How Do Factors That Affect The Consumption Of Personal Luxury Goods Vary Across Middle-Income And High-Income Households In India?

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ABSTRACT

This paper studies how factors that affect the consumption of personal luxury goods vary across Middle-income and High-Income households in India. It explores how income and price changes impact luxury consumption using primary data from a survey of 100 participants in Mumbai, India. It uses secondary data to support the data collected from the survey. The study analyzes behavioural economic theories to understand consumption behaviour. It also uses economic theories like the Keynesian Consumption Function, income elasticity of demand, and price elasticity of demand to highlight the distinct behaviours of each income group. The findings reveal that middle-income households are much more sensitive to price and income changes as compared to high-income households for a variety of reasons that are explored in the paper.

INTRODUCTION

Luxury goods are those for which mere display or use brings prestige to the owner. In contrast to necessity goods, they are typically more expensive and are often bought by individuals with a higher disposable income or more accumulated wealth than average (Shrivastava et al. 25). This study focuses exclusively on personal luxury goods, which include designer clothing, accessories, watches, jewellery, cosmetics, and personal care products.

According to Euromonitor International, India's luxury market is expected to be one of the fastest-growing markets in the world, with a projected $8.5 billion in 2023, up by $2.5 billion from 2021. Euromonitor also estimates India's personal luxury market to expand almost 12% annually in 2022–2026 to nearly $5 billion. This growth in the luxury sector of India is propelled by two significant reasons. Firstly, according to a Credit Suisse report, there is estimated to be a 69% growth in the number of millionaires in India between 2022 and 2027. The greater the number of millionaires, the bigger the market for personal luxury items. Secondly, the middle class is growing more aspirational and is willing to splurge on personal luxury goods. This has unlocked a huge segment of the market that was earlier only reserved for high-net-worth individuals (HNIs).

Many luxury brands like Bottega Veneta, Tiffany & Co., Valentino, Versace, Armani, Balenciaga, and Boss, have come to India. Bringing these global brands to India has helped the economy by creating employment opportunities, generating tax revenue, promoting foreign direct investment, and fostering infrastructure development.

Middle-class households are defined as those with an annual income of between Rs 5 lakh and Rs 30 lakh. According to a study by People Research on India's Consumer Economy (PRICE), the middle class in India will be 715 million in 2030-31, up from 432 million in 2020-21 (YourStory, 2024).

High-income households are those with an annual income greater than 30 lakhs. Another analysis by PRICE projects that by 2027, the average annual household disposable income is set to rise to about Rs 20 lakh at 2020-21 prices. Both income groups are differently impacted by factors that affect luxury consumption spending. These factors include income, price and other behavioural factors.

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The purpose of this paper is to examine the factors that affect the consumption of personal luxury goods and how these factors vary across middle-income and high-income households. Understanding the nuances of luxury consumption across income groups will aid producers in developing targeted strategies, thereby enhancing market efficiency and promoting revenue generation. By aligning marketing efforts with consumer preferences, businesses will be able to stimulate demand, encourage competition, and foster economic growth within the luxury goods sector. Moreover, this research will also inform policymakers on socioeconomic dynamics, facilitating the designing of inclusive economic policies, taxation strategies, and industry development initiatives thus contributing to overall societal well-being in India.

This leads to the research question, **how do factors that affect the consumption of personal luxury goods vary across middle-class and high-income households in India?**

Economic theories of Veblen goods, snob effect, bandwagon effect, perfectionism and hedonism will be used to explain personal luxury purchase behaviour. Furthermore, to study the impact of income on middle-income & high-income consumers, the Keynesian Consumption Function and income elasticity of demand will be studied. Also, to understand the impact of price on middle-class and high-income households, the price elasticity of demand and interest rates will be analysed.

METHODOLOGY

Since the research question is focused on a specific location, primary data was used to capture consumption spending on personal luxury goods, which is otherwise difficult to do through secondary sources. The conclusions drawn from the data were evaluated with the help of secondary data.

To obtain primary data, a survey was conducted with about 100 participants located in Mumbai. To understand the factors affecting the consumption of personal luxury goods, questions related to the frequency of engaging in luxury consumption activities, perceptions of luxury consumption, and the importance of brand reputation were asked, amongst others. Furthermore, to study how income and price differently impact the consumption of personal luxury goods between middle-income and high-income consumers, data about the estimated amount spent on luxury goods per month, sources of transitory income, and perceptions of the general economic situation were taken. Questions were also asked to judge the marginal propensity to consume and income elasticity for different types of goods. The survey can be found in Appendix 1. One significant limitation of the survey is that it was taken from 100 participants who reside in Mumbai, thus, it may not fully capture the consumption behaviour of high and middle-income households across India. Additionally, there is no way to check the reliability of the data collected, as it was self-reported. Participants may have provided answers that they perceived to be more socially acceptable. Hence, different types of secondary data, like research papers, articles, and blogs, were studied to help validate the results drawn from primary data.

Despite limitations, the study offers valuable insights into the consumption patterns of personal luxury goods in India.

DISCUSSION OF SURVEY RESULTS

To understand the difference between factors that influence the consumption of luxury goods between high-class and middle-class households, individuals belonging to both categories were asked similar questions.

Important takings from the survey (Appendix 1) are discussed below.

Income and proportion

Middle-income households spend a greater proportion of their income on luxury goods. This may be to increase their social status. They also typically buy luxury goods not more than once a year indicating that they do so to treat themselves occasionally. High-income households, on the other hand, across age groups, spend a lesser proportion of their income on luxury goods. This is because they have higher disposable income. Also, they purchase such goods every quarter, indicating that they have an acquired taste of finer things and are used to a certain standard of living.

Financing methods

The dependency on EMIs (Equated Monthly Instalments) by middle-class households suggests financial limitations due to limited disposable income. High-class households prefer one-time payments implying that they have financial liquidity and thus do not want debt.

Sensitivity to price changes

High sensitivity to price changes by middle-income consumers means high price elasticity of demand (PED > 1), they have financial constraints and thus want to maximise value for money. High-income households are much less sensitive to changes in price, indicating that they go by brand loyalty or exclusivity thus exhibiting price inelastic demand (PED< 1).

Both categories prefer to shop during sales and promotional periods however the middle class does it because of financial inability while the high class views it as an opportunity but not as a necessity.

Income Characteristics

The middle class rely more on transitory income like overtime, bonuses and investments for

their purchases indicating financial instability. The high class, contrarily, depend on their permanent income and thus have consistent purchasing.

The survey results highlight a stark difference between the consumption patterns of middle-class and high-class consumers. The middle class are driven by social aspirations however financial restrictions prevent them from making frequent purchases. Their purchases, mainly financed by EMIs, are occasional. The high class indulge in frequent purchasing as they have higher purchasing power. Their purchases reflect brand loyalty and an established standard of living.

ECONOMIC THEORIES TO EXPLAIN LUXURY PURCHASE BEHAVIOUR

Theories

The below-studied theories highlight the different motivations and behaviours that cause luxury goods purchases across different income groups.

a. Veblen Goods

Veblen goods are those whose demand increases as price increases. Veblen effect states that the demand for a good increases when the price increases, contrary to the law of demand, as it is perceived that the good is a symbol of affluence. Luxury goods are veblen goods hence they do not have only use value and exchange value, but also sign-value, which simulates style, prestige, luxury, power, etc; and “the truth of objects and products is their brand name,” which is “the super-sign” (Baudrillard 1998: 116, 148, emphasis in the original).

b. Bandwagon effect

The bandwagon effect suggests the tendency of people to do something simply because others are doing so (Corporate Finance Institute). In the age of social media, goods become “trendy” and “viral” frequently. People often jump on trends because of the desire to fit in or appear well off.

c. Snob effect

The snob effect refers to a decrease in demand for certain goods because others’ have started consuming the same good. This effect represents to be exclusive and different from the common herd. Snob people buy products to maintain the status level they attribute to themselves in society and to maintain exclusivity and uniqueness. However, when a product begins to be used by many consumers, snobs can reduce the value they give to that product (Bekir, El Harbi & Grolleau, 2013). According to snobs, When a good becomes available and used widely, it loses its attractiveness.

d. Perfectionism

Perfectionist consumers assess a product’s quality on their own and sometimes use the product's price as a reassurance of the quality (Husic & Cicic, 2009). They believe in quality over price and are willing to pay a premium for better quality.

e. Hedonic

Hedonist consumers buy luxury goods to boost their egos and satisfy their need for indulgence.

