

Segmenting Consumers Based on Luxury Value Perceptions

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Abstract: This study seeks to discover consumer segments by using a multidimensional concept of luxury by encompassing functional, individual and social components in the luxury market. Survey data was collected from 1097 consumers in Iran. Eight luxury factors were indentified through an exploratory factor analysis. These factors are used for segmenting these consumers with the K-means method. Cluster analysis of the data resulted in four different behavioral style segments namely: non-luxury consumers, rational consumers, social seeker consumers and materialistic consumers. Each segment shows the importance of luxury value dimensions differently. This study sheds light on the differences between consumers' perception about luxury value, which helps marketers to choose their marketing strategies more consistently with the consumers' viewpoint.

Keywords: Cluster analysis, consumer behavior, luxury, market segmentation, perception, value

INTRODUCTION

Over the past decades, luxury brands have flourished and established their reputation worldwide. The luxury market is vastly increasing and there have been significant changes towards consumer behaviour. The consumption of luxury by the rich has received considerable attention ever since (Veblen, 1899) promulgation of the theory of conspicuous consumption.

The increased prominence of the luxury product sector has seen increased interest in academic circles since 1990s (Dubois and Laurent, 1994; Dubois *et al.*, 2001; Vigneron and Johnson, 2004; Widemann *et al.*, 2009). Despite this interest, there is a dearth of research that empirically investigates what motives consumers to consume luxury products. This is an important issue because consumers do not purchase luxury products per se, rather they purchase perceived motive satisfaction or problem solutions.

While many luxury products are the same in Asian and Western societies, consumers in different areas may not buy products for similar reasons. There are many factors that influence consumers' perceived values, motivations and beliefs about products. In terms of the population size, increasing consumer tendency to luxury goods and the existence of affluent people indeed, Iran as a developing country could be an extremely attractive marketplace. Despite the importance of the Iranian market for luxury products,

research is scant on both the market and on consumer behaviour regarding luxury goods.

It is important for luxury researchers to know why consumers buy luxury, what they believe luxury is and how their perceptions of luxury value affects their decision making process. Therefore it is essential for marketers to identify and profile consumer segments. With understanding consumers' value perception to luxury products it is possible to cluster them into groups for luxury market segmentation and apply suitable market strategy for each segment. This study concentrate on profiling Iranian consumers, based on their perspective and their perception of luxury value dimension.

By using a multidimensional concept of luxury encompassing functional, individual and social components that were suggested by Widemann *et al.* (2009) our outcomes for segments on the market-based perceived luxury value dimension are accessible.

The concept of luxury: Luxury is an abstract concept as its meaning is determined by personal and interpersonal motives and is therefore primarily built on consumer perception (Vigneron and Johnson, 2004). Dubois and Laurent (1994) and Dubois *et al.* (2001) found that consumers' attitude towards the concept of luxury vary considerably. Consumers simultaneously display strong positive and negative feelings towards luxury-with relatively few individuals expressing indifferences. Individuals spontaneously associated the

term luxury with expressions such as upscale, quality, good taste and class, as well as flashiness and bad taste. It is now apparent that luxury products fulfil one's need, not only functional but also psychologically (Dubois *et al.*, 2001). Vigneron and Johnson (1999) suggested the definition of luxury as highest level of prestigious brands encompassing several physical and psychological values.

Due to the fluidity of the concept, different people define luxury in different ways. Most scholars agree that the perception of luxury concept takes on different forms and depend on two main subjects: the context and people concerned (Campbell, 1987). Therefore, luxury is often considered as a subjective matter.

