek products that offer the best values (Lichtenstein et al., 1990). Although luxury brands are assumed to have the highest ratios of price to quality in the market (McKinsey & Co., 1990), the benefits that they provide—especially the psychological benefits derived from the consumption experience—can still make those brands highly desirable options (Belk, 1988).

Consumers often rely on material possessions to communicate social status (Belk, 1988; Han et al., 2010). Luxury goods work as an effective social label because of their premium prices and the associated symbolic meanings (Batra, Ramaswamy, Alden, Steenkamp, & Ramachander, 2000; Bearden & Etzel, 1982; Steenkamp, Batra, & Alden, 2003). Apart from any functional benefits, luxury goods communicate prestige and social status. Besides, most luxury brands in China are foreign brands that often connote cosmopolitanism and affluent Western lifestyles, which makes luxury brands particularly appealing to consumers in developing countries such as China.
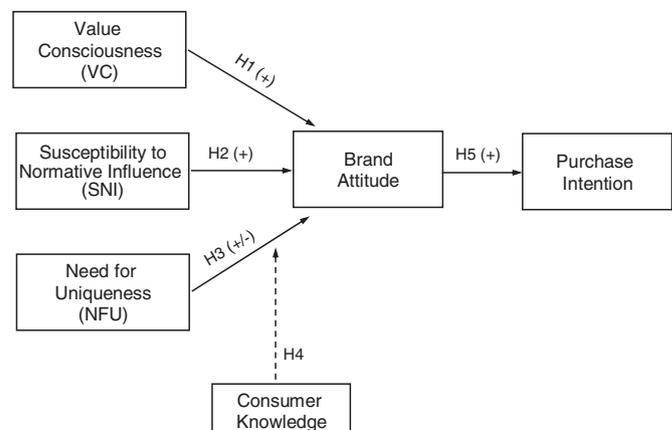


**Fig. 1.** The conceptual model.

In addition to social values, luxury brands can help consumers satisfy their personal needs by providing other psychological benefits (Wiedmann, Hennigs, & Siebels, 2009). For instance, consumers can derive sensory pleasure, esthetic enjoyment, and excitement from the consumption of luxury products, thereby experiencing personal rewards and fulfillment (Sheth, Newman, & Gross, 1991; Westbrook & Oliver, 1991). Also, consumers may use luxury brands to develop and support self-identity by integrating symbolic meanings of these brands into their own identity (Wiedmann et al., 2009).

Apart from these psychological benefits, luxury brands also provide functional benefits such as high quality, which is particularly important because Chinese wealthy consumers value the functional benefits of any purchase more than consumers elsewhere do (Suessmuth-Dyckerhoff, Hexter, & St-Maurice, 2008). Luxury goods suggest high quality in China for three reasons. First, brand name is a key indicator of product quality (Rao & Monroe, 1989). For consumers who are newer to a market, brand awareness is even more important because consumers are more likely to choose well-known brands to reduce risks (Heilman, Bowman, & Wright, 2000). Second, because Chinese consumers highly value functional benefits, luxury brands particularly emphasize product quality in China by communicating material superiority, technical excellence, and the special care exercised during the manufacturing process (Atsmon & Dixit, 2009). Finally, most luxury brands are global brands that also suggest higher quality (Steenkamp et al., 2003).

Taken together, the premium prices of luxury brands do not deter wealthy Chinese consumers because the brands can represent valuable possessions that satisfy their important social needs, appeal to significant hedonic and emotional values, and provide superior product quality. Therefore, this study hypothesizes that a positive relationship exists between VC and brand attitudes and that the relationship applies to, but is not restricted to, the best-known brands.

**H1.** Value consciousness relates to the attitude toward the best-known luxury brands positively.

### 2.2. Susceptibility to normative influence (SNI)

SNI is a general trait that varies across individuals and reflects individual differences in compliance to social influence. In consumption, SNI is reflected by a consumer's tendency to conform to the expectations of others regarding purchase decisions in order to be identified with those others, to gain rewards, or to avoid punishment from others (Bearden, Netemeyer, & Teel, 1989). The effect of SNI is evident across a variety of consumer behaviors, including product preference (Bearden et al., 1989), advertisement evaluation (Martin, Wentzel, & Tomczak, 2008), investment (Hoffmann & Broekhuizen, 2009), and variety-seeking (Ratner & Kahn, 2002).