Table 2. Types of masstige buyers.

		Knowledgeability of luxury brands	
		Yes	**No**
Income/assets	Higher	Connoisseur	Logo buyer
	Lower	Comparer	Luxury layperson

Figure 1

Source: A Heterodox Approach to Masstige: Brand Fetishism, Corporate Pricing, and Rules of Consumer Choice

Four profiles of luxury goods consumers can be identified based on their purchasing power and knowledgeability of luxury brands: connoisseur, comparer, logo buyer, and luxury layperson. Understanding the profile of consumers based on their purchasing power and knowledgeability helps understand different consumption patterns.

1. **Connoisseurs** know brands and have enough money for the permanent consumption of luxury. They might also be called a snob buyer since they want to be distinguished from other consumers and strive for exclusivity.
2. **Comparers** are systematic and permanent buyers of luxury goods, knowledgeable about and interested in luxury brands, but due to lower income, their purchasing power is low and hence cannot indulge in frequent consumption. They are highly likely to be strategic about their consumption. They may be perfectionists, carefully evaluating products while ensuring that they fit into their budget.
3. **Logo buyers** are ignorant about luxury brands and lean toward more expensive products with big logos. Since the price for them is an important indicator of conspicuousness, they may be influenced by the Veblen effect, wherein they are likely to buy a good as its price increases, since they view it as a symbol of affluence.
4. **Luxury laypersons** have some interest in luxury brands; hence, their saturation level of luxury is unclear and varies. Because of their low income, their choice cannot be predicted but is greatly price sensitive. They are likely to be influenced by the bandwagon effect. High-income consumers are less likely to be swayed by mass trends and are more likely to focus on brand exclusivity, uniqueness and loyalty.
   and may also showcase hedonic tendencies, wherein they purchase luxury goods for aspirational indulgence driven by experiencing a momentarily high standard of living.

This analysis of economic theories and consumer profiling helps understand the rationale behind the luxury goods purchases for different income brackets. High-income consumers believe in exclusivity, uniqueness, quality and brand loyalty while middle-income consumers want to fulfil aspirations and fit in social groups through their purchases.

IMPACT OF INCOME ON MIDDLE-INCOME & HIGH-INCOME CONSUMERS

To understand how change in income affects consumers from different income groups, the following theories and factors were analysed.

Keynesian Consumption Function

The Keynesian Consumption Function represents the relationship between consumption and disposable income. It posits that consumption is equal to the sum of autonomous consumption (C_0) and the product of disposable income (Y_d) and marginal propensity to consume (MPC).

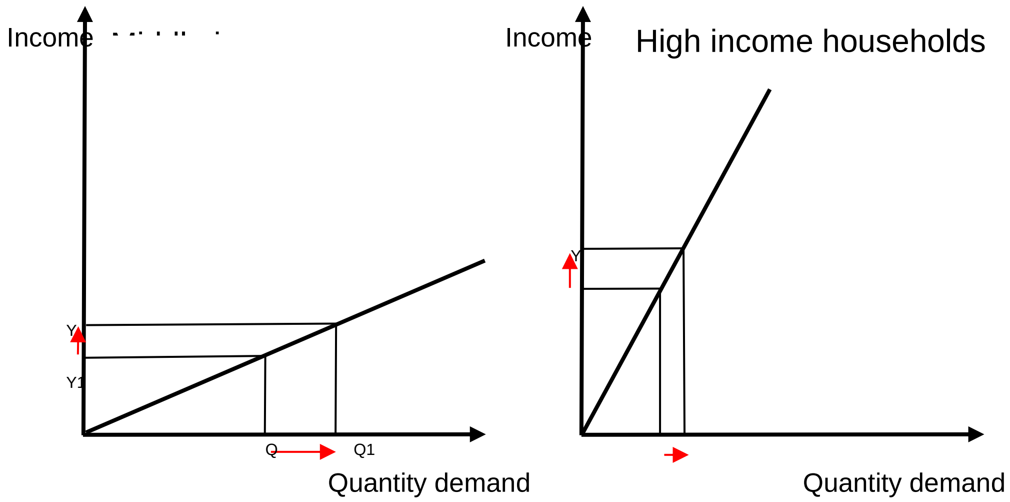
$C = C_0 + MPC(Y_d)$

Autonomous consumption (C_0) is the consumption that is bound to happen even when disposable income is 0. Marginal propensity to consume (MPC) measures the proportion of an increase in income that a person or household is likely to spend on consumption (goods and services) rather than saving. Disposable income (Y_d) is the portion of income available after paying taxes.

The survey revealed that most high-income households buy luxury goods using their permanent income. Thus, their MPC would typically be lower. This is because, with a high disposable income, most needs and wants are already satisfied hence any additional income would much rather be saved than spent. Also, if there is an increase or decrease in income taxes, their disposable income would not be greatly affected as it is already quite high. Hence, any changes in disposable income would likely not affect the consumption drastically thus their purchases would mostly be consistent and stable.

On the other hand, middle-income households use most of their transitory income for luxury purchases. Thus, their MPC would be higher. Additionally, if there is a change in income taxes, their disposable income would be drastically affected as it is not very high to begin with. Thus, even small changes in disposable income would greatly affect consumption behaviour. Hence their purchases are unpredictable and erratic. Thus, the Keynesian theory helps us understand that high-income households are not greatly affected by changes in disposable income while middle-income households are.

Income Elasticity of Demand



Graph B

Figure 2

Source: Self-drawn

Income elasticity of demand is a measure of the responsiveness of quantity demand to change in income.

As said above, middle-class consumers have a high marginal propensity to consume and comparatively low disposable income. A smaller portion of their income is permanent. Thus, they are highly sensitive to changes in income. As their income increases, their demand for luxury goods is likely to increase by a greater proportion. This is because they use their transitory income (or additional income) to fulfil their desires. Graph A reveals that as income increases, quantity demand increases by a greater proportion, indicating a high-income elasticity of demand (YED > 1).

In contrast, high-income individuals have a low MPC and most of their income is permanent, thus, given financial stability, they are less reactive to changes in income, as indicated by Graph B. They thus have a low income elasticity of demand (YED < 1).

The different consumption behaviours of middle-income and high-income households are due to contrasting financial conditions.

High-income households have low MPC and YED and thus are less affected by changes in disposable income. However, middle-income households, with high MPC and YED, are significantly impacted even by small changes to disposable income.

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IMPACT OF PRICE ON MIDDLE-INCOME & HIGH-INCOME CONSUMERS

To understand how changes in the price of luxury goods affect consumers from different income groups, the following points were studied.

Price Elasticity of Demand

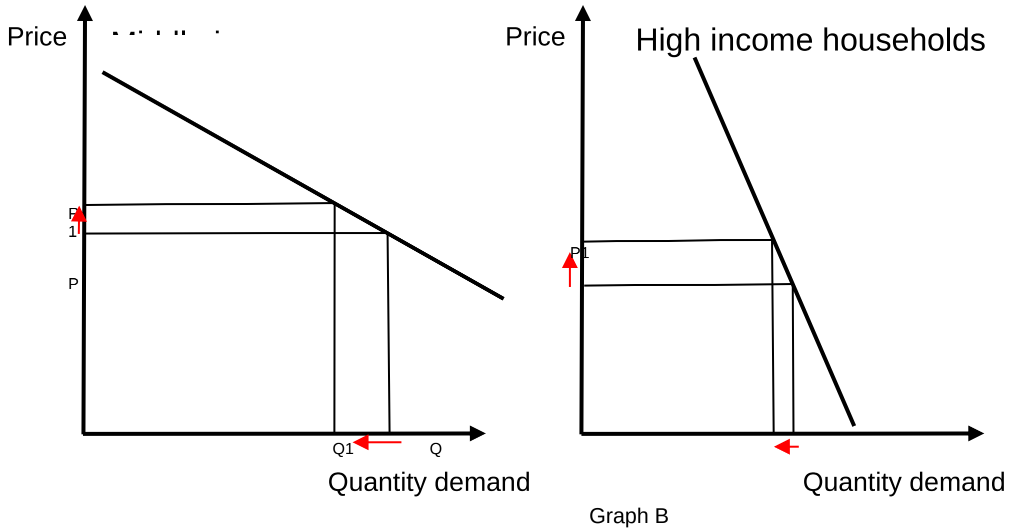

Figure 2

Source: Self-drawn

Price elasticity of demand is a measure of the degree of responsiveness of quantity demanded to change in price.