Luxury value dimensions: Widemann *et al.* (2009) developed a luxury value model consisting of four main key dimensions of luxury value perception to distinguish the relationship between value perception and luxury consumption in different consumers. The first dimension is financial dimension. It is related to monetary aspects of luxury consumption and it addresses the actual price of these products. The second factor is functional dimension. It focuses on the core benefits and basic unities of the product. This factor contains elements from the perceived uniqueness and the perceived quality dimensions described above. The third dimension is individual dimension. It presents the aspects of the consumers' personal point of reference towards luxury consumption as well as addressing personal value. The last dimension is social dimension. It reflects the perceived value of consumers towards the luxury products within a certain social group, which might have a strong impact on the evaluation and inclination to consume luxury brands. The perceived conspicuousness and also the perceived extended self of a luxury brand fits into the last dimension.

The question of what really adds luxury value to consumer's perception is defined in this study through the existence of three latent dimensions: social, functional and individual (Widemann *et al.*, 2009). As Hollbrook (1994) claimed that heterogeneity is common among consumers, product classes and consumption situation, in this study, we focus on three of four dimensions presented in Widemann *et al.* (2009). The price value in financial dimension is described with regard to prestige, quality and conspicuousness value. These value dimensions are described below.

Functional value: Individuals may consume luxury items simply because they are perceived to be functionally better than their less luxurious counterparts. As mentioned in this study we assumed functional value is including three sub dimensions: uniqueness, quality and usability value.

Uniqueness value: Exclusivity offered by luxury brands are often well used in marketing promotion and the concept is also well documented (Pantaliz, 1995).

Product uniqueness is one of the critical features in developing a brand's characteristics and the image sending to the consumers. The rarer or more unique a brand is, the more value it symbolizes, at least in consumer's perception (Sun, 2011). Traditionally, elite luxury consumers expect distinction and exclusivity from high-priced designer's item. Therefore luxury brands usually try to control their unique experience through high-end department stores, specialty stores and personally owned boutiques (Lipps, 2009).

Quality value: Consumers may associate luxury products with superior brand quality and reassurance so that they perceive more value from them (Aaker, 1991). In addition, high quality is seen as a fundamental characteristic of a luxury product in terms of a sine qua non (Quelch, 1987).

One of the reason consumers buy luxury brands is for the superior quality reflected in the brand name. This is congruent with the assumption in the field of perceived quality, that luxury brands offer greater product quality and performance than non-luxury brands (Quelch, 1987; O'Cass and Frost, 2002; Vigneron and Johnson, 2004).

Usability value: The core benefit of a product or service can be seen in its usability for satisfying consumer needs. Hence, one must differentiate between objective and subjective judgment of usability, which depends on individual evaluation and the specific purpose of use (Wiedmann *et al.*, 2009). In this case we want to know from consumers' perspective if luxury items have usable features and are they necessary for life.

Social value: As a consequence, individuals are most likely to use products that are socially consumed, when the desire to portray status is the dominant motive for purchase and use (Lee, 1990). We will describe social value through two value dimensions: conspicuousness and prestige value.

Conspicuousness value: Bearden and Etzel (1982) showed that when a high level of reference group influence is present, it is more likely to those public luxuries will be consumed, the assumption being that the consumer wishes to send a positive signal about their status to significant others. Veblen (1899) theory of conspicuous consumption is also premised on the notion that when individuals consume luxury goods and services conspicuously they are sending a signal to others about relative status in society. Mason (1981) views satisfaction resulting from conspicuous consumption as a being consequence of audience reaction to the wealth displayed by purchase and not from the actual qualities of the good or service.

