

# Research on Current Situation of Luxury Consumption in China under Epidemic Situation -- based on the SCP Analysis Paradigm

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## ABSTRACT

China's luxury consumption has been undergoing an explosive development in the past decades and is now one of the indicators that demonstrate China's economic power and cultural influence on other countries. However, this extensive expansion of luxury products in China also creates significant problems, including a worsening epidemic situation with regards to self-discipline in consumption. This paper is an original work based on SCP analysis paradigm which aims at analyzing the current situation of luxury consumption in China. Understanding the current situation of China's luxury consumption and epidemic situation, as well as knowing the differences between Chinese and Western cultures and some questions about luxury consumption, are discussed in this paper.

**Keywords:** *Luxury; SCP analysis paradigm; contemporary China; epidemics*

## 1. INTRODUCTION

The development of luxury consumption in today's society makes it a powerful force that influences people's lives and contributes to social progress. Facebook is a social network, which can also be called "the luxury consumption website". Facebook is not only a place where people can "chat"; it also provides an extensive range of luxury products and services for users. It is now more than 5 years after the emergence of this website, and more than 1 billion users have been reached. According to an official report issued by the United Nations, in 2009, about 64% of the world people were using Facebook. In 2010, the number of global users had increased to 66%, and by 2013 it rose to 82%. In the past, there were only a few websites about luxury consumption online; now, there are many websites like Facebook that have come into the "social network" era. During these years of rapid development and popularization of Facebook, luxury consumption in China has also been undergoing an explosive development, which is specifically reflected in the rapid increase of related departments and occupations in Chinese colleges. The rapid development of luxury goods in China is because more and more people are concerned about luxury consumption day by day and even start to habitually consume some products as follows: wearing designer

clothes, driving high-grade cars, living in luxurious houses, etc. However, the development of luxury consumption also creates problems such as a worsening epidemic situation with regards to self-discipline in consumption and waste of natural resources. In this paper, the author conducts an original work based on SCP analysis paradigm which aims at analyzing current situation of luxury consumption in China. Understanding the current situation of China's luxury consumption and epidemic situation, as well as knowing the differences between Chinese and Western cultures and some questions about luxury consumption are discussed in this paper[1]. The author tries to analyze and reflect the current situation of luxury consumption in China, understand the phenomenon of luxury consumption under various aspects, and find out solutions to improve the situation[2]. Accordingly, fashion brands have been advised to refocus on design innovations rather than emphasizing logos and branding, while white teeth cosmetics makers should consider developing more innovative toothpaste flavors instead of just increasing product frequency of use through advertisements[3].

## 2. ANALYSIS

### 2.1 Study design

#### 2.1.1 Background of the Study

Not only can luxury be expensive; it can also stimulate human's desire for novelty and change[4]. Luxury is not a necessary reflection of the absolute state of people's lives, but rather that of their relative wealth. In this sense, luxury consumption is the process of materializing one's actual state or ideal life with material objects. Today's Chinese culture has absorbed some elements from Western culture, but its fundamental element still remains unchanged. This is due to the fact that people in China are generally still classified into two kinds: rich and average. There are mainly two kinds of luxury consumption in China. One kind is a luxury consumption under the condition of being relatively rich, while the other one is a luxury consumption under the condition of being relatively poor. Considering that Chinese people are influenced by Western culture, they tend to be more conscious of their actual state and want to improve their lives and status through luxurious consumption; however, they also take care not to be too extravagant. The awareness that one should not consume too much also leads people to decide freely how much they will consume, without needing any specific restrictions on their daily living expenses. The widespread expansion of luxury products and services in the past decades has presented an unprecedented challenge to the world economic and social system. The widespread expansion of luxury products and services in the past decades has presented an unprecedented challenge to the world economic and social system. The rapid development of China's luxury consumption, especially the dramatic surge in demand for high-end goods, has offered an effective way for China to display its economic power and cultural influence to other countries. However, this tourism development also has a negative side: The phenomenon of epidemic luxury consumption is posing a threat to China's future economic growth and social stability. China's luxury consumption is currently developing at a pace that can be described as 'explosive' due to a series of reasons. The rapid development of luxury consumption has been accompanied by a considerable level of investment in luxury manufacturing and service market, which is not only supported by the top priority assigned to China's economic development, but also reflects the existence of a relative quality gap in China's high-end culture and economy. In addition, the rapid expansion of luxury consumption has promoted a strong buying preference for high-quality products.