The survey revealed that middle-income people are more likely to purchase luxury goods during sales. Additionally, when prices decrease by 20%, most said that their demand would increase. A decrease in the price of a luxury good would increase their purchasing power. As seen in Graph A, an increase in the price of a good decreases the quantity demanded by middle-income households by a greater percentage than a price increase, this is indicative of a high price elasticity of demand (PED$>$ 1).

In contrast, the survey showed that high-income people are not greatly affected by a change in price. Since their disposable income is already high and stable, price changes wouldn't affect their purchasing power majorly. This is revealed in Graph B, where the quantity demanded decreases by a smaller percentage than the increase in price, symbolic of a low-price elasticity (PED $<$ 1). The survey also reveals that some would not buy goods if their prices decreased, indicating negative PED. This suggests a preference for exclusivity, a typical characteristic of snob behaviour.

Interest Rates

The survey revealed that middle-income households often rely on EMIs to finance their luxury purchases. Since they rely on transitory income and have limited disposable income, they are very sensitive to the cost of credit, meaning, they are very sensitive to interest rates. If the interest rates of EMIs increase, their ability to finance and afford luxury goods decreases.

In comparison, high-income households have financial liquidity and thus usually prefer to not take EMIs to finance their purchases. They prefer to be debt-free and thus are unaffected by changes in interest rates. If they choose to opt for an EMI, since they have plenty of disposable income, they will not be greatly affected by changes in interest rates.

Thus, high-class households, having stable and high disposable income, exhibit low PED and less sensitivity to changing interest rates.

Middle-class households, on the other hand, show high PED and are greatly sensitive to changing interest rates because of limited disposable income and reliance on EMIs.

CONCLUSION

