

# The Determinants of Demand for Luxury Goods among Youth in Indonesia

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**Abstract:** *In modern times, luxury products are available for all the customers beside rich and elite peoples of the society. Prior to that the luxury was only linked with the things such as watches, cars and villas. A lot of changes occurred in the meaning of luxury. Now a day's people hold more discretionary income and different peoples of the society satisfy their needs by purchasing products of luxury brands. For this reason, luxury is linked with experimental and emotional value. Purchase of luxury items by the people is because of displaying their status in a society. Different customers in a society purchase product for similar reasons. A main purpose of this study is to analyse the effect of different factors which affect the purchase intention of the consumers such as the quality, self-identity, and price of the luxury brands in the context of Indonesian youth. The main objective of the research is to determine the influence of self-identity value, quality and price in determinants of why youth choose original luxury products. The first two determinants are shown to have a positive correlation whilst the last determinant has a negative impact. This indicates that whilst choices are guided by self-identity value and quality of luxury goods, price remains an important discouragement. Thus, it provides insights into the mindset of Indonesia youth in terms of their affinity for luxury goods.*

**Keywords:** *Young consumers, luxury, market segmentation, Indonesia.*

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## I. INTRODUCTION

Now a days the availability of luxury products is not only for elites and rich but to many other customers. Prior to that the luxury items are linked only to the watches, villas and cars. Since then the meaning of luxury is changed widely. There is more discretionary income of the people which made them to buy luxury brands to fulfil their desires and needs. For this purpose, luxury is linked to experimental and emotion value (Kapferer&Bastien,2008; Aaker,2009). Luxury products are bought by the people to show a status in society. In different areas customers may not buy products for same reasons.

There are number of factors which impact the customers such as quality, self-identity and price regarding the products. It is of utmost important that researchers of luxury brands know why the consumers are buying luxury items, what they think luxury is and how their thinking of self-identity affect their choice of luxury products. Sproles and Kendall (1986) explains that the decision-making style of the consumer is a mental orientation which explains the consumers approach of making choices. For this reason, examining of such concept is necessary for the marketing practices because it determine the behaviour of the consumer and is linked with the market segmentation.

The purpose of this study is to find the effect of various factors which affect the consumer's self-identity, quality and price value towards Luxury Brands of the consumer in the context of youth in Indonesia. Then this study will present methodology of the research and finally the findings of the will be presented.

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Luxury goods are said to have high-income elasticity of demand as people become wealthier, they will buy more and more of the luxury good. By purchasing a luxury good from the luxury brand, the brand itself will be the identity of the consumer. This research is wanting to discover if the self-identity value will effect in decision-making, and if the consumer purchasing luxury good because of its brand only. Is self-identity value affecting Indonesian youth buying original luxury goods?

Moreover, even though the luxury goods have been acknowledging by their quality. Is it because of this characteristic it will affect in the decision-making? Or the quality is just side characteristic to reconsider? Is quality affecting buying original luxury goods. With this question, we want to research if the quality will affect in decision-making when purchasing luxury goods.

Luxury good are not just well-known among the rich, but regular consumer is also attracting toward the luxury good. Even though some of the luxury good are expensive, because of interest toward it, most people willing to pay more to gain it. In this research, we want to study if the price affecting Indonesian youth to buy original luxury goods.

A term of luxury products is a explained a luxurious defined in the annual "Consumer and Designer Brand Report 2008" by the global Nielson firm. We want to study if the self-identity value, quality and price will affect Indonesian youth buying original luxury goods.

## **II. LITERATURE REVIEW**

### **2.1 Determinant of Luxury Goods**

A fundamental research theory for this study is based on the determinants of luxury products. Accelerating demand of the luxury products will define the future marketing opportunities in the Asia Pacific region despite a recent drop in the demand of luxury products. Half of the luxury products distributed globally is demanded by Asia Pacific region. It is predicted that almost 50% of the luxury products would be demanded by Greater China (with Taiwan) and its worth would be about \$219billion; a significant increase from the level of 15% share in 2010 ( Bao, Bao & Sheng, 2011; Bowman, 2008). In Asia numerous luxury brands are market from decades (Ram, 1989) and other brands have recognized that there is decent increase in the middle class and that is a lucrative target market for them. About a decade ago, it was believed that a fast growing sector is the marketing of luxury brands (Vigneron and Johnson, 1999). After a decade 7 out of 100 global brands are luxury products.