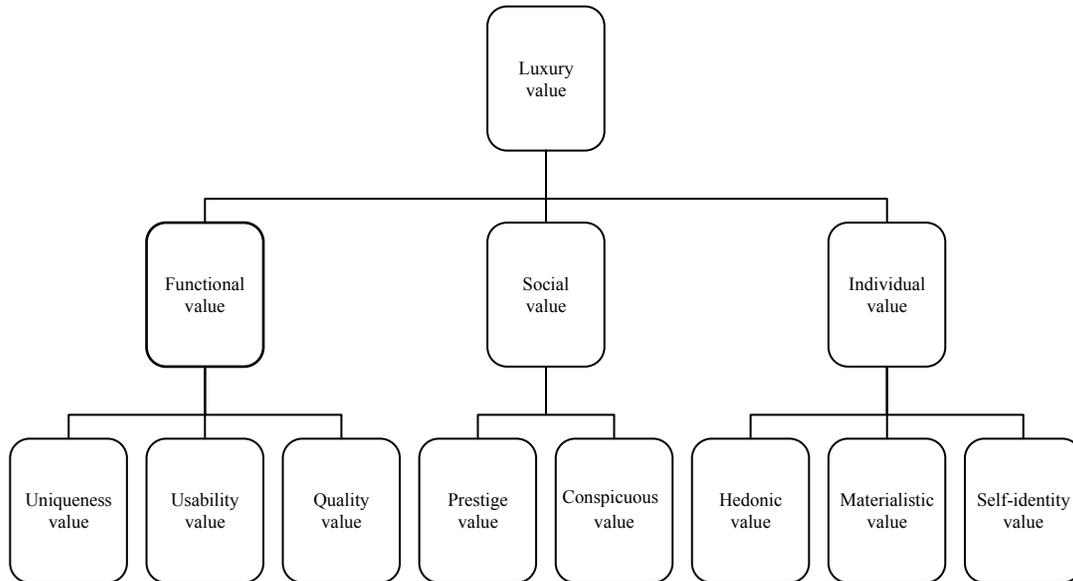


Fig. 1: The theoretical proposed model for luxury value dimensions

Prestige value: The pursuit of status through consumption appears to be a phenomenon that is common to human society, across time and across cultures. Status consumption and conspicuous consumption are frequently identified in the literature as being essentially the same concept. O’Cass and McEwen (2004) argue that such a definition that defines one concept in terms of another is incorrect. This proposition was supported by a factor analysis which found that item measuring status consumption and items measuring conspicuous consumption loaded better on a two factor solution than a one factor solution. Because of its value, the possession of luxury goods normally signifies the owner’s economical status. Dubois and Duquesne (1993) studied that the reason of consuming luxury goods is primarily for their symbolic value.

Individual value: This dimension represents the aspect of consumer’s personal point of reference towards luxury consumption as well as addressing personal value (Danziger, 2005). Self-identity, materialistic and hedonism values can also be associated with this dimension.

Self-identity value: Self-concept can be defined as a” totality of an individual’s thought and feelings having reference to him as an object” (Rozenberg, 1979). It is individual’s subjective perception and beliefs of one’s own ability, limitation, appearance and characteristics, including one’s own personality (Graeff, 1996). Consumer’s self-concept affects purchasing behaviour in a self-image or product imaged congruity model (Sirgy, 1982). Puntoni (2001) confirmed the significant impact of self-congruity on luxury brand purchases. From this point of view, consumers may use luxury

items to integrate symbolic meaning into their own identity (Vigneron and Johnson, 2004).

Materialistic value: Richins sees materialism as a system of personal values (Richins, 1994). He divides materialism into three parts: centrality, happiness and success. Centrality is the materialists attach to general importance possessions and the idea that possessions play a central role in their lives. Happiness is the belief that owning the right possessions leads to well-being and that one would be if one had happier more or better materialists’ things. Finally, Richins defines materialist as people who believe success can be judged by the things people own. In materialism view point, luxury items become more valuable.

Hedonic value: Several definitions of luxury highlight defining characteristics such as comfort, beauty (Dubois and Czellar, 2002) and pleasure (Kapferer, 1997). By Extension, this suggests that some consumers may be attracted to luxury products because of a positive emotional experience, which they may perceive will result from the consumption experience. Emotional responses to luxury have been identified in research on the semiotics of luxury. These include aesthetic beauty, enjoyment and sensory pleasure (Wiedmann *et al.*, 2009).

Figure 1 shows the theoretical proposed model for luxury value dimensions.