Middle-income households exhibit erratic and inconsistent consumption patterns because they rely on transitory income and EMIs. They have relatively low disposable income and financial stability and thus are sensitive to changes in income and price. Their purchases are driven by the desire to fulfil aspirations and enhance their social status but financial limitation restricts frequent purchases. Economic theories suggest that middle-income households have a high marginal propensity to consume as well as a high-income elasticity of demand, meaning that they are very vulnerable to even slight fluctuations in disposable income. They do not have substantial permanent income and hence use EMIs to finance their luxury goods purchases. Additionally, they have high price elasticity of demand and are sensitive to changes in interest rates thus proving that they are extremely sensitive to changes in price.

In comparison, high-income households have stable and consistent consumption behaviour owing to high disposable income and financial stability. They are not as vulnerable to changes in income and price because of the same reason. Their purchases are motivated by the need to maintain an established standard of living, brand exclusivity, loyalty and uniqueness. The Keynesian consumption function suggests that they have a low marginal propensity to consume and low income elasticity of demand because of their already high purchasing power. This proves that they are less sensitive to changes in disposable income. EMIs rarely finance their purchases because of high permanent income and they exhibit a low price elasticity of demand indicating that they are not very vulnerable to changes in price.

The paper also studies behavioural economic theories like Veblen goods, the bandwagon effect, the snob effect, perfectionism, and hedonic motivations to understand the rationale behind luxury goods purchases for different income groups. Middle-income households are influenced by social trends and aspirations while high-income households prioritize quality, uniqueness, and exclusivity,

Thus, this paper highlights the vast disparity in consumption patterns between middle-income and high-income households. It thus can be used by firms and businesses to create marketing strategies to best promote their luxury goods to different segments and increase their revenue, thus promoting growth in the Indian luxury market.

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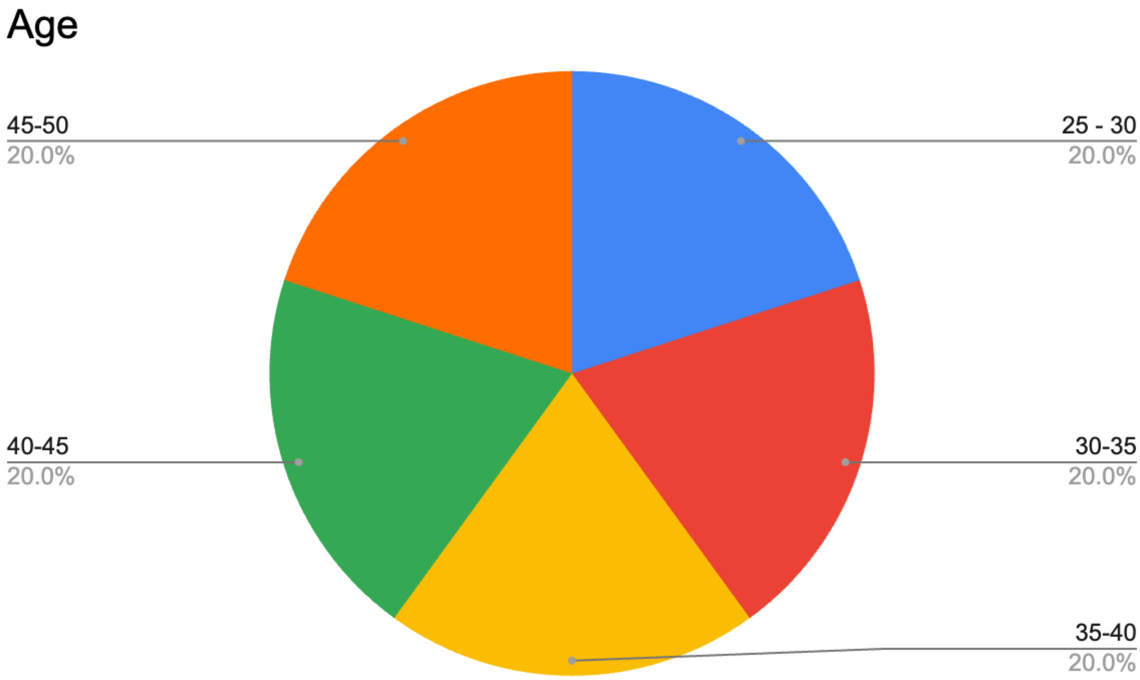
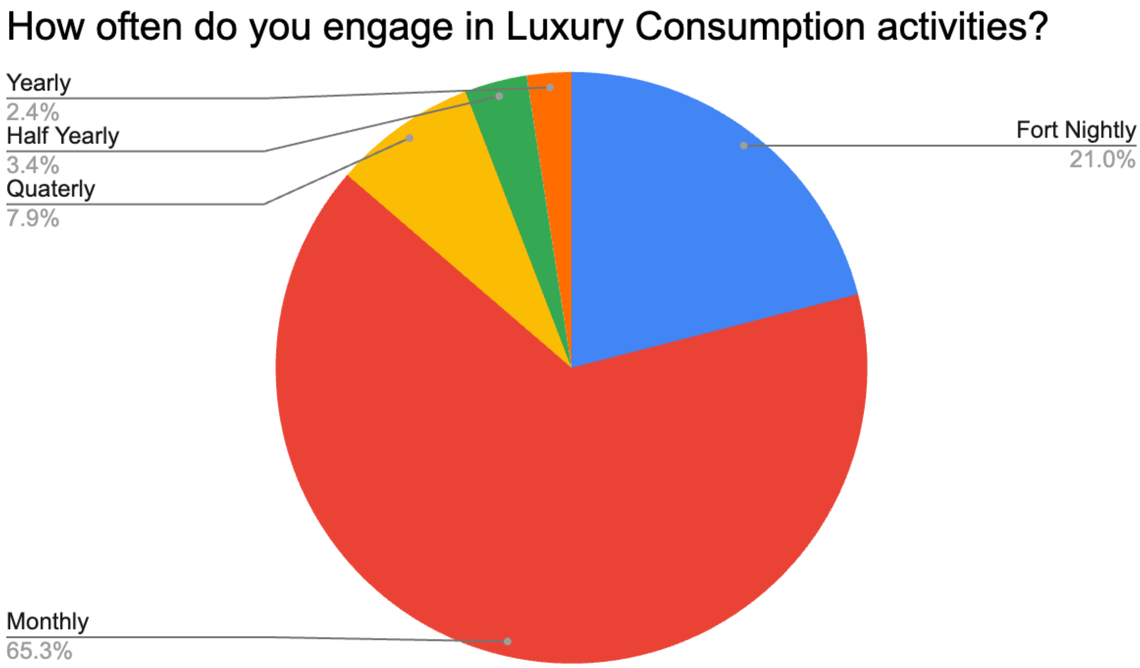
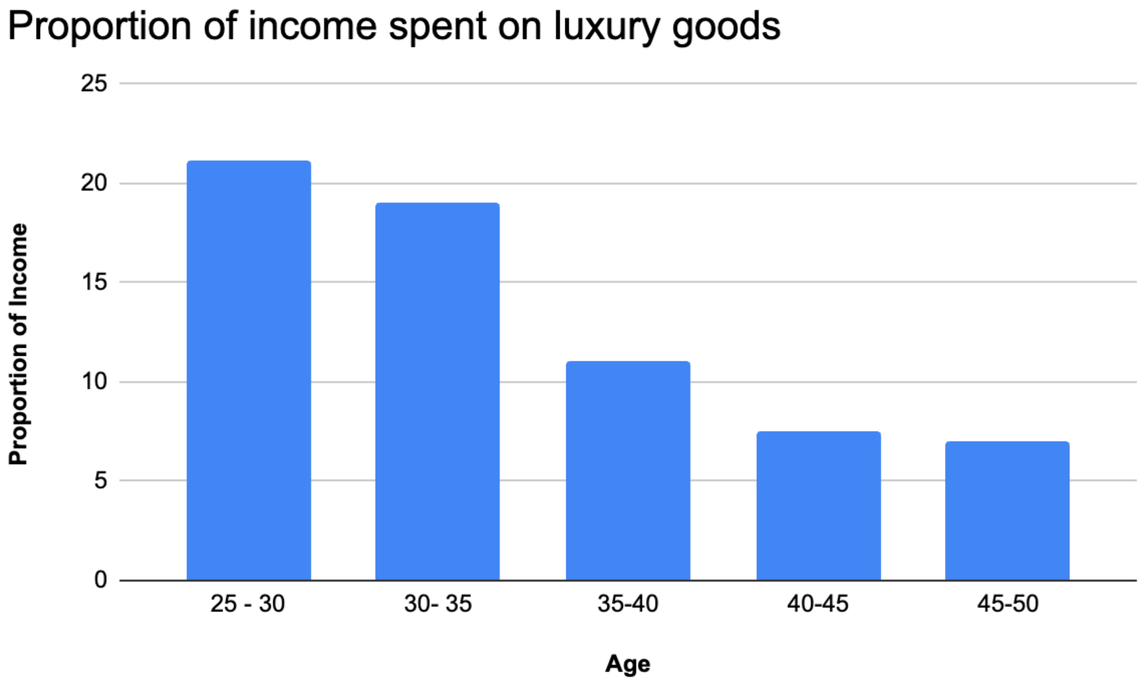
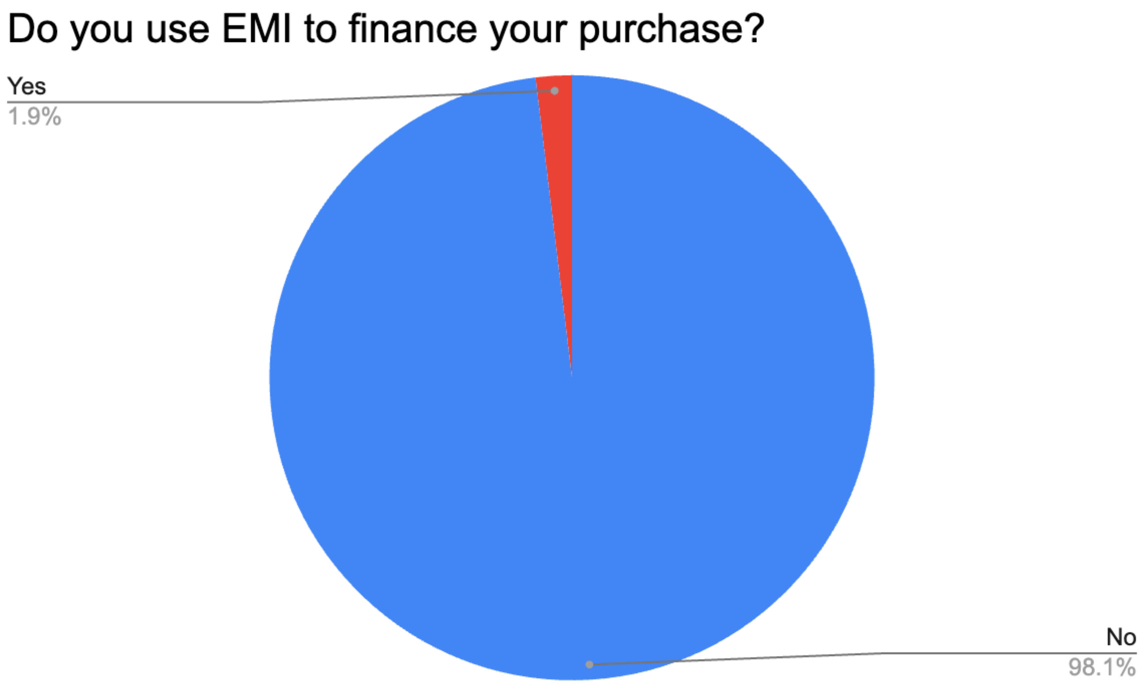
APPENDIX 1