Of particular relevance to this study, prior studies suggest that SNI may contribute to luxury consumption. On one hand, SNI positively relates to protective self-presentation, suggesting that high-SNI individuals would exert more effort to avoid undesirable impressions in public settings (Wooten & Reed, 2004). When the protective self-presentation goal guides consumption decisions, high-SNI consumers prefer those brands that are widely recognized and approved by others, such as well-known brands. On the other hand, prior studies find that the effect of social influence is stronger for behaviors that are publicly visible. For instance, Batra, Homer, and Kahle (2001) find that high-SNI consumers place greater importance on the attributes that provide socially visible benefits, such as attractiveness and brand name, than on those that provide private benefits like durability and taste. Hence, as a sign of prestige and social status, luxury brands appeal to high-SNI consumers, especially when products are publicly visible.

Two competing forces jointly shape the social norms in China: Chinese traditional culture and Western influences. For example,

thriftiness is an essential value in Chinese culture, and hence significantly impacts consumers' daily lives and their attitudes toward debt, savings, and spending patterns (Suessmuth-Dyckerhoff et al., 2008; Wang & Lin, 2009). However, contemporary China has also seen a growing tendency toward individualism (McEwen, Fang, Zhang, & Burkholder, 2006), materialism (Gu & Hung, 2009), and hedonic consumption (Wang, Bristol, Mown, & Chakraborty, 2000). Evidence suggests that Western cultures influence wealthy consumers to a larger extent than the less wealthy counterparts in China, as the wealthy consumers more trust foreign brands, are more amenable to borrowing, are more willing to try new technology, and spend a higher percentage of household income on apparel, shoes and accessories (Atsmon & Dixit, 2009).

More importantly, Chinese culture contains elements that contribute to extravagant consumption. Chinese people place great emphasis on their relationships with others and are especially concerned about the recognition of individual social standing and position. They strive to maintain good relationships with others, and also to behave in ways that define their social positions and protect their dignity (Buckley, Clegg, & Tan, 2006). Consistent with these values, prior studies find that Chinese consumers pay close attention to the social meanings of products, and they particularly like to use material possessions to develop social relationships (Wang & Lin, 2009; Wong & Ahuvia, 1998). Therefore, as material success becomes increasingly essential in measuring performance and achievement in the current Chinese society (Cavender & Rein, 2009), the middle-class consumers are motivated to utilize luxury goods to communicate their social status and earn respect from others.

Thus, a direct, positive effect of SNI on brand attitudes is likely because the dominating social norms among the middle-class group encourage material acquisitions and propel luxury consumption. Again, this relationship applies, but is not limited, to the best-known brands.

**H2.** Susceptibility to normative influence relates to the attitude toward the best-known luxury brands positively.

### 2.3. Need for uniqueness (NFU)

Apart from the desire to conform to social norms, individuals may also feel threats to their identities when they perceive that they are highly similar to others (Snyder & Fromkin, 1977). In order to alleviate the identity threat, individuals tend to engage in self-distinguishing behaviors, and NFU refers to the trait of pursuing differences relative to others. Because material possessions are often extensions of the self (Belk, 1988), one way to differentiate oneself from others is to acquire and possess unique products (Snyder, 1992). Unique products are usually novel, relatively unpopular, or scarce, and used by a limited number of consumers (Tian et al., 2001). Indeed, many prior studies show that scarcity per se enhances the evaluations of products across different categories, and uniqueness-seeking is one explanation for the positive effect of scarcity on product desirability (see Lynn, 1991, for a review). Researchers also find that consumers who desire uniqueness prefer a product more as its price increases (Amaldoss & Jain, 2005).

Chinese middle-class group can use luxury brands to establish their uniqueness because luxury products are scarce possessions in China. Only a small fraction of China's population is willing and able to spend money on luxury goods (Roberts, 2007). According to the National Bureau of Statistics of China, per capita disposable income of urban households in 2008 was RMB 15,780 (approximately USD 2310), which indicates that only a tiny fraction of consumers in China can afford to spend several thousand RMB on a bag or a pair of shoes. The exclusivity in ownership of luxury brands suggests product scarcity and uniqueness.

Hence, as consumers have higher NFU, they have higher preference for luxury brands, including the best-known brands.

**H3a.** Need for uniqueness relates to the attitude toward the best-known luxury brands positively.

Alternatively, the best-known brands can also negatively associate with uniqueness because the best-known brands are those that are most popular (TIME Magazine, 2007). Luxury is exclusive by definition, but the most popular brands usually have a large following. Only rare products can indicate uniqueness, and a popular product is not likely to distinguish its users from others. Therefore, even though the category of luxury goods is generally rare and unique, the best-known luxury brands are less exclusive because they are the most widely owned brands in the group. The best-known luxury brands are even very popular among less wealthy consumers in China. For instance, many young girls save two- to three-months' salary to buy a Louis Vuitton handbag in order to impress others (Windle, 2005).