METHODOLOGY

To measure the underlying dimensions of consumers’ luxury value perceptions, this study used already and existing tested measures (Dubois and Laurent, 1994; O’Cass and McEwen, 2004; Richins and

Table 1: Demographic profile of respondents

	N	(%)
Age		
18-25	335	30.54
25-35	422	38.47
35-50	294	26.80
>50	46	4.200
Gender		
Female	537	48.96
Male	560	51.05
Education		
Less than high school degree	175	15.70
High school graduate	423	38.60
University graduate	403	37.20
Post grade degree	80	7.300
Religious education	13	1.200
Income		
Nothing	280	25.53
Less than 300,000 R* (≈360\$)	137	12.49
300,000-600,000 R (≈360-720\$)	249	22.70
600,000-1,000,000 R (≈720-1200\$)	228	20.80
1,000,000-2,000,000 R (≈1200-2400\$)	111	10.10
>2,000,000 R (≈\$2400)	92	8.390

*: R = Rial (Iran's currency)

Dawson, 1992; Tsai, 2005; Tian *et al.*, 2001; Wiedmann *et al.*, 2009) and generated further items based on existing tests, literature review and exploratory interviews. Twenty three marketing experts were interviewed to clarify the important components of luxury value dimensions for constructing questionnaires items.

The first version of the questionnaires, consisting of 68 items was content validated by 15 marketing experts, face-validated by 65 respondents in pre-test to identify the vague items and to reduce the total number. At last a questionnaires consisting of 63 items were responded by 1200 respondents, due to the number of missing items (more than 10%) 103 questionnaires were unusable and data were analyzed from 1,097 questionnaires of the respondents.

In summery our study conducts a two-stage procedure. In The first part, the major purpose is to determine the bases for classifying consumers' perceptions to luxury. For this purpose, initially factor analysis is performed on a 63 items questionnaire, 10 items dropped due to their low factor loadings (less than 0.4) and eight-factor solution is obtained. In second part cluster analysis is used to classify respondents based on the eight known factors. The variables used were adapted as follows: quality value, hedonic value, uniqueness value, usability value, self-identity value, prestige value, conspicuousness value and materialistic value.

Sample characteristic and data collection: This research uses an Eastern and developing country (Iran) as the site of empirical investigation. The study sample was defined as male or female respondents, aged 18 years and older. The sampling procedure used for the study was simple random sampling technique. Respondents were asked to express their

agreement/disagreement with statements on a five-point Likert type scale with anchors ranging from "1 = strongly disagree" and "5 = strongly agree". Demographic characteristics of respondents are presented as frequencies and percentages in Table 1.

Data analysis: As an initial step, the collected data were analyzed using EFA (Expletory Factor Analysis) method via SPSS 16 (Statistical Package for the Social Science) software. The various luxury dimensions were discovered by an expletory factor analysis using the principal component method with varimax rotation. The analysis produced an eight factor structure with a Kaiser-Meyer-Oklin measure of 0.967, higher than the minimum acceptable value of 0.5, indicating that the sample size is large enough to factor analyze variables. Besides the Chi-square value or the Bartlett's Test of Sphericity, is significant at the level 0.00. Thus the sample size and the nature of the data are both fit for the analysis. According to the factor analysis results demonstrated in Table 2, an eight- factor solution which explains 60.1% of total variance in 53 items was obtained. All items, with the exception of 10 items grouped meaningfully into the factors with high loadings.

Validity and reliability assessment: The validity of the scale items used was assessed through factor loadings. As shown in Table 2, factor loadings ranged between a low 0.49 and a high 0.87 and exceeded the minimum cut-off point of 0.4. Reliability of the scales is measured by computing the Cronbach alpha. For all the eight factors used in this research, the reliability values ranged between 0.75 and 0.85, which exceed the minimum acceptable value of 0.7 suggested by Nunnally (1988).