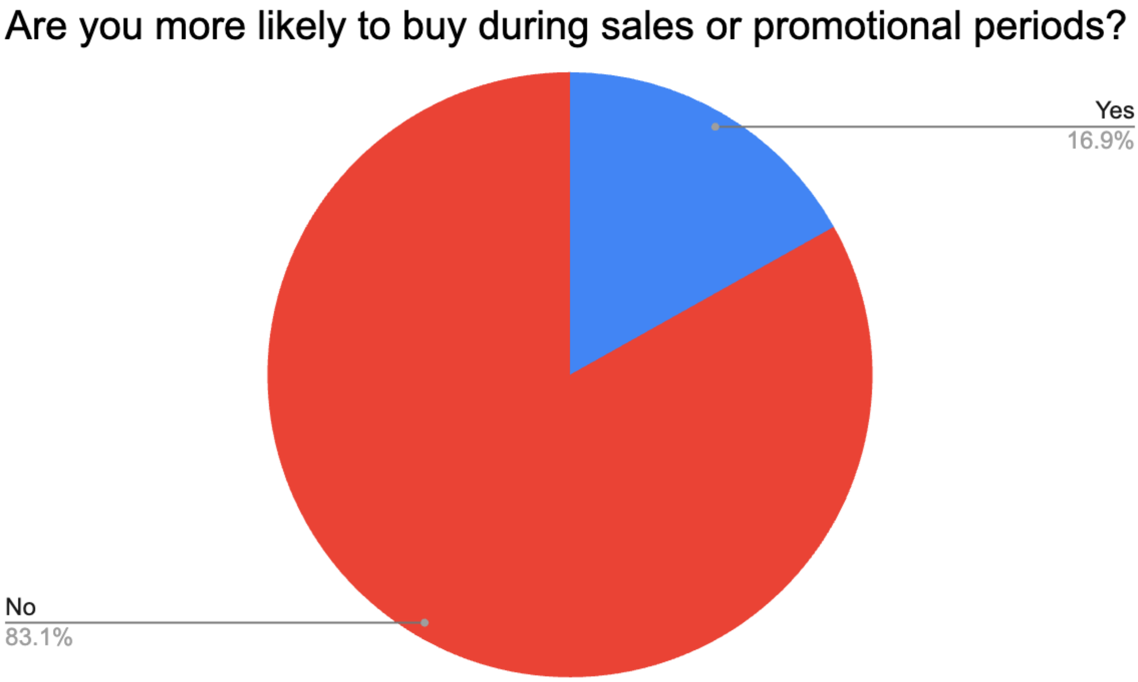
High-Income Households

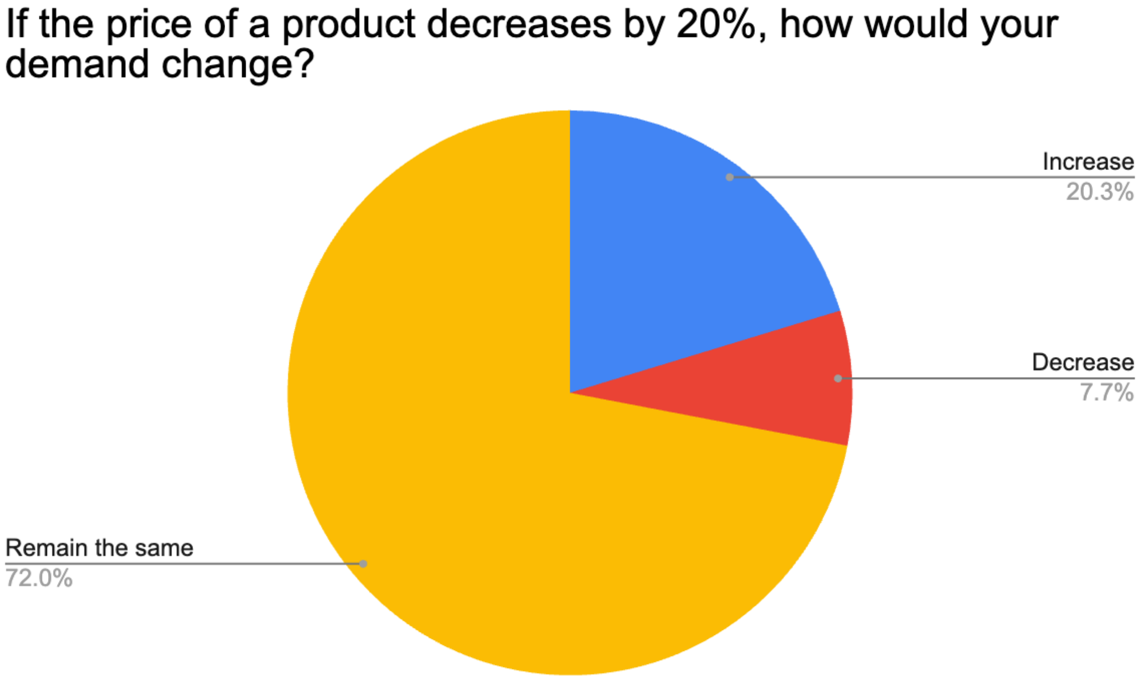


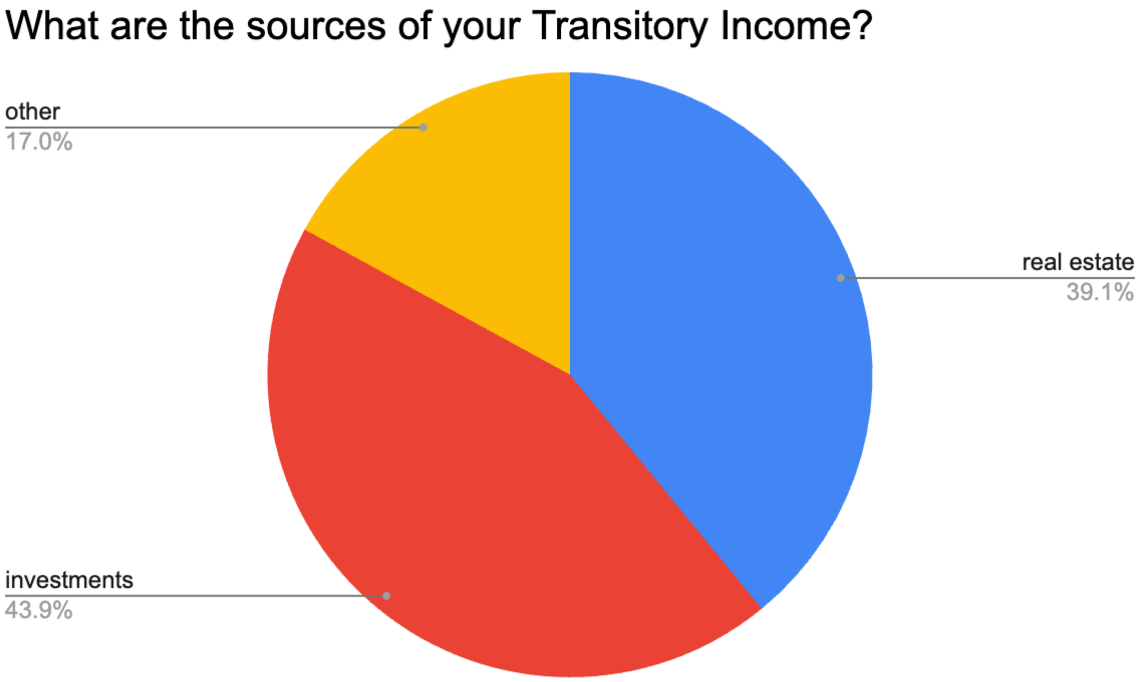


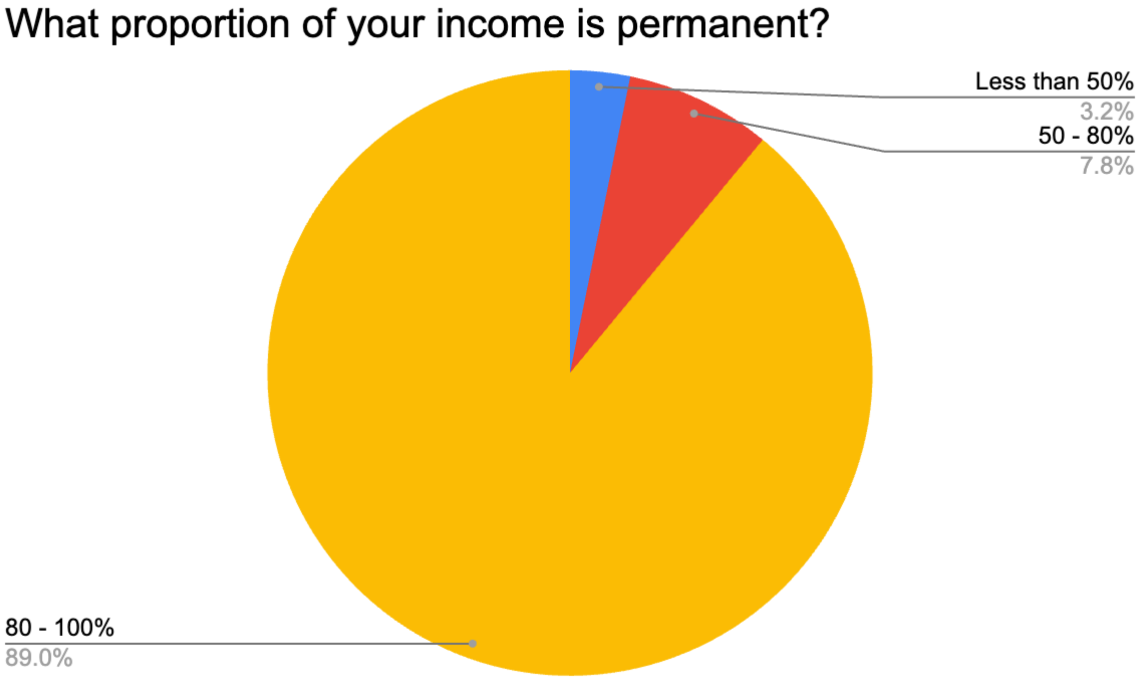

Proportion of income spent on luxury goods
Proportion of Income
25
20
15
10
5
0
25 - 30
30- 35
35-40
40-45
45-50
Age

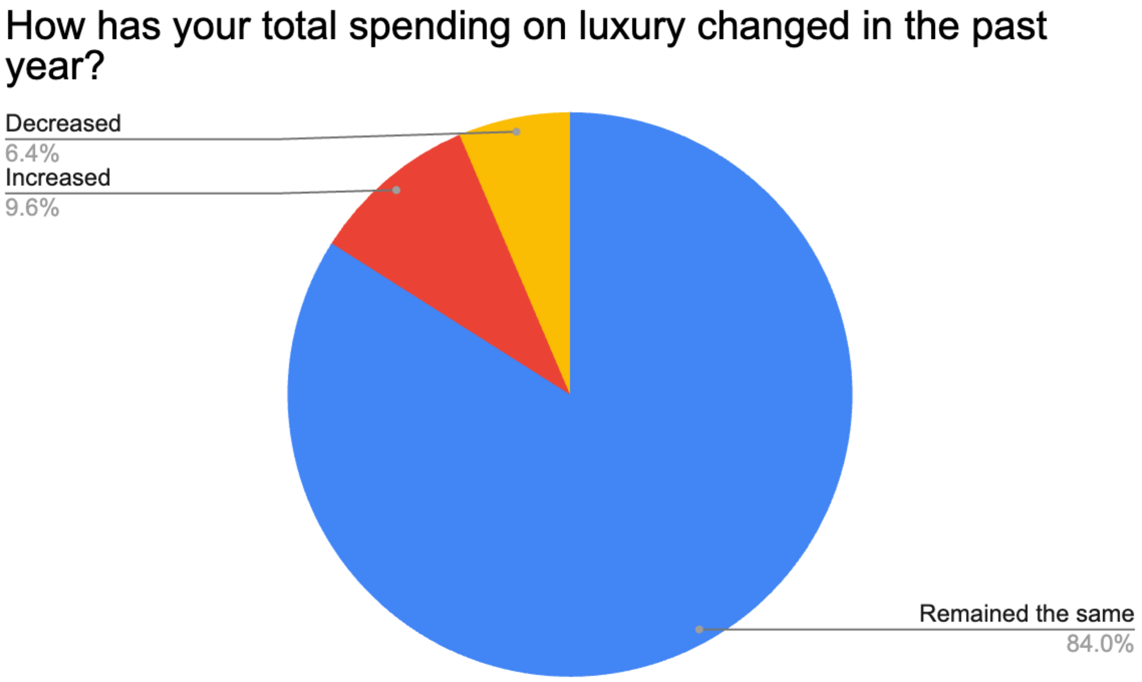

Do you use EMI to finance your purchase?
Yes
1.9%
No
98.1%


Are you more likely to buy during sales or promotional periods?
Yes
16.9%
No
83.1%

