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Increasing customer equity of luxury fashion brands through nurturing consumer attitude [☆]

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ABSTRACT

The global luxury industry has seen steady growth for the last 15 years. It is one of the most attractive and profitable industries. Asia became the most potential region where the average income has risen significantly. Korea is one of the most attractive luxury markets in Asia. This study examines consumers' attitudes toward luxury brands and the relationship among attitude toward luxury brands, drivers of customer equity and customer lifetime value in Korea. Results of data analysis indicate that experiential need and fashion involvement are important antecedents of participants' attitude toward luxury brands. Attitude toward luxury brands positively influences luxury brand equity and value equity. This research finds that there is no significant relationship between attitude toward luxury brand and relationship equity. And as we expected, customer equity positively influences customer lifetime value.

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1. Introduction

World-wide sales volume of luxury goods increased significantly up to US\$ 130 billion in 2007 (Okonkwo, 2007). In particular, the demand for luxury brands has grown rapidly in Asia. Ownership of luxury brands can reflect the owner's social status as luxury brands are universally recognized as a statement of good taste in a global economy (Nueno & Quelch, 1998).

There are various definitions of luxury brands. For example, luxury brands are defined as products whose price and quality ratios are the highest in the market (McKinsey, 1990). Vigneron and Johnson (1999) indicate that luxury brands are the highest level of prestigious brands encompassing several physical and psychological values.

In spite of the increase in luxury brand products consumption, there is a paucity of research in this area. Fionda and Moore (2009) identified seven dimensions of luxury brands, including brand/marketing strategy, product and design, price exclusivity, communications strategy, brand leadership/designer, distribution strategy and heritage. However, a few studies have examined consumers' attitudes towards luxury brands.

Since many European luxury brands have expanded rapidly into the emerging markets of Asia, it is important that these companies understand the determinants of consumers' attitudes toward the luxury brand.

The purposes of this study are: (1) to identify the antecedents of attitude toward luxury brands, (2) to examine how consumers' attitudes toward luxury brands impact customer equity, (3) to investigate the effect of consumer' attitudes toward luxury brand products on customer lifetime value, and (4) to determine the impact of customer equity on customer lifetime value in a Korean context. This study presents a review of the relevant literature and conceptual research model and proposes research hypotheses. This research reports data analysis, discusses the results, and suggests managerial implications.

2. Literature review

2.1. Antecedents of attitude toward luxury brands

2.1.1. Materialism

Belk (1984, 1985) defined materialism as a personality-like trait that distinguishes individuals who regard possessions as essential to their identities and lives compared to those who regard possessions as secondary. Richins and Dowson (1992) defines materialism as "a set of centrally held beliefs about the importance of possessions in one's life" focusing on the value placed on the acquisition of material objects. Richins and Dowson (1992) also argue that materialism influences consumption arenas, that is, the type and quantity of goods purchased.

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2.1.2. *Experiential need*

Experiential need reflects consumers' need for novelty, variety, and sensory gratification or pleasure (Park, Jaworski, & MacInnis, 1986). Experiential need has been recognized as an aspect of consumption that is an important consideration as firms develop products to satisfy consumer needs.

2.1.3. *Fashion involvement*

A number of previous studies have utilized involvement to examine fashion clothing (e.g. Browne & Kaldenberg, 1997; Fairhurst, Good, & Gentry, 1989; Flynn & Goldsmith, 1993; Tigert, Ring, & King, 1976). The importance of involvement is demonstrated by the defining role of fashion clothing in society. Further, fashion clothing's continual and cyclical nature implies people are often drawn into the "style" or fashion of the moment and that there are those who place a great deal of emphasis on their clothing.

2.2. *Customer equity (CE)*

CE research is developing rapidly as researchers identify important factors in the relationships among key constructs (Hogan, Lemon, & Rust, 2002). Some marketing literatures have established value equity, brand equity, and relationship equity as key constructs of CE (Rust, Zeithaml and Lemon, 2000a,b; Rust, Lemon and Zeithaml, 2004; Rust, Lemon & Narayandas, 2005). These constructs are referred to as "drivers" that influence changes in customer equity are considered as determinants of CE.