Hence, the middle-class consumers who want to stand out from their peers are less likely to use the best-known brands to meet this goal.

**H3b.** Need for uniqueness negatively relates to the attitude toward the best-known luxury brands.

### 2.4. The moderating role of consumer knowledge

The relationship between NFU and brand attitude is expected to depend on consumer knowledge about luxury brands. Here consumer knowledge refers to a consumer's general knowledge about different luxury brands in a specific product category. More knowledgeable consumers are aware of more brand names and know more about the differences between brands. As discussed earlier, Chinese wealthy consumers have exceptionally limited knowledge about luxury brands compared to their counterparts in other countries. A McKinsey & Company report indicates that over half of China's consumers who own luxury fashion goods started purchasing them in the past four years, and most of them can only name one or two luxury brands in a category (Atsmon & Dixit, 2009).

As consumer knowledge increases, consumers are less likely to use the best-known, popular luxury brands to express their uniqueness. They prefer other, less popular brands from the same product category that cannot only deliver similar values but also stand the consumers out from their peers who own some luxury goods. In addition, more-knowledgeable consumers may know more about the characteristics of each brand and, thereby, are better able to identify brands that match their own images and facilitate their self-impression. On the other hand, less-knowledgeable consumers who are only aware of the best-known brands do not have many alternatives in their consideration set when they make purchase decisions. Indeed, the less-knowledgeable consumers are more likely to perceive the best-known brands as different and rare because they are unaware that other options also offer exceptional benefits associated with luxury goods.

Taken together, consumer knowledge is hypothesized to moderate the relationship between NFU and attitude toward the best-known brands. To be more specific, if the relationship between NFU and attitude is positive (H3a), the relationship will be weakened as consumer knowledge increases because more-knowledgeable consumers have other options to establish their uniqueness; if the relationship is negative (H3b), the relationship strengthens with increased knowledge for similar reasons.

**H4.** Consumer knowledge moderates the relationship between need for uniqueness and attitude toward the best-known luxury brands.

### 2.5. Brand attitude and purchase intention

According to the theory of reasoned action (Fishbein & Ajzen, 1975), an individual's behavioral intention depends on his or her

attitude toward the behavior and the subjective norms associated with the behavior. Prior studies demonstrate the strong and positive relationship between attitude and intention in a wide variety of settings (e.g., Dabholkar & Bagozzi, 2002; Sheppard, Hartwick, & Warshaw, 1988).

**H5.** The attitude toward the best known luxury brands positively relates to purchase intention.

## 3. Method

### 3.1. Data collection

The data were collected in Shanghai through an online survey, with support from China Telecommunications Corporation (China Telecom). The sampling frame consisted of cell phone users who had used at least one of the following services provide by China Telecom: (1) the "114" hotline service for making hotel, airline, or restaurant reservations, and (2) the "800-" or "400-" call center services. The sampling frame included only the callers who had used either service to reserve business-class (or above) airline tickets, deluxe hotel suites, and/or high-end restaurants and those who had searched for information (e.g., after-sales services) about luxury products (i.e., luxury cars, watches, etc.). All the individuals in the sampling frame used 3G cell phones.

A total of 5000 short invitation messages were sent out to cell phone numbers randomly selected from the sampling frame during a sampling window of 8 days. In total 449 respondents took part in the survey, resulting in a response rate of 8.98%. Among them, 90 respondents failed to either complete the whole survey or pass the "checking question" (described further below), leading to a valid sample size of 359. Respondents who successfully completed the questionnaire received 10 RMB worth of credit on their phone bills.

Shanghai was chosen to conduct the survey in for two reasons. First, Shanghai residents have relatively high disposable incomes and thus are more able to afford luxury goods. According to the National Bureau of Statistics of China, Shanghai's per capita disposable income in 2008 was 26,674 RMB, about 75% higher than the national average. Second, research shows that the lifestyles and consumption patterns of the middle-class consumers in the four tier-1 cities (Shanghai, Beijing, Guangzhou, and Shenzhen) are similar to each other, and are also comparable to those in the top tier-2 cities (i.e., the capital cities such as Hangzhou and Chengdu) are similar (He, Zou, & Jin, 2010). Hence, results obtained from Shanghai are expected to be generalizable to other similar cities.