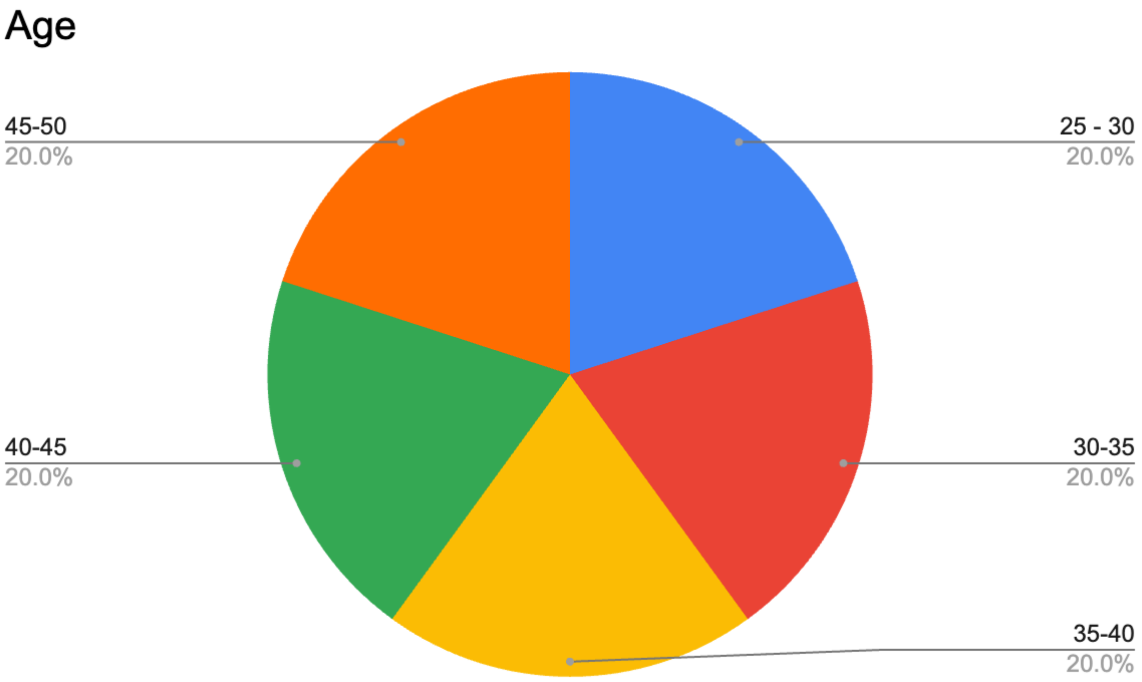

If the price of a product decreases by 20%, how would your demand change?
Increase
20.3%
Decrease
7.7%
Remain the same
72.0%

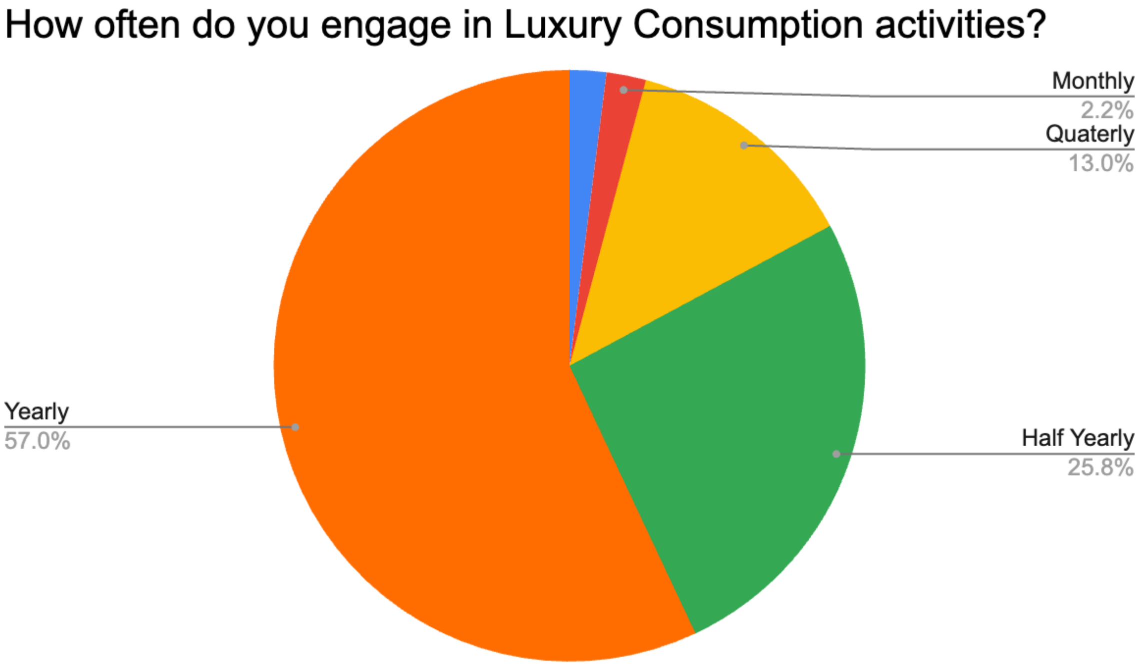

What are the sources of your Transitory Income?
other
17.0%
real estate
39.1%
investments
43.9%

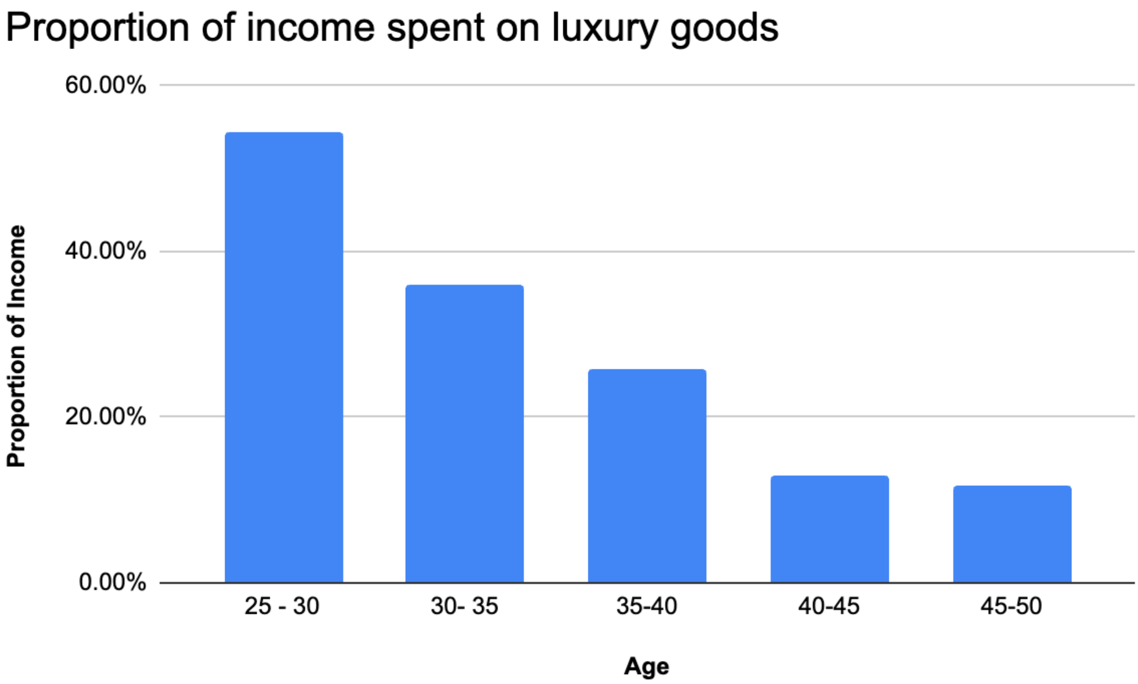

What proportion of your income is permanent?
Less than 50%
3.2%
50 - 80%
7.8%
80 - 100%
89.0%