#### 2.1.2 Purpose and significance of research

World's luxury market is dominated by Europe and

America. Chinese high-class products are not as developed as those of Europe and the United States, but they are rapidly expanding in the Chinese market. The emergence of China's luxury market has become an important indicator to gauge China's national power, economic development and cultural influence on other countries. In view of the explosive growth of China's luxury consumption, this paper conducts a research that focuses on issues and dilemmas in terms of luxury consumption, with an aim to understand the phenomenon of luxury consumption in today's society by assessing its advantages and disadvantages, risks and benefits.

#### 2.1.3 Research Motivation

Based on the existing analysis of luxury consumption, this paper investigates China's luxury consumption from the perspective of culture. The concept of "culture" has two aspects: a material aspect and an "idea" aspect that is embedded in this material aspect. In other words, the concept of "culture" can be explained both from spirit-like and physical perspectives.

This paper analyzes China's current situation of luxury consumption and epidemic situation. Although China is one of the most rapid growing countries in terms of economic development, this kind of rapid growth is accompanied by an intensified consumption boom. This consumption boom, which is characterized by a series of negative effects, requires analysis. In order to understand the characteristics of China's luxury consumption, this paper first performs a distinction between big-ticket consumption and small-ticket consumption[3]. Big-ticket consumption refers to luxury products with high levels of technology and design that are sold with high prices in large quantities via an exclusive channel to promote sales, while small-ticket consumption refers to luxurious products sold in low quantities via an exclusive channel with lower prices. The characteristics of big-ticket and small-ticket consumption will help us understand the economic framework and social conditions under which the current situation of China's luxury consumption occurs[4].

#### 2.1.4 Research questions and hypothesis

The following research questions will guide the research paper

1. Who are the consumers of big-ticket and small-ticket consumption in today's China?
2. What are the characteristics of big-ticket and small-ticket consumption in China?
3. What is the threshold level between luxury goods with high technology and design as well as luxury products with low technology/design?

4. What factors in the process of luxury consumption trigger luxury goods to be purchased?

5. How does the threshold level differ from culture to culture?

### *2.1.5 Research methods used for the study*

The research methods used for this study include research using various kinds or approaches. To begin with, the author conducted a statistical analysis including author's experience from analyzing the data of other articles in which a SCP framework is adopted. A SCP framework is conceptually based on categorical data and is able to generate insights for qualitative analysis based on the categories extracted from the data. In this study, the author adopts three approaches based on the SCP framework to generate insights. The first approach is to apply a d-analyses process on the data and determine whether there are more than two categories that are extracted via the SCP process. The second approach is to determine whether there is sufficient data for testing the hypotheses by using a PCA (Principal Component Analysis) or other method of dimension reduction analysis. For example, if the author identifies different factors in the process of luxury consumption that cause high-end luxury goods to be purchased, then whether the factors that affect China's luxury consumption are similar in other countries or not can be tested. The third approach is to test the level of agreement between brand owners and netizens in terms of their various perspectives on the target status of a product. For example, if consumers have different perceptions on what is the "target status" of luxury goods, then whether consumers in China and other countries have similar or different perceptions on this topic can be tested. Finally, the author will apply multi-level analysis using PANDA to analyze how luxury consumption is emerging from different levels.

### *2.1.6 Purpose and significance of research*

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## **2.2 Current Situation of Luxury Consumption in China**

China's current luxury consumption scenario is heavily influenced by the S-curve paradigm, which predicts that there are three stages of product life cycles. The first stage of the process is dominated by high market

entry barriers, where few producers can enter due to high risk or uncertainty level. Low prices allow new firms to enter the market without worrying about healthy rates of return on investment over a long period of time [5]. If they fail in this initial stage, there is only limited number of competitors. Market power is not a problem because profit incentives dominate the plan and provide unlimited opportunities for other companies next door.

As luxury consumption is becoming an increasingly important part of the Chinese economy, companies are looking for new ways to tap into this growing market. However, the current epidemic has created a number of challenges for these businesses. Based on the SCP analysis paradigm, it can be seen that the epidemic has disrupted the normal patterns of luxury consumption in China. In particular, it has led to a decline in demand as consumers become more cautious about spending their money[6]. At the same time, it has disrupted production as factories have had to close down or reduce operations. This has resulted in a shortage of luxury goods and higher prices for those that are available.

