Chapter 4

Analyzing Countries for Their Luxury Potentials: A Macromarketing Approach

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ABSTRACT

This study attempts to fill in the gaps in the international marketing literature about international marketing entry decisions for luxury products. With this in mind, a macromarketing approach is used to segment countries according to the basic luxury consumption criteria based on the literature review. These criteria include population, GDP, GINI coefficient, total female labor force, and cultural dimensions. These indicators are listed for a total of 60 countries and multidimensional scaling analysis (MDS) is conducted to see whether some countries form groups. Finally, five groups are determined and are discussed for their luxury potentials.

INTRODUCTION

The possession of “beautiful goods” usually makes the owners of the goods happy. Nowadays, people are willing to spend higher amounts of money on luxury products (Husic & Cicic, 2009). In order to succeed in the luxury sector; brands need to build strong images. Thus, luxury brands are now some of the most remarkable and valued brands in the world (Kapferer & Bastien, 2009). As the luxury consumption trends change in today’s world, brands need to consider entering new markets. However, entering new markets raises questions that need to be analyzed. This is why luxury consumption has become an interesting area for marketers.

Researchers approach luxury consumption from two theoretical directions: the first is based on social psychology and aims to understand social motivations; and the second one is personally oriented (Godey et al., 2013). Hudders et al. (2013) propose two main categories for luxury brands based on their physical and psychosocial attributes: characteristics referring to exclusivity and characteristics referring to excellent quality and aesthetics. These characteristics are mostly individual.

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On the other hand, when companies plan to enter a new market, they should first consider macro indicators to select a market and should then focus on individual characteristics after reducing the number of potential markets. Therefore, this study focuses on the macro characteristics of luxury consumption rather than the psychological ones.

Companies operating internationally should collect information about (1) economics and demographics, (2) the cultural, sociological, and political climate, (3) the overview of market conditions, and (4) a summary of the technological environment and the competitive situation (Cateora et al, 2009). This study tries to provide a tool for international market evaluation of the luxury sector including its dynamic structure.

BACKGROUND

Definition and Determinants of Luxury Consumption

As Godey et al. (2013) indicate, even though there is a lack of substantial definitions of luxury, some characteristics of luxury brands have emerged such as beauty, rarity, quality, and price. For luxury brands, the ratio of functional utility to price is low, however, the ratio of intangible and situational utility to price is high (Nueno & Quelch, 1998). Luxury has its roots in the history associated with wealth, exclusivity, power, and satisfaction of non-basic necessities. It was considered negatively until the fourteenth century among the common people. In Europe, with the emergence of the bourgeoisie, luxury was defined as “sumptuous surroundings” that made life more comfortable (Brun & Castelli, 2013).

Grossman and Shapiro (1988) define luxury goods as “goods for which the mere use or display of a particular branded product brings prestige to the owner, apart from any functional utility.” As explained in the introduction, prestige is created at personal and societal levels. According to Heine’s (2012) definition (p. 60):

_Luxury brands are regarded as images in the minds of consumers that comprise associations about a high level of price, quality, aesthetics, rarity, extraordinariness and a high degree of non-functional associations._


1. **The Veblen effect – perceived conspicuous value.** Veblenian consumers attach greater importance to price as an indicator of prestige, because their primary objective is to impress others.
2. **The snob effect – perceived unique value.** Snob consumers perceive price as an indicator of exclusivity and avoid using popular brands to experiment with inner-directed consumption.
3. **The bandwagon effect – perceived social value.** Relative to snob consumers, bandwagon consumers attach less importance to price as an indicator of prestige but will place greater emphasis on the effect they make on others while consuming prestige brands.
4. **The hedonic effect – perceived emotional value.** Hedonist consumers are more interested in their own thoughts and feelings and thus will place less emphasis on price as an indicator of prestige.