Number of research organizations reported a significant value of the market of luxury goods. A research explains that globally the market will grow by more than worth of \$361 billion by 2012 (Clark, 2011). Bain and Company (2010) reported that demand of the luxury products such as shoes and handbags increasing in China year by year. It is suggested by the scholars that Asia has a high ratio of aspirational consumers compared to the rest of the world, resultantly increased the demands of luxury goods (Degen, 2009; Curtin, 2009).

### **2.2 Self-Identity Value**

Contrary to the external face of oneself, internal (private) situation of a person is explained by the self-identity in terms of individual's perception of her or himself (Jamal and Goode, 2003; Sirgy and Johar 1999). Additionally, in the consumer behaviour theory it is widely accepted that a relationship is moderately present within in the self-image congruity. The theory also explains that the effect of self-concept of consumers is present on their purchasing behaviour in a congruity model of self-image. Regarding the luxury brands, Putoni (2001) confirmed the impact of self-congruity on the purchasing behaviour of luxury brands. From this view, luxury items could be used by the consumers to integrate a symbolic meaning in their own identity (Vigneron and Johnson 2004) or luxury brands are used to develop and support their own identity (Hirshman 1988; Douglas and Isherwood 1979).

### **2.3 Quality**

Luxury brand's functional dimension related to the fundamental utilities which create a basic needs in the luxury value such as uniqueness, quality, durability, usability and reliability of the product (Sheth et al. 1991). It was also proposed that quality

impact on the customer satisfaction and their reputation for the brand. In addition, Gentry & Owen (2004) concluded that one of the reason of choosing a luxury brands by the customers is their preference of superior quality which is reflected in that particular brand. It is expected that superior quality of the product and its performance is the major reason of selecting a luxury brands compared to the non-luxury brands. More value is perceived by the perfectionist consumers from a brand of luxury type (Aaker, 2009).

#### 2.4 Price

Brands are considered luxury when their quality and price is highest in the market (Nueno & Quelch, 1998), even through the functionality ratio to the price may be low as compared to certain luxury products, the ratio of intangible, and situational utility to price is comparatively high. Further, a consumption of prestige or status products relates with the purchasing of high-priced goods. Financial dimension of the luxury products is directly linked with the monetary aspects such as discount, prices and resale value of the products (Ahtola, 1984). Price is the main cue used by the status-conscious consumers for selecting the luxury products (Groth and McDaniel 1993).

### III. METHODOLOGY

The purpose of study for this research is Descriptive. The reason it is a descriptive study is that we as the researchers want to investigate what are the specific factors that influence determinant of buying luxury goods. The goal of descriptive study is to describe the aspects that influencing buying luxury goods. Other than that, researcher want to investigate the relationship between the independent variables and the dependent variable.

This research type of investigation is Correlation investigation because researcher want to know the relationship of dependent variable and independent variable, in order to know the determinant of buying luxury goods.

The study setting of this research is Field study because we will manipulate two or more variables and study the impact on the dependent variable. We will collect the data for the research in order to know more about the customer reaction based on their satisfaction toward the buying luxury goods and we will analyses the data.

The researcher interference for this research is Moderate interference which is we gather all the previous data from the past research and add some new concept based on our research. Researcher will develop a theoretical framework, collect the relevant data, analyses them to come up with the findings and develop a new concept for the research.

The unit of analysis for this research is Group of people because this research is assigned to our group. The research will be conduct in a team each it has responsible by four people in the group. This particular group includes four men

The time horizon of research study is Cross-sectional studies because the research data will be gathered once in order to answer the research question.

#### 3.1 Population and Sample Size

The population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. Our population for the research will be in Indonesia. We choose this population because we do not want to cover large area because of the limited time of study. Based on the questionnaire, we can measure the satisfaction of the Indonesian youth toward determinant of luxury goods.

The population of each number is known as element. So, the element in the research would be the youth. It is because we want to know whether the population knows the impact of the questionnaire. We will give the questionnaire to 300 respondents, which is the respondent need to answer. By studying the sample, we as the researcher will be able to draw the conclusions that are a generalization to the population of the satisfaction.

For the purpose of this research, we are using Quantitative Research where 200 set of questionnaires will distribute for each respondent. The items in that questionnaire are reflective of three independent variables under study. The questionnaire consisted of 5 question in each independent variable, each on a 5-point scale ranging according to Strongly Agree (scale point 1, Agree (scale point 2), Neutral (scale point 3), Disagree (scale point 4) and Strongly Disagree (scale point 5).

For this research, we are using two sources, which is primary sources, a set of questionnaire answered by 200 people. Data can be collected in a variety of ways. Our data collection methods is using questionnaires. The reason we choose to use this method is we can establish relationship and motivate our respondents. We can clarify the question to the respondents, explain to them and clear any doubts to help the respondents to answer the questionnaire.