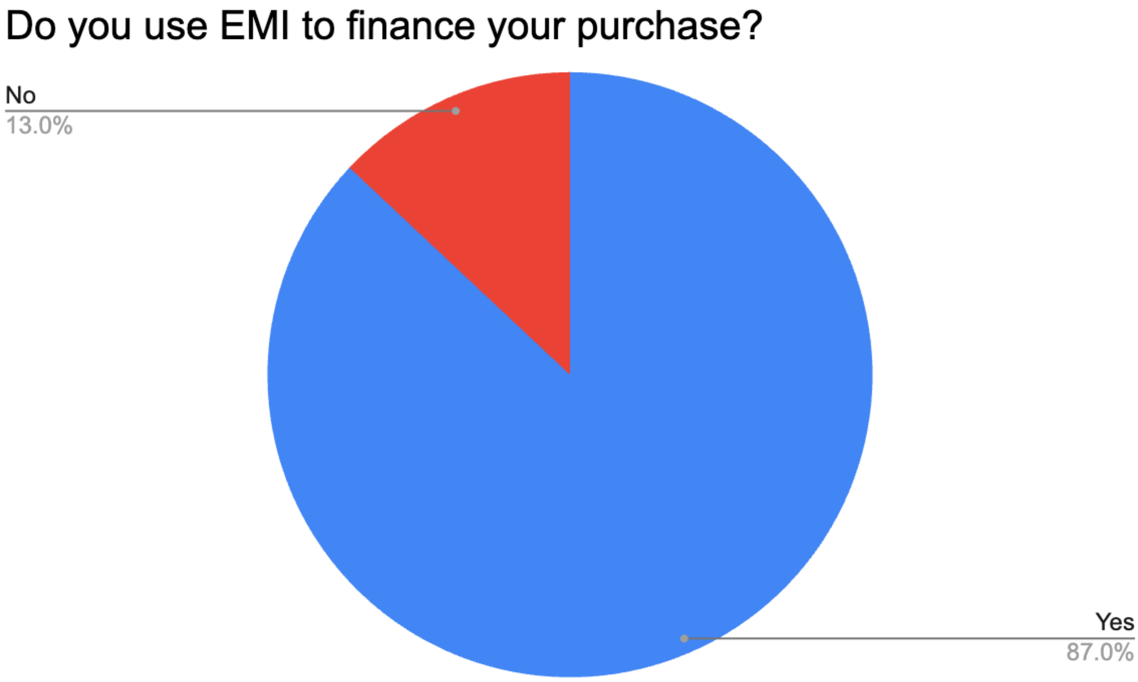


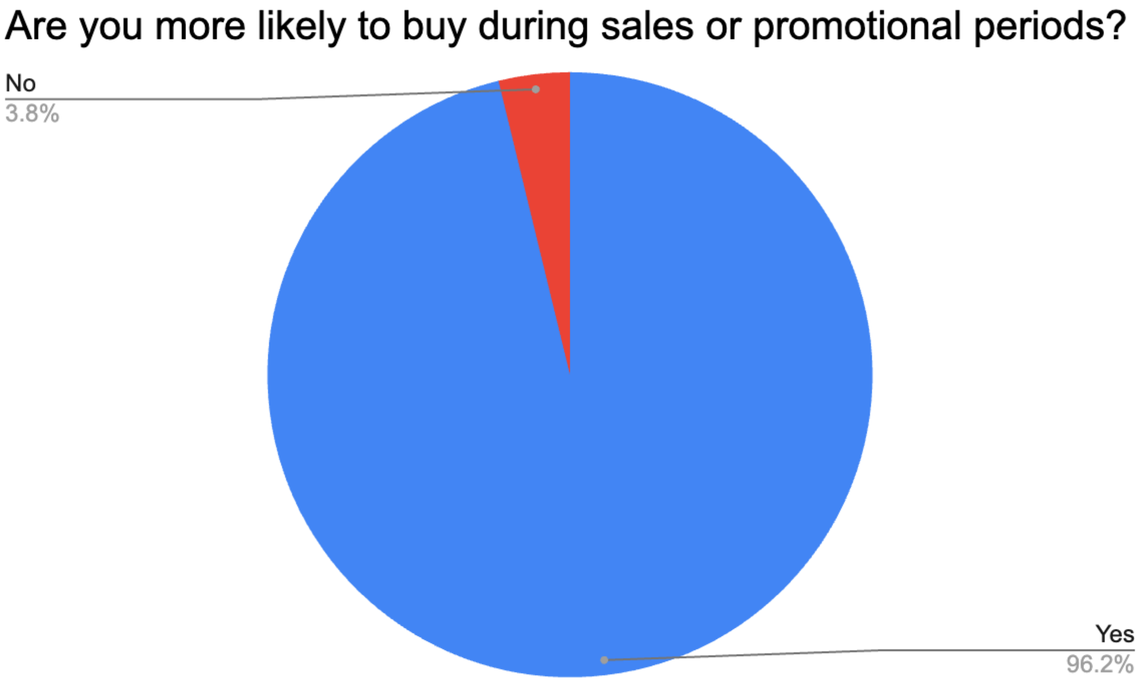
Middle-Income Households

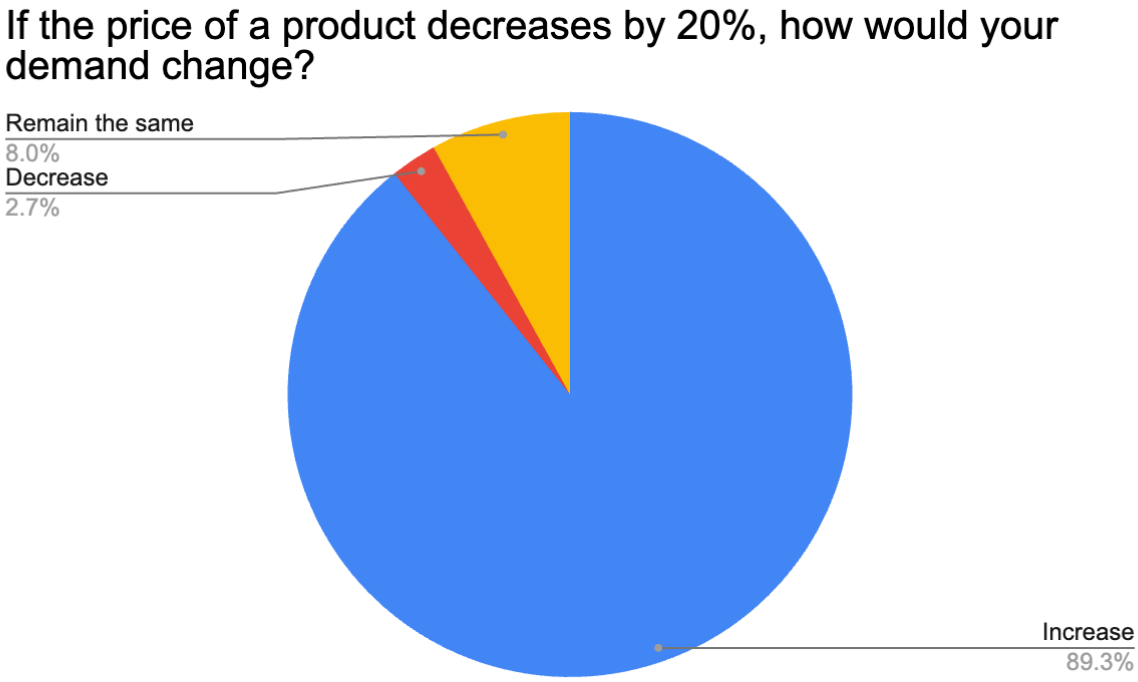


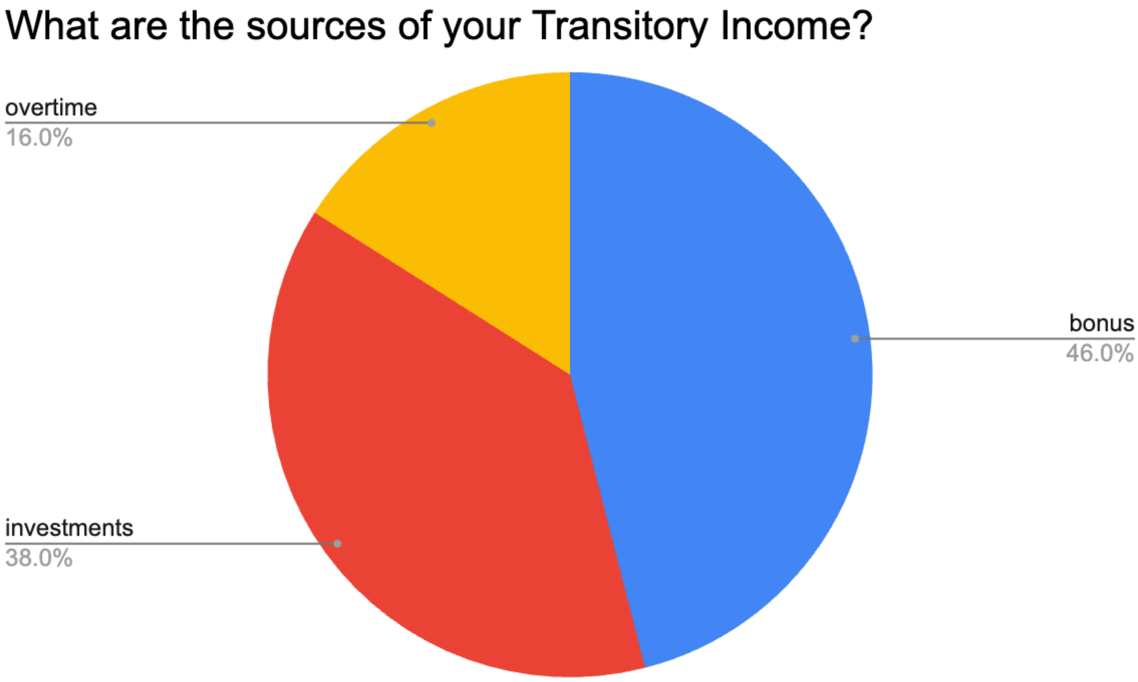

How often do you engage in Luxury Consumption activities?
Monthly
2.2%
Quaterly
13.0%
Yearly
57.0%
Half Yearly
25.8%

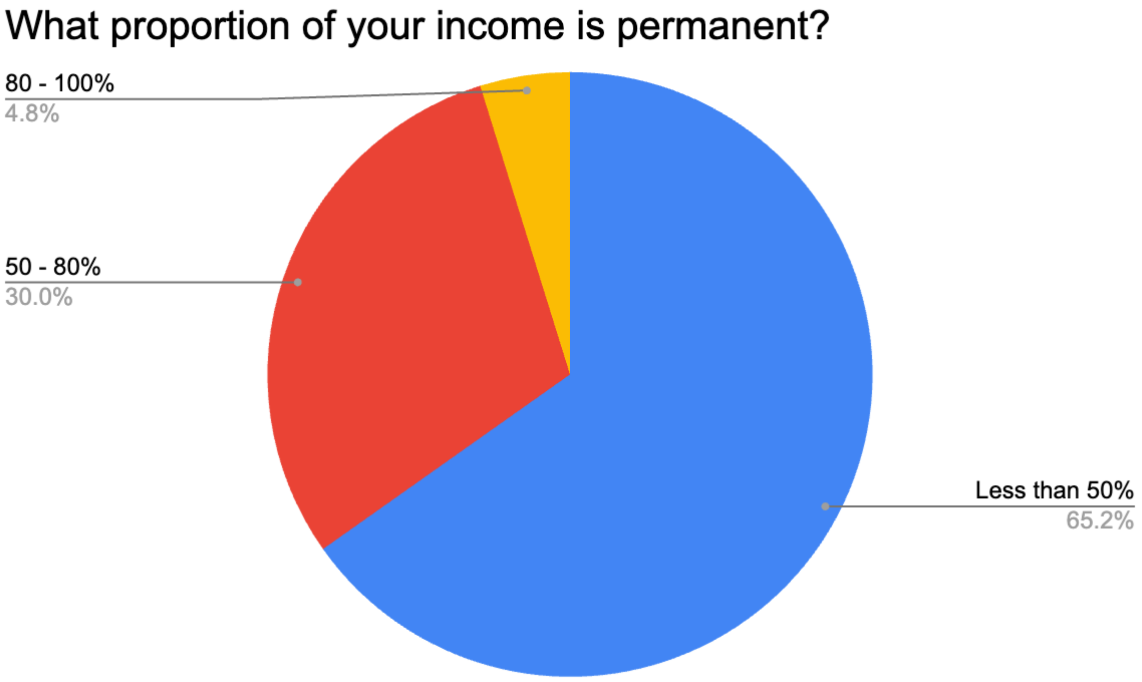

Proportion of income spent on luxury goods
60.00%
40.00%
20.00%
0.00%
Proportion of Income
25 - 30
30- 35
35-40
40-45
45-50
Age

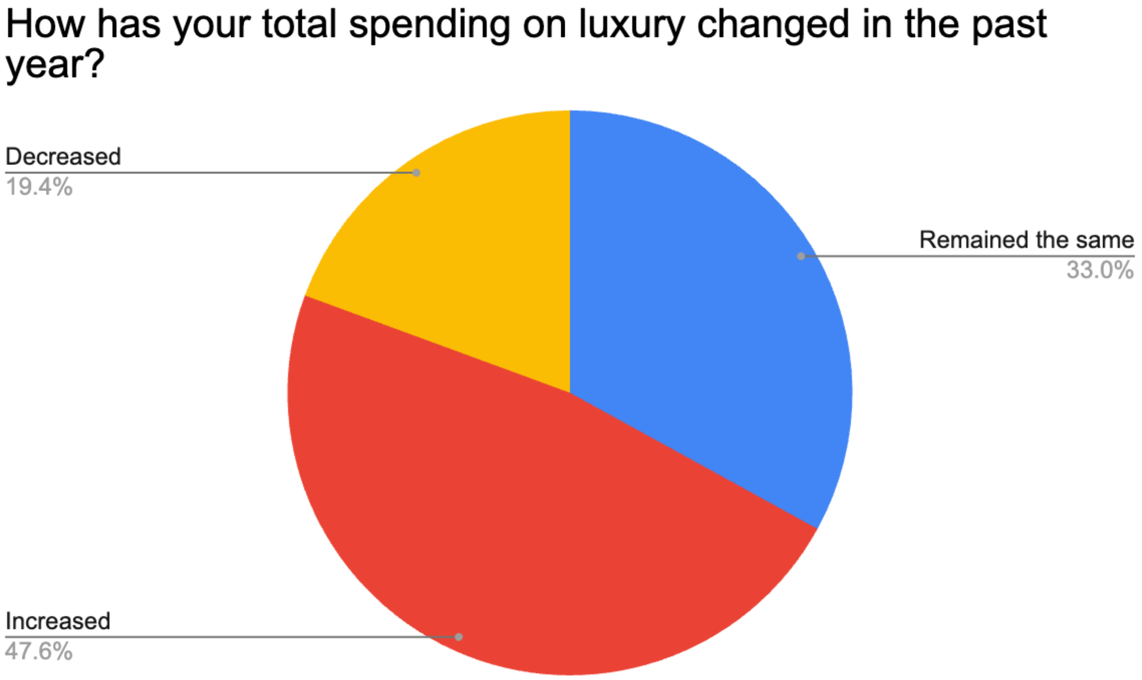

Do you use EMI to finance your purchase?
No
13.0%
Yes
87.0%


Are you more likely to buy during sales or promotional periods?
No
3.8%
Yes
96.2%


If the price of a product decreases by 20%, how would your demand change?
Remain the same
8.0%
Decrease
2.7%
Increase
89.3%


What are the sources of your Transitory Income?
overtime
16.0%
bonus
46.0%
investments
38.0%


What proportion of your income is permanent?
80 - 100%
4.8%
50 - 80%
30.0%
Less than 50%
65.2%


How has your total spending on luxury changed in the past year?
Decreased
19.4%
Remained the same
33.0%
Increased
47.6%