### 3.2. Sample characteristics

Table 1 shows the demographic characteristics of the sample. More than half (61.3%) of the respondents were female, with 92% aged between 20 and 40 years old. A majority of the respondents were well-educated, with approximately two-thirds (66.6%) holding an undergraduate degree or above. In terms of per capita disposable income, 67.7% of the respondents reported over 5000 RMB per month, and 28.7% exceeded 10,000 RMB. The respondents represented the target consumers for luxury goods in China: young, well-educated professionals who earn high personal income (Atsmon & Dixit, 2009).

### 3.3. Questionnaire and scale development

In order to minimize the effects attributable to specific product categories, this study investigated three product categories: handbags/suitcases, designer clothing, and watches. The survey used three different versions of an online questionnaire, with each version referring to a specific category. A respondent could choose to answer any one

**Table 1**
Demographic characteristics of the sample.

| Characteristics | Percentage |
|---|---|
| Gender | |
| Male | 38.7 |
| Female | 61.3 |
| Age | |
| 20–25 | 32.6 |
| 26–30 | 34.8 |
| 31–40 | 25.1 |
| 40–70 | 7.5 |
| Education | |
| High school (and below) | 3.1 |
| Community college | 30.4 |
| Bachelor's degree | 59.1 |
| Postgraduate | 7.5 |
| Monthly disposable income (per capita) | |
| RMB 1000 (and below) | 1.7 |
| RMB 1001–3000 | 11.7 |
| RMB 3001–5000 | 18.9 |
| RMB 5001–8000 | 19.8 |
| RMB 8001–10,000 | 19.2 |
| RMB 10,001 (and above) | 28.7 |

of the questionnaires, but not more than one. The response size for the three categories was 119 (handbags/suitcases), 134 (designer clothing), and 106 (watches), respectively.

The first question in the survey asked respondents to select the best-known brand in the category from a list of three brands. These brands had been identified by respondents in a pretest (N = 105) listing all the luxury brands they knew in each product category. For handbags/suitcases, the three brands included Louis Vuitton, Prada, and Dunhill; for designer clothing, the brands were Giorgio Armani, Dunhill, and Ralph Lauren; and for watches, Rolex, Omega, and TAG Heuer. The rest of the questions were based on the answer to the first question and measured the respondent's attitude and purchase intention regarding the specific brand, as well as the respondent's psychological traits and demographic characteristics.

To ensure data quality, the survey inserted a "checking question" in the middle of the questionnaire. The checking question asked respondents to identify the best-known brand from the same list as at the beginning of the survey, but the order of brand options was different. When a respondent provided an inconsistent answer, the survey automatically terminated and the responses were excluded from the data set.

Most of the measures in this study were established scales (see Table 2). In order to keep the online survey at a reasonable length

and to satisfy the sufficient conditions for latent construct measurement (Kline, 2005), this study employed only three items from each of the established scales to measure the key constructs (VC, SNI, NFU, and consumer knowledge). The item selection followed the practice of Batra et al. (2000). A pretest was conducted to identify the items with the highest factor loadings. The participants in the pretest, with a sample size of 105, shared similar demographic characteristics with those in the main study. All the measures used 5-point scales.

This study measured consumer knowledge using Kleiser and Mantel's (1994) self-rated consumer expertise scale. Many researchers identify the difference between consumer objective knowledge (i.e., what they really know) and subjective knowledge (i.e., what they think they know) in various contexts (Alba & Hutchinson, 2000; Moorman, Diehl, Brinberg, & Kidwell, 2004). However, based on a meta-analysis, Carlson, Vincent, Hardesty, and Bearden (2009) conclude that objective and subjective knowledge are strongly related for publicly-used products, and they recommend the use of a subject-knowledge measure as a surrogate for objective knowledge when the measure of the latter is difficult. Thus, this study used the self-rated scale to capture the consumers' general knowledge about luxury brands in a category. In addition, value consciousness was captured by a scale developed by Lichtenstein et al. (1990). The original scale focuses on quality when evaluating product values. This study, however, assessed overall utility in the value measurement and therefore made changes accordingly in the items (see Table 2).

Because the survey took place in Shanghai, this study used a Chinese version of the questionnaire. The commonly employed translation/back translation procedure was followed to ensure the accuracy of the translation (Sperber, Devellis, & Boehlecke, 1994).