Cluster analysis: To identify different groups of luxury consumers, the factor scores for each respondent were saved and subsequently used in stage two to cluster them into market segments. The focus of cluster analysis in this study was on the luxury value dimensions that based on expletory factor analysis are summarized in eight factors. Choosing the best method of clustering and the best number of clusters are of high important challenges. Although K-means clustering is one of the most popular partitioning methods but it requires the analyst to specify the number of clusters to extract. We calculated Silhouette Width, using R software to obtain number of clusters and seed points for a k-means cluster analysis. The Silhouette validation technique calculates the silhouette width for each sample. The average silhouette width could be applied for clustering validation and also could be used to decide how good the number of selected clusters is. The Silhouette value ranges from -1 to +1. If silhouette value is close to 1, it means that sample is "well-clustered" and it was assigned to a very appropriate

Table 2: Luxury value factors

Factor name	Items	Item loadings
F1: Conspicuousness value (12.5% of total variance)	With using famous brand you can get attentions from others	0.73
	I tend to buy the luxury item that is in new style	0.74
	In my opinion having luxury items is a sign of social standing	0.68
	I like, people knows the price of the goods that I have bought	0.68
	With having luxury products, I can show people that I am rich	0.70
	I tend to show off with the luxury item that I have bought	0.75
	Other's opinion about my looking is an important issue for me	0.72
F2: Hedonic value (12.2% of total variance)	Having luxury products is enjoyable	0.63
	Luxury products should make me happy	0.79
	In my opinion aesthetics is one the important features of luxury products	0.65
	Luxury products should make me feel better about my self	0.54
	Luxury consumption should bring me self-satisfaction	0.84
	Luxury consumption can be a way to reduce stress	0.75
F3: Materialistic value (9.8% of total variance)	I think my life would be better by buying luxury products	0.55
	The rate of people's assets in society, shows the degree of success in life	0.81
	I believe that money brings happiness	0.65
	I would be happier if I could afford to buy all the things I'd like	0.69
	The criteria for evaluating people is the amount of money they have	0.78
	It doesn't bother me if I can't afford to buy all the things I'd like ^R	0.55
	One of the important wishes in my life is to have expensive goods	0.85
F4: Prestige value (8.9% of total variance)	Buying a high prices brand makes me feel more valuable	0.68
	I like to know what products seems valuable by others	0.76
	I tend to know people's opinion about expensive goods that I want to buy	0.53
	In my opinion people notice you are rich by using the most expensive brand of a product	0.79
	People who buy luxury brands, are more respected by others	0.86
	I often consult my friends to choose the best alternative available from a product category	0.56
	If you always buy cheap products, your friends will respect you less	0.67
	I tend to use the products that rich or famous people use	0.70
	I buy the goods that can impress others	0.60
	Others opinion about the expensive goods that I buy is not important for me ^R	0.83
F5: Quality value (4.3% of total variance)	One of the main characteristics of luxury products is quality	0.70
	Luxury products are long lasting	0.58
	The performance of luxury goods should matches with what it has promised to be	0.75
	The main reason of buying luxury goods is theirs quality	0.80
	Luxury items are expected to observe high standardization	0.74
	I think the high price of luxury is for its quality	0.60
	You always should pay more for the best quality	0.67
F6: Self-identity value (4.2% of total variance)	Having luxury brands has an effect on my self-confidence ^R	0.49
	Luxury products should match with my personal ideas	0.87
	Luxury products cannot be effective on my self-confidence	0.70
	I don't buy luxury goods to impress others	0.78
F7: Uniqueness value (4.1% of total variance)	People who buy luxury products try to differentiate themselves from the others	0.59
	I enjoy having things that others do not have	0.75
	I can spend lots of money for rare things	0.86
	Few people own a true luxury product	0.68
	In my opinion, products that all can afford them are less valuable	0.63
	Luxury products cannot be mass produced	0.64
	I don't like to buy products that majority of people can afford to buy them	0.74
	A luxury product should not be sold in general shops	0.87
F8: Usability value (4.1% of total variance)	I tend to use luxury items	0.74
	In my opinion, luxury is not necessary and it is just swanky ^R	0.59
	In my opinion having luxury goods are necessary	0.72
	Using luxury products increase the quality of life	0.83

*: R = Reversely coded

cluster; if silhouette value is about zero, it means that that sample could be assign to another closest cluster as well and the sample lies equally far away from both clusters (Rousseeuw, 1987). According to local maximum of Silhouette value, the results suggested the presence of four clusters; these four clusters used as an input into non-hierarchical k-means clustering.