The questionnaires have a four section. First sections focus on demographic information, which consisted gender, age, race, salary and status of residence. The second section about determinant of buying luxury goods, the third section is about marketing mix that include price, quality and self-identity value. A five-point Likert scale was used for all the items, ranging from 1 (strongly agree) to 5 (strongly disagree) in the second section, and 1 (strongly agree) to 5 (strongly disagree) for measuring the scale

Researchers are using Statistical Package for the Social Science (SPSS) to manipulate data received from the survey conducted. SPSS is a program that can be used to perform data entry and analysis. By using SPSS, researchers can conduct data analysis of large amounts of data much easier.

#### IV. DATA ANALYSIS AND RESULTS

Data analysis describes the evaluation used to obtain the consequences of the profile of the respondent who participated this research and the findings of the methods used. Locating and evaluation is primarily based on research goal, to identify the relationship of dependent variable towards the independent variables.

For data coding, this research use numbering scale for the respondent to answer query given. From scaling every question to reply it via deciding on the quantity of scale that have been set the respondent will be want to answer by means of placed tick on the questionnaire.

##### 4.1 Descriptive Statistics

##### 4.1.1 Determinants of luxury goods

**Table 1: Descriptive Statistics**

		How many times in a year that you purchase luxury items	Where do you usually purchase luxury products	Do you compare shops or websites before purchasing the items	Do you have part time job	Which category of luxury brands at you buy
N	Valid	300	300	300	300	300
	Missing	0	0	0	0	0
Mean		1.61	1.77	1.36	1.64	2.33
Median		1.00	2.00	1.00	2.00	2.00
Mode		1	1	1	2	1

The highest mean which are 2.33 shows which category of goods that youth usually buy. It shows most youth purchase luxury electronic goods. The second highest mean, 1.77 shows the information on where they usually buy luxury goods. Next highest mean is 1.64 that indicates whether a youth has a part time job. The second lowest mean, 1.61 shows how many times a youth

purchase luxury goods in a year. The lowest mean, 1.36 indicates whether the students compare the prices between shops and websites before making purchase decision.

#### 4.1.2 Self Identity Values

**Table 2: Self Identity Value**

	The product I bought are reflecting the person I am.	I prefer a product I am comfortable with other than the one I am not.	My friends recognize me from the product I usually bought.	The product I bought usually determine my overall behaviour.	I am more talkative when I am around people with the same product I am using.	I do not care what other people think about me as long as I have the product that present my identity.
N	Valid Missing	300 0	300 0	300 0	300 0	300 0
Mean		3.18	4.06	3.03	2.92	3.02
Median		3.00	4.00	3.00	3.00	4.00
Mode		3	5	3	3	4

The highest mean, 4.06 stated that youths prefer products that are comfortable with them. The familiarity of the products to the customers would likely affect the student purchasing decision. The second highest mean are 3.64 which tells us that youth does not care about other people impression towards them when purchasing, using or wearing the luxury goods. The next highest median is 3.18 suggest that there are quite a number of youth that believe that the products consumed reflect themselves in real lives. The fourth highest mean are 3.03. This mean shows that youth know that their use or consumption of luxury products is noticed by their friends and peers. The second lowest median is 3.02 shows that not every youth are comfortable voicing their thoughts on luxury goods when they are with same people that purchase luxury goods. The lowest mean is 2.92, shows that luxury goods does not really affect youth overall behaviour. This might due to Indonesian culture of modesty and respect to one another.

#### 4.1.3 Quality

**Table 3: Quality**

	Quality Is a main factor when purchasing luxury good.	Luxury brand guarantees quality.	Luxury goods are associated with quality customer service.	High quality of luxury good will make me loyal to the brand.	Luxury good is durable and long lasting because of their quality.
N	Valid Missing	300 0	300 0	300 0	300 0
Mean		4.32	3.88	3.75	3.97
Median		4.00	4.00	4.00	4.00
Mode		5	4	4	4

The second independent variable is quality. The highest mean are 4.32 which shows most youth agree that quality is the main factor in purchasing luxury goods. The second highest is 4.12 that states that luxury goods are durable and long lasting because of their high quality. The third one is 3.97. This shows that high quality products will increase the youth loyalty towards the brand. This information is vital as it can benefit the manufacturers. The second lowest is 3.88 that indicate some youth do not agree that luxury brand guarantees quality. The lowest is 3.75 that there are youth do not agree that luxury goods are associated with quality customer service.