## 4. Analysis and results

### 4.1. Measurement model

This study analyzed the data using AMOS. First, the equivalence of the measurement model was tested among the three product categories. Following the suggestion of Kline (2005), the test constrained the factor loading of each indicator to its underlying construct and then compared the constrained model with a base model without loading constraints. The two models were not significantly different ($\Delta\chi^2 = 13.94$, $df = 6$, $p = .60$), indicating that the measurement model was valid across the three categories. Similarly, the equivalence of path models across the three individual datasets was examined by comparing a model with all the path coefficients constrained to be equal

**Table 2**
Measurement items and factor loadings.

| Constructs | Scale items | Factor loadings |
|---|---|---|
| Need for uniqueness (Adapted from Tian et al., 2001) CR = 0.84 | 1. When a product I own becomes popular among the general population, I begin to use it less. | 0.74 |
| | 2. I often try to avoid products or brands that I know are bought by the general population. | 0.85 |
| | 3. Products don't seem to hold much value for me when they are purchased regularly by everyone. | 0.82 |
| Value consciousness (Adapted from Lichtenstein et al., 1990) CR = 0.71 | 1. I am very concerned about low prices, but I am equally concerned about overall product utility. | 0.62 |
| | 2. When purchasing a product, I always try to maximize the utility I get for the money I spend. | 0.80 |
| | 3. When I buy products, I like to be sure that I am getting my money's worth. | 0.61 |
| Susceptibility to normative influence (Adapted from Bearden et al., 1989) CR = 0.77 | 1. When buying products, I generally purchase those brands that I think others will approve of. | 0.77 |
| | 2. If I want to be like someone, I often try to buy the same brands that they buy. | 0.76 |
| | 3. I often identify with other people by purchasing the same products and brands they purchase. | 0.65 |
| Brand attitude CR = 0.74 | 1. To what extent do you like ___ (e.g., Rolex watch)? | 0.72 |
| | 2. To what extent do you think that ___ (e.g., Rolex watch) helps to show its user's social status? | 0.83 |
| Purchase intention CR = 0.82 | 1. If you were going to buy a ___ (e.g., watch) for your family members or yourself at a price similar to that of ___ (e.g., Rolex), to what extent would you consider buying ___ (e.g., Rolex)? | 0.87 |
| | 2. If you were going to buy a ___ (e.g., watch) for your friend at a price similar to that of ___ (e.g., Rolex), to what extent would you consider buying ___ (e.g., Rolex)? | 0.79 |
| Consumer knowledge (Kleiser & Mantel, 1994) CR = 0.77 | 1. I consider myself knowledgeable on brands of luxury handbags. | 0.89 |
| | 2. I enjoy learning about brands of luxury handbags. | 0.50 |
| | 3. I can recognize almost all brand names of luxury handbags. | 0.82 |

*Notes:* CR = composite reliability. All factor loadings are significant at $\alpha = 0.01$.

**Table 3**
Measurement results: AVE, SIC, and correlations.

| | Need for uniqueness | Value consciousness | Susceptibility to normative influence | Brand evaluation | Purchase intention |
|---|---|---|---|---|---|
| Need for uniqueness | 0.64[a] | | | | |
| Value consciousness | 0.01[b] (0.12[c]) | 0.47 | | | |
| Susceptibility to normative influence | 0.18 (0.43) | 0.023 (0.15) | 0.53 | | |
| Brand evaluation | 0.05 (0.22) | 0.04 (0.19) | 0.44 (0.66) | 0.60 | |
| Purchase intention | 0.03 (0.17) | 0.03 (0.16) | 0.28 (0.53) | 0.64 (0.79) | 0.69 |

[a] The diagonal entries represent the average variance extracted (AVE) by the construct.
[b] The off-diagonal entries represent the squared interconstruct correlation (SIC).
[c] The entries in parentheses represent the correlations between constructs, which are all significant at $\alpha = 0.05$.

with an unconstrained model. Results show that the two models were not significantly different ($\Delta\chi^2 = 6.67$, df = 8, p = .57). As a result, data from the three categories were combined for further analysis in order to improve the statistical power (Bagozzi & Yi, 1988).

The overall chi-square for the measurement model was 85.77 (df = 55, p < .01). The comparative fit index (CFI) and the incremental fit index (IFI) were 0.98, and the Tucker–Lewis index (TLI) was 0.97. The root-mean-square error of approximation (RMSEA) was 0.04, which was less than 0.05 and indicated a close fit (Steiger, 1980). In addition, as shown in Table 2, all factor loadings were greater than the recommended 0.40 cutoff and were statistically significant at $\alpha = 0.05$, providing evidence of convergent validity (Nunnally & Bernstein, 1994). All these indicators suggested that the measurement model fit the data reasonably well.