The Chinese is the world's largest consumers of luxury goods. This is largely due to an expanding income, growing tourism industry, and new attitudes toward consuming luxury items. Luxury consumption trends in China are also impacted by macroeconomics factors such as the fluctuating global economy[7]. Luxury brands may not be able to rely on China alone for growth revenue if their products remain out of reach for most people there or too expensive relative to local rates of exchange. What will likely happen then is that brands that have sizable overseas sales but only modest demand within China could be more successful than they are willing to admit at this point in time.

Luxury consumption has been on the rise in China in recent years, and this trend is likely to continue in 2020 despite the current epidemic. The main drivers of luxury consumption are raising incomes, growing consumer awareness and a shift towards a more leisure-oriented lifestyle. The current situation provides both challenges and opportunities for luxury brands. On the one hand, the epidemic has resulted in closed stores, cancelled events and travel restrictions, which have had a negative impact on sales[8]. On the other hand, many Chinese consumers are now looking for quality products that represent good value for money, and luxury brands can meet this demand by offering innovative products and services. There has been much discussion about how luxury consumption in China will be affected by the current epidemic[9]. Some believe that demand for luxury goods will decrease as people become more focused on their health and safety, while others argue that wealthy consumers will continue to spend extravagantly as they see the outbreak as a temporary inconvenience.

The meteoric rise of the Chinese economy, along with China's spectacular urbanization, has seen its middle

class flocking to spend their newfound wealth on luxury goods. Lifestyle changes in China have been commensurate with this new trend, from housing and shopping habits to eating habits. In 1954 when communism was born, restaurants became a model kitchen for the people serving food produced by state-owned farms and factories in shared dining halls where lots of people sat at long benches ordering from a single menu. Forty years later, Western influences were changing eating habits as more upscale restaurants evolved in response to new members of society who could afford a little more luxury in their lives. One consequence is severe stomach problems due to obesity.

China does not have a luxury consumption problem at the individual level. Consumption pattern is sharply divided between status consumers who are able to consume more luxurious goods and less affluent lower middle-class groups which only purchased fewer but cheaper good [10]. However, at society level there are two problematic steps of luxury consumption pattern can be observed. One is excessive privatization of public resources for private citizens who leads to the widening gap of the rift between rich and low-income group in society that leads into social conflict. The other one mentioned before is conspicuous consumption for proving superiority that leads into human rights problems such as quantity over quality products.

Luxury consumption has been a booming industry in China in recent years, with spending on luxury items estimated to have reached over \$300 billion by the end of 2019. However, the current COVID-19 pandemic has caused a significant decline in luxury consumption as consumers shift their spending towards more essential items[11]. Despite this downturn, luxury consumption is still expected to grow significantly in China in the long term. This is based on the findings of a study by the consulting firm Bain and Company, which predicts that China's luxury market will reach \$1 trillion by 2025. The main drivers of this growth will be rising incomes and the increasing number of Chinese tourists who travel abroad.

Luxury consumption has been on the rise in China in recent years, and this trend is likely to continue in the wake of the COVID-19 pandemic. A number of factors are contributing to this growth, including rising income levels, increasing social status awareness, and a growing desire for luxury goods and experiences[12]. However, as luxury consumption grows, so too does the risk of over-consumption and over-spending. This is particularly pertinent in light of the current pandemic, which has led to a slowdown in economic activity and job losses[13]. In these difficult times, it is important for luxury consumers in China to be mindful of their spending and to avoid over-indulging in luxury purchases.

### 3. CONCLUSION

The current Chinese luxury consumption is dominated by big-ticket consumption, and China's luxury market is marked by strong demand. The rapid growth of China's luxury market reveals the country's rise as a world powerhouse, and also exposes the growing influence of luxury goods within China's place in modern society. The discovery of "China's" luxury consumption and the discussion of it may be thought to be inevitable. However, the presentation of such a project is not straightforward, as reflected by the fact that research conducted in this area has been occurring for a long time. In addition, there have been debates on exactly how China should be referred to in this context.

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