

***A NOVEL DECISION - MAKING MODEL OF THE GLOBALIZING CONSUMER  
BEHAVIOR: EVIDENCE FROM CHINESE MIDDLE - CLASS CONSUMERS WHO  
PURCHASE LUXURY GOODS FROM OVERSEAS MARKETS***

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*A Novel Decision – Making Model of the Globalizing Consumer Behavior:  
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from Overseas Markets*

Presented

By

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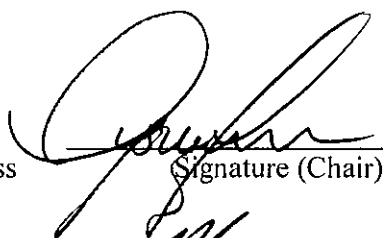
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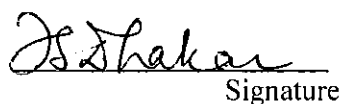
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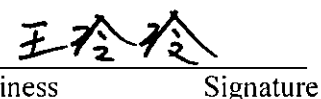
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## **Dedication**

I would like to dedicate my dissertation to my grandparents who raised me up and taught me perseverance. I would also like to dedicate my dissertation to my parents who encourage me to pursue this path, always support me, and teach me to be principled, ethical and intellectual. Finally, I would like to dedicate my dissertation to my friend, Wei Liu who through his giftedness accompanied me in the hard times during this journey.

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## **Abstract**

The goal of this study is to propose a valuable decision-making model in examining Chinese Middle - Class consumer behavior, specifically the new purchasing behavior regarding luxury goods. Chinese Middle - Class consumers purchase seventy percentage luxury goods from oversea markets, although they are available in their domestic market. The only difference between the Chinese market and foreign markets is the price as in China, price is much higher than in other markets. However, this observation conflicts with previous theories of the luxury goods consumer behavior, such as the Veblen Effects, the Bandwagon Effect, and the Snob Effect, all of which imply luxury consumers are not price sensitive.

This study is both qualitative and quantitative as it provides a conceptual propositional model and tests it by variety of empirical regression models. The results agree with the previous research that illustrate Chinese Middle - Class consumers are also price insensitive to luxury goods. They are pushed out to the global market by the luxury goods companies, which attempt to limit the purchasing channels in China.

## **Keywords**

International Marketing, International Business, Consumer Behavior, Decision-Making Model, Luxury Goods, Chinese Middle - Class Consumers

## **1. Introduction**

This chapter introduces an observation of a new trend that Chinese consumers purchase luxury goods from overseas markets instead of their domestic market, where the consumption only accounts around 20 percent of the total consumption made by Chinese. This behavior is worth to be researched since Chinese consumers have become the top luxury nationality since 2012 (Bain & Company, 2012), and they attract luxury companies operating in China. However, when they purchase the luxury goods which are available in China from overseas markets, the companies that do business in China lose profit.

Because the CoO (Country-of-Origin) impacts consumers' decision, luxury goods companies only produce their items in a certain location in their own workshops. Therefore, the quality of the luxury goods is guaranteed by a specific manufacturer. In other words, no matter where the consumers purchase their luxury products, the items they have been created by the same manufacturer with the same quality. The only difference is the price. The price difference of a luxury handbag can be around 2,000 USD between the market in and out China.

This behavior implies that Chinese consumers are price sensitive to luxury goods. However, this conflicts with the previous theories of consumer behavior regarding luxury goods. Previous researchers, from Veblen to Leibenstein state that luxury goods consumers are price insensitive. Veblen Effects show the consumption of luxury goods increases with the price of them increasing.

Therefore, in this research, planning to provide an alternative theory of international business and marketing, I analyze the consumer behavior of the Chinese Middle - Class consumers who are the main consumers of luxury goods, by offering a

decision-making model and testing it by several regressions.

### **1.1. Chinese Consume The Most Luxury Goods Amongst The World**

The history of consuming luxury goods can be traced back to a thousand years ago. Traditionally, almost all kings and queens were surrounded by jewelry every day, even after death. For example, Egyptian pharaohs covered their face with solid gold face masks in gold coffins and Chinese nobilities wear jade clothes sewn with gold wire in their palatial graves.

Since 1750, luxury business has been expanded to new urbanized customers in both the USA and the developed countries of Europe because of social change and technological improvement. (