The analysis examined internal validity of the measurement model through composite reliability (CR) and average variance extracted (AVE) (Fornell & Larcker, 1981). As shown in Table 2, all the composite reliabilities were larger than the recommended 0.70 cutoff (Nunnally & Bernstein, 1994). The AVE represents the amount of variance captured by the construct measures relative to measurement error and the correlations among the latent variables. As Table 3 shows, except for one marginal case, the AVE of each measure extracted 50% or more of the variance, which also indicated acceptable internal validity (Bagozzi & Yi, 1988).

The analysis assessed discriminant validity of the measures by comparing AVE with the squared interconstruct correlation (SIC) estimates (Fornell & Larcker, 1981). If the squared correlation between constructs is less than either of their individual AVEs, each construct has more error-free variance than variance shared with other constructs, which in turn suggests discriminant validity. As shown in Table 3, all AVEs were greater than SIC, demonstrating adequate discriminant validity between each construct and any other construct.

### 4.2. Model estimation

To test the hypothesized structural model and the moderation effect of consumer knowledge, this study followed the four-step procedure suggested by Jap and Anderson (2003), and split the sample into two groups along the median of the consumer knowledge measure.

#### 4.2.1. Single-group estimation (Step 1)

The first step was to conduct a single-group estimation to evaluate the extent to which the hypothesized structural model was able to account for the covariance matrix when each of the two groups (high vs. low knowledge) was estimated separately. A model that fits both groups well would suggest that the structural specification was appropriate.

Hence, the analysis first estimated two single-group models for the two knowledge groups. Correlations among the three traits were freely estimated because they were assumed to be related in this study. For the high-knowledge group (n = 179), the model had a chi-square of 84.38 (df = 58, p = .01), with a CFI and IFI of 0.97, and a TLI of 0.95. The RMSEA was 0.05. For the low-knowledge

group (n = 180), the chi-square for the structural model was 118.24 (df = 58, p < .001), with a CFI of 0.91, IFI of 0.92, TLI of 0.88, and the RMSEA was 0.07. Taken together, these results suggest that the structural model accounted well for the covariance structure in both groups.

#### 4.2.2. Two-group estimation (Step 2)

Next, the analysis estimated two models in the two-group estimation process. The first was a baseline model, in which the structural model was simultaneously estimated for both the high- and low-knowledge groups, and the effects of VC, SNI, and NFU on brand attitude were freely estimated across the groups. This model had a chi-square of 202.61 (df = 116, p < .001), with a CFI and IFI of 0.94 and a TLI of 0.92. The RMSEA was 0.04. Thus, the two-group model provided a satisfactory fit for the data.

The second model constrained all the gamma coefficients to be equal across the two groups. The equivalence of all parameters assumed no difference between the two groups, and, hence, no moderation effects. The analysis then compared the constrained model with the baseline model, and the difference in chi-squares—the likelihood ratio (LR)—tested the null hypothesis that the parameters were equivalent. In this study, the LR test was 10.87 (df = 4, p < .05), suggesting that the gamma coefficients were different across the two groups and that knowledge moderated the relationships between traits and brand attitude. Thus, the analysis proceeded to the next step.

#### 4.2.3. Individual path estimation (Step 3)

To find out which relationship(s) were moderated by consumer knowledge, the analysis tested four nested models; in each model, just one specific gamma coefficient was constrained to be equal (see Table 4). For instance, Model 1 constrained the link between VC and brand attitude to be equal across the two knowledge groups.

Each of the four models was then compared with the baseline model specified in Step 2 to test whether the two models were significantly different. A significant difference would suggest that the specific path link should not be equal. In other words, the gamma coefficients were different for the two groups. As shown in Table 4, the LR statistic suggested that Model 3, in which the path link between NFU and brand evaluation was constrained to be equal, was significantly different from the baseline model ($\chi^2_{(1)} = 5.72$, df = 1, p < .05). The other three models did not show any significant difference from the baseline model. These results suggest that consumer knowledge moderated the relationship between NFU and brand evaluation.

#### 4.2.4. Final revised results (Step 4)

The final model was built upon the testing results from Step 3. In the final two-group model, specific path parameters were constrained to be equal across the two groups if the test in Step 3 showed no difference.

The analysis in Step 3 did not reject the equivalence hypotheses regarding the links VC→brand attitude, SNI→brand attitude, and brand attitude→purchase intention; therefore, in the final model,

**Table 4**
Results: testing the equivalence of path links between the two knowledge groups.

| Model | Structural path | df | $\Delta\chi^2$ | p-value |
|---|---|---|---|---|
| 1 | Value consciousness➜Brand attitude | 1 | .64 | .43 |
| 2 | Susceptibility to normative influence➜Brand attitude | 1 | 1.48 | .22 |
| 3 | Need for uniqueness➜Brand attitude | 1 | 5.72 | .02 |
| 4 | Brand attitude➜Purchase intention | 1 | 2.82 | .09 |

the three paths were constrained to be equal across the high-knowledge and the low-knowledge groups. And this final model tested all the hypotheses proposed in this study. Table 5 shows the estimation results.