CE can be viewed as a tool that can be used to justify the development and implementation of a variety of marketing strategies. Blattberg and Deighton (1996) indicated that a firm should understand the value of their customer base to determine the optimal investment in specific customers.

Other research has linked CE to the financial performance of a firm. Rust et al. (2004) focused on CE as a tool to evaluate marketing decisions. Managing budgets, companies must make resource allocation decision for marketing efforts including advertising, promotions, and sales.

2.3. *Customer lifetime value (CLV)*

The notion of lifetime value of a customer has been well accepted by both researchers and business practitioners. It is generally believed that lifetime customers are the most profitable to a firm. Reichheld and Teal (1996) attributed the increase in profits from loyal customers

to their willingness to pay price premiums, the added profits from sales through referrals, profit from cost savings obtained by serving a longtime customer, and revenue growth from a loyal customer due to increased sales to that customer. These are the most commonly held reasons for increase in profitability from lifetime customers.

Customer lifetime value (CLV) is gaining importance as a marketing metric in both academia and practice. Many big companies are routinely using CLV as a tool to manage and measure the success of their businesses (Gupta et al., 2006).

3. **Research model and hypotheses**

3.1. *Research model*

Fig. 1 shows a broad overview of the conceptual model used to discuss the relationships among antecedents of attitude toward luxury brands, customer equity customer lifetime value.

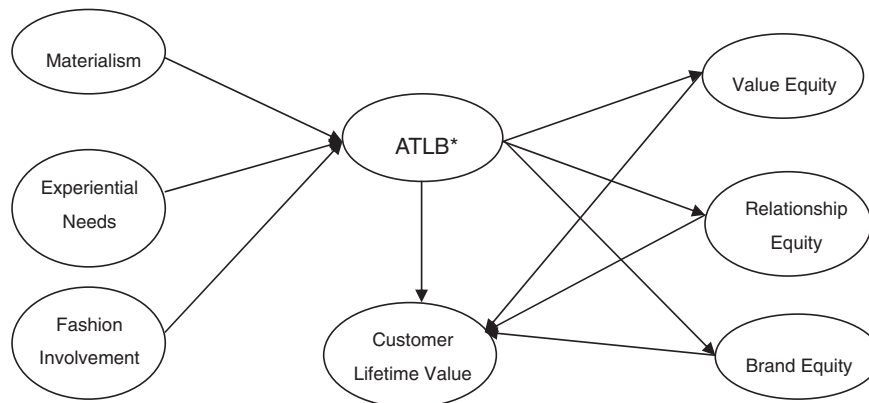
3.2. *Research hypotheses*

Some studies (Fournier & Richins, 1991; Richins, 1994; Wong, 1997) have reported that materialism has a direct positive effect on conspicuous consumption or status- or success-oriented consumption. Fournier and Richins (1991) reported that two important motivations for materialism are status display and self-affirmation through ownership of status-oriented possessions. Richins (1994) found that highly materialistic people are more likely to value expensive and publicly displayed possession items, which signal success and social status. Some studies (Bearden & Etzel, 1982; Piron, 2000) have categorized luxuries into publicly and privately consumed. As such, materialists could consume luxury brands for the purpose of publicly displaying their success and social status. Considering the characteristics of global luxury brands, an individual's belief that others would recognize one's luxury brands may play a crucial role in luxury brand purchases. Korean consumers regard global luxury brands as symbols of prosperity and social status in a cross-culture context.

Based on a review of the relevant literature, the following hypotheses are proposed:

H1. Antecedents of attitude toward luxury brands will positively influence attitude toward luxury brands.

H1-1. Materialism will positively influence attitude toward luxury brands.



*ATLB: Attitude toward luxury brands

Fig. 1. Research model.

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