#### 4.1.4 Price

**Table 4: Price**

		It is important to get the best possible price when buying luxury brand.	It is worth to buy luxury goods with the my money	I prefer buy luxury good during promotion.	I will still buy luxury good even though the price is expensive.	The price is the most determinants factor of purchasing original luxury goods.
N	Valid	300	300	300	300	300
	Missing	0	0	0	0	0
Mean		4.37	4.11	4.48	2.97	4.07
Median		5.00	4.00	5.00	3.00	4.00
Mode		5	4	5	3	5

This data shows the analysis for price. The highest mean is 4.48 shows that most youth prefer to buy luxury goods during promotion. It is understandable because most youth do not have the money to consume luxury goods. The second highest mean is 4.37 and it shows that it is very important to the youth to get the best possible price when buying luxury goods. This might include searching for the best price in various stores and haggling for discounts. The third one is 4.11 that show youth believe that it is worth to buy the luxury goods with their money. The second lowest mean is 4.07. This data indicates that price is not the most determining factor although it is good to have it at lower prices. This is not necessary bad because consumption of the products can boost the nation's economic activity.

#### 4.2 Hypothesis Testing

##### 4.2.1 Correlation Results

**Table 5: Correlations**

		Total_DV	Total_PartC	Total_PartD	Total_PartE
Total_DV	Pearson Correlation	1	.098	.074	-.040
	Sig. (2-tailed)		.089	.203	.488
	N	300	300	300	300
Total_PartC	Pearson Correlation	.098	1	.265**	.012
	Sig. (2-tailed)	.089		.000	.830
	N	300	300	300	300
Total_PartD	Pearson Correlation	.074	.265**	1	.157**

	Sig. (2-tailed)	.203	.000		.007
	N	300	300	300	300
	Pearson Correlation	-.040	.012	.157**	1
Total_PartE	Sig. (2-tailed)	.488	.830	.007	
	N	300	300	300	300

\*\*. Correlation is significant at the 0.01 level (2-tailed).

#### **H1: There is relationship between price and Indonesian youth consumption of luxury goods**

The Pearson Correlation value for independent variable (TotalPartC) is positive with value of 0.098, it shows that the hypothesis has a positive relationship between dependant variable (Total\_DV) and independent variable (TotalPartC). Hence, it shows, price plays an important role in the youth purchasing decision.

#### **H2: There is relationship between quality and Indonesian youth consumption of luxury goods**

Based on the table above, the Pearson Correlation value for independent variable (TotalPartD) is positive with value of 0.074, it proves that the hypothesis has a positive relationship between dependant variable (Total\_DV) and independent variable (TotalPartD). It could be said that quality affects the youth purchasing decision.

#### **H3: There is relationship between self-identity value and Indonesian youth consumption of luxury goods**

The Pearson Correlation value for independent variable (TotalPartE) is negative with value of -0.040, it shows that the hypothesis has a negative relationship between dependant variable (Total\_DV) and independent variable (TotalPartE). The result shows that self-identity value does not play as much role as the other two independent variables in affecting the youth consumption.

### **V. CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Conclusion**

Research Question	Hypothesis Statement	Result
RO1: What is the relationship between the price and Indonesian youth consumption of luxury goods	H1: There is relationship between the price and Indonesian youth consumption of luxury goods	Supported (Positive Relationship)
RO2: What is the relationship between quality and Indonesian youth consumption of luxury goods	H2: There is no relationship between quality image and Indonesian youth consumption of luxury goods	Supported (Positive Relationship)
RO3: What is the relationship between self-identity value and Indonesian youth consumption of luxury goods	H3: There is no relationship between self-identity value and Indonesian youth consumption of luxury goods	Supported (Negative Relationship)

#### **5.2 Recommendation**

As a recommendation, the government should reduce the import tax in Indonesia. Lowering the tax can reduce the products prices and making it more available to the consumers. Besides that, some rare and special products are not accessible in Indonesia. This problem is settled by shipping directly from the overseas distributors. The government can help by attracting foreign brands and companies to open up their branches in Indonesia.

Indonesian youth should be aware of the current economy. Consumption is good for the economy but they should realize their responsibilities as youth and child of their parents. Youth should be mindful with their spending so that they can avoid unnecessary financial burden such as debt due to careless spending. Society should also educate youth about the reality of working life. Non-government agencies play an important role to conduct campaign to instil awareness among the youth.

Upon completion of this research, we realize that these data and information are vital for the luxury goods industry. We suggest that this research is done in a bigger scope if the necessary resources are available. For example, you can research on Generations Y spending habits or Indonesian youth consumption of luxury goods. This is because youth will be the next generation of consumer. With all this information, companies can implement a better strategy to sell their products. Improvements can be made in various department such as quality control, marketing and customer service.

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