The results suggest that the main effect of VC on brand attitude was positive and significant ($\beta = .22$, $p < .05$), supporting H1. Similarly, a positive and significant relationship existed between SNI and brand attitude ($\beta = .41$, $p < .001$), supporting H2. Note that these coefficients were the same across the two knowledge groups.

The effect of NFU on brand attitude was negative and significant for the high-knowledge group ($\beta = -.17$, $p < .05$), but was not significant for the low-knowledge group ($\beta = .06$, $p = .41$), thus supporting H4. The main effect of NFU on brand attitude was not significant; failing to support neither H3a nor H3b.

Finally, a positive relationship existed between brand attitude and purchase intention ($\beta = .87$, $p < .001$, H5), indicating that higher evaluation leads to higher purchase likelihood.

## 5. Discussion

The growing middle-class group in China is a main engine for luxury businesses. However, the unique characteristics of this consumer group challenge luxury producers in designing their marketing strategies to meet consumers' specific needs.

This study attempts to provide new insights to this group's underlying motivations for luxury consumption by investigating how consumer brand attitudes and purchase intentions relate to consumer traits that reflect the uniqueness of Chinese middle-class consumers. Results show that both VC and SNI positively relate to brand attitudes and purchase intentions toward the best-known luxury brands. However, the effect of NFU depends on the general knowledge that consumers have about luxury brands. For more-knowledgeable consumers, NFU shows a negative relationship with brand attitudes, whereas for less-knowledgeable consumers, the relationship is not significant. These findings suggest that Chinese middle-class consumers perceive luxury brands as highly valuable possessions, and they primarily pursue luxury goods to conform to the social expectations of important reference groups. In addition, the best-known luxury brands are not good options for consumers who want to express their uniqueness, probably due to the popularity of the brands.

The revealed positive relationship between VC and brand attitude appears to contradict the common perception that Chinese consumers are exceptionally frugal and price-sensitive. Indeed, in a recent study, about 80% of Chinese respondents rated price as the most important

factor when they purchase a personal computer, compared to 46% of American consumers, 50% British buyers, and 39% of Japanese buyers (Suessmuth-Dyckerhoff et al., 2008). Nevertheless, the consumer group studied in this research is the young, middle-class shoppers whose income and lifestyles differ from those of the general Chinese population. Also, the trait of VC in this study does not focus on price sensitivity; instead, VC captures consumer sensitivity to the overall benefits given the price paid. Chinese consumers distinguish a luxury brand from other brands by the symbolic meanings associated with the brand as well as the superior quality of the product. Therefore, at high income levels, luxury goods become affordable and valuable possessions that can better satisfy both functional and social needs of the middle-class consumers.

The results of SNI suggest that conspicuous consumption is prevalent among Chinese middle-class consumers. This trend again indicates that these consumers may be motivated more by the social than by the functional benefits of luxury goods. For example, the incentive to purchase a Louis Vuitton handbag or a Rolex watch may not be personal taste or quality but a necessity because those products may be viewed as essential possessions that fit their owners into important social groups and help their users behave appropriately in various social situations. From this perspective, Chinese middle-class consumers are not extravagant shoppers; instead, they spend wisely on products that can bring desirable social consequences. This trend also explains why Chinese consumers constitute a fast-growing market for luxury products at the same time that they save a much higher percentage of their incomes than their counterparts in other countries.

As expected, the extent to which the best-known brands communicate uniqueness depends on how much consumers know about luxury brands. High-knowledge consumers perceive those brands as particularly not unique, while low-knowledge consumers do not hold such a perception despite the high popularity of the brands. One possible explanation for the latter is that luxury products are generally identified as a product category with exclusive ownership, and their users are not ordinary consumers.

These findings also suggest the importance of studying consumer knowledge in future research on luxury consumption. The effect of consumer knowledge may provide new insights into some conflicting findings in prior studies. For instance, the luxury market holds a rarity principle which suggests that brand desirability decreases as the brand becomes more popular because prestige is attributable to ownership exclusivity. Dubois and Paternault (1995) document supporting evidence for this principle using a western consumer sample. However, studies in Singapore and Hong Kong find that consumers more prefer a luxury brand as the brand gets more popular, which clearly rejects the rarity principle (Chung & Zaichkowsky, 1999; Phau & Prendergast, 2000). Researchers attributed the latter findings to the strong tendency of Asian consumers to conform to social pressure (Phau & Prendergast, 2000). However, this study suggests that consumer knowledge of the sample in different studies may also have contributed to the conflicting findings in that more-knowledgeable consumers were more likely to behave in ways as predicted by the rarity principle.