In addition, the *F* value in ANOVA test computed to identify the significant level between-clusters differences for eight luxury value factors; it also shows that all factors have significant differentiating values. These findings confirm the validity of cluster analysis.

Overall, following the typical criteria for effective segments of consumers with homogeneous needs,

Table 3: Luxury value segments based on k-means results

Luxury value dimension	Cluster 1 N = 183 17%	Cluster 2 N = 365 33%	Cluster 3 N = 213 19%	Cluster 4 N = 336 31%	F
Functional value					
Usability value	-1.52614	0.34224	1.01057	0.15293	302.879
Uniqueness value	-0.84029	-0.23650	1.09757	0.10256	416.213
Quality value	-1.08843	0.57785	0.99610	-0.13907	-396.525
Individual value					
Self-identity value	-0.23487	0.73898	-0.52593	-0.09449	-216.877
Materialistic value	-1.10459	0.12661	0.44718	0.52881	597.835
Hedonic value	-1.19446	0.37187	0.96818	0.31543	586.236
Social value					
Conspicuousness value	-1.08243	-0.22300	1.28057	0.23863	728.752
Prestige value	-1.10399	-0.28747	1.20483	0.13395	723.752

*: All reported *F*-values are significant at 0.000

attitudes and response to marketing variables, the four clusters were distinct from one another, were large enough to be useful and provided operational data that were practical, usable and readily translation into strategy. This four cluster solution produced interpretable and stable results. The results point out that the perceived luxury value variables appeared to make considerable contribution in characterizing clusters.

Luxury value segments based on k-means results are shown in Table 3.

Cluster 1: Non-luxury consumers: The smallest cluster represented 17% of the sample. Compared to all the clusters, member of this group showed negative attitude to all luxury value dimensions. The highest negative rating is for usability value followed by hedonic value, materialistic value, prestige value, quality value, conspicuousness value, uniqueness value and self-identity value. These consumer groups believe that luxury items are just swanky and are not necessary for life. There is no enjoyment in consuming luxury and they don't think that money brings happiness. They also don't believe that luxury can be a sign of social class and members of this group don't pay attention to other's opinions. Consumers of this cluster don't think that the quality in luxury goods is higher than non luxury goods or luxury can be a sign of differentiations. Such consumers don't buy luxury for their own sake or to impress others. In summary the most negative attitude toward luxury objects can be seen in this group. Maybe this cluster is not the target of the luxury market, but the fact is that these kinds of perceptions exist in a society.

Cluster 2: Rational consumers: Comprising 33% of the sample, this was the largest of all the clusters. Its member showed the highest mean ratings of all groups for self-identity value, followed by quality value. There is a positive but not very important attitude to hedonic, usability and materialistic values. Uniqueness, conspicuousness and prestige values were rather unimportant in this cluster due to their negative mean ratings.

Members of this group are closely attached to self-identity value items and show high ratings for statements such as "luxury products should match with my personal ideas" and "I buy luxury goods for my own sake not to impress others". This indicates that these consumers' buying behaviour of luxury brands is affected by personal factors instead of societal factors such as "gain respect" or "impress others". Quality value is also important for this group, it indicates that they think luxuries have high quality and one of the reasons that luxury is important for them is the quality of the luxury items. In contrast, they did not perceive the social dimension of luxury consumption as being important; this means they don't buy luxury based on other's opinions or tend to show off with luxuries. They also don't believe that luxury goods are unique and there is no tendency to differentiate themselves from others with purchasing luxury goods.