**Table 5**
Results: the final revised model.

| Structural path | High-knowledge group | | | Low-knowledge group | | |
|---|---|---|---|---|---|---|
| | Unstandardized coefficient | Standard error | p-value | Unstandardized coefficient | Standard error | p-value |
| Value consciousness➜Brand attitude | 0.22 | 0.09 | 0.02 | 0.22 | 0.09 | 0.02 |
| Susceptibility to normative influence➜Brand attitude | 0.41 | 0.06 | 0.00 | 0.41 | 0.06 | 0.00 |
| Need for uniqueness➜Brand attitude | −0.17 | 0.08 | 0.03 | 0.06 | 0.07 | 0.41 |
| Brand attitude➜Purchase intention | 0.87 | 0.09 | 0.00 | 0.87 | 0.09 | 0.00 |
| R-square | 0.54 | | | 0.69 | | |

### 5.1. Managerial implications

This study identifies new variables for market segmentation by delineating the psychological characteristics of Chinese middle-class consumers who favorably evaluate luxury products. This information is particularly useful in China's market because the demographic information, such as age, gender, and income, offers little help in segmenting wealthy consumers (Atsmon & Dixit, 2009).

Besides segmentation, the relationships between VC, SNI, and brand evaluation also provide insight into marketing strategies to position a luxury brand in China and to communicate with targeted consumers. For instance, a common positioning strategy used by established luxury brands in China is to place an emphasis on superior product (Atsmon & Dixit, 2009). This strategy may have worked effectively when Chinese consumers were totally new to foreign brands, but current marketers might want to consider shifting their focus to emphasize ways in which the brands can help consumers meet their social goals. In contrast to Western countries where luxury brands can communicate self-expression and uniqueness, luxury brands in China need to highlight the social meanings of their products and clearly communicate how their products can benefit consumers in important social situations and connect them with desirable social groups.

In addition, because influential reference groups define social norms, marketers need to reconsider how to best present the reference groups for the middle-class consumers in marketing communication. For example, one group of publicized social models in China includes successful professionals who are young and well-educated with elite social status (Rosen, 2004). Nevertheless, many advertisements for luxury brands in China commonly feature foreign movie stars or fashion models. Marketers need to understand how these endorsers relate to social norms in China and how the middle-class consumers resonate with the lifestyles and values communicated in the advertisements. These issues may pose challenges for those brands that use global communication strategies in promotion.

Finally, the NFU findings indicate that marketers of the best-known brands seem to overlook consumers who seek uniqueness through consumption. Apparently, the familiar luxury brands fail to explain how their products can distinguish users from each other. Thus, companies need to increase their efforts to achieve product differentiation within the brand. For instance, companies may illustrate how various product lines project distinctive user images, or they can also consider incorporating customization into product design so that consumers have more opportunities to express their individuality. In addition to within-brand differentiation, marketers should also consider how to stand their own brands out from their competitors' offers in the same category. Between-brand differentiation will benefit companies in the long run as consumers become more familiar with luxury brands.

### 5.2. Limitations and future research

The data are limited to the best-known luxury brands in China. Logically, the results and conclusions, especially those relating to VC and SNI, could apply to other luxury brands, but caution must be taken when generalizing findings to other settings. Future research involving other brands will be useful in verifying the results of this study. In addition, the study sample only involved consumers living in Shanghai, and thus may represent only for the middle-class consumers living in other tier-1 cities and top tier-2 cities. The results cannot be generalized to other cities, especially those in less-developed regions, because consumption behaviors differ greatly in those places. Another limitation also relates to the sample representativeness. The respondents in this study are relatively younger compared to the middle-class population as a whole and further testing is needed when the focus is on an elder consumer group.

Finally, although this study demonstrates that consumers perceive luxury brands as highly valuable, future research should further investigate which specific values connect to luxury brands and how those values relate to different consumer groups. Similarly, more investigations can help identify specific social norms and examine how the norms contribute to luxury consumption. Future studies addressing these issues will develop valuable insight into China's luxury market and provide useful implications. Finally, researchers should further explore the role of knowledge in understanding individual differences in luxury consumption.

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