Cluster 3: Social value seeker consumers: The third cluster made up 19% of the sample. This cluster attaches a high level of importance to nearly all luxury values, especially social value. Members of this cluster are more likely than those of other groups to take the social value aspects of luxury consumption into account, as evidenced by the highest ratings for conspicuousness value followed by prestige value with a negligible difference. The uniqueness, usability, quality and hedonic values are perceived as important for this group and these luxury dimensions have the highest ratings in this cluster when comparing to other clusters. Although there is a positive view to materialistic value, it is not such an important factor when compared to other factors. The lowest importance level is observed in self-identity value with negative rating. It indicates that personal values or buying luxury items just for own sake become meaningless in this cluster. Social seeker consumers do strongly perceive social aspects as the most important factor for the perception of luxury value. They tend to show off with luxuries, their decision makings are based on other's opinions rather than their own opinions and they also seem to consider luxuries as a signal of status. It should be mention that the role of reference group has an important role in this cluster.

Cluster 4: Materialistic consumers: This cluster comprised 31% of the sample. The most significant issue characterizing this consumer group is the fact that they attach at higher level of importance to materialistic value among all four clusters. This shows that being rich is important for this group, their happiness depends on buying everything that they want and they evaluate people by their financial status. The other prominent values are hedonic, conspicuousness, usability, prestige and uniqueness values respectively. Members of this group perceive luxuries as a way to change their moods and luxury items can be a sign of wealth and social class for them. In this cluster, consumers believe that luxuries are necessary for life and when considering the purchase of a product, they place emphasis on others' opinions. They also perceive luxury goods as unique and they tend to have rare items. However, there is somehow a negative attitude towards quality and self-identity values. In summary they don't think the high prices of luxuries are because of their high quality, they can't make a decision just based on their own values and they believe that luxuries can make them feel more self-confidence.

It is true when people are more materialistic their self-confidence is more depend on their possessions.

RESULTS AND DISCUSSION

The major purpose of this study is to understand the different luxury value perceptions among consumers. To reach our goal, factor analysis was first performed on the provided questionnaire and its output was condensed to eight major factors. Then the consumer market for luxury goods was segmented with a behavioural approach and the differences between clusters with respect to the issues of eight luxury value dimensions.

Findings revealed four behaviourally distinct segments. In one of the clusters named the Non-luxury consumers, there were no positive perceptions about luxury items, so they may not be considered as target consumers in the luxury market although it depends on market targeting strategies. Three other clusters can be more valuable as luxury market segments and marketers can apply suitable strategies based on functional, social and individual value dimensions in each group. In cluster two named as the rational consumers, self-identity and quality value found as the most important factors. Consumers in cluster three perceived conspicuousness and prestige with high level of importance values, we called them social seeker consumers. Members of cluster four as is understood by its name (materialistic consumers) focuses strongly on materialistic value.

Knowledge of all relevant aspects of consumer perceptions of luxury can be useful for managerial practice. From the market segmentation view, this study suggests that the luxury market is no longer

homogenous. It is suggested that according to perceived values in luxury brands, different sets of luxury products and different types of advertising strategies can be applied with focus on the more important values for each group. In summary, luxury brands should encompass consumer values. Even if consumers buy the same luxury goods, their perceptions about luxury values can differ, so the luxury market is heterogeneous and the role of product characteristics plays an important role. Thus it is the marketer's duty to consider individual differences in evaluating luxury values and transition consumers from less profitable to more profitable groups.

This research is not free from limitations. First, we did not specify a product and only the overall perceptions about luxury value have been tested. It is proposed to apply similar analysis for a specified luxury product or service.

Second, all participants in our research encompassed all type of consumers to reach an overall view of luxury; It would be interesting for further research to focus on luxury consumers that have more experience in luxuries. Third, further research can segment consumers based on demographic characteristics or lifestyles.

Last but not least, this study is limited to one country; consumers in different parts of the world with different cultures may buy, or wish to buy, luxury products for apparently varied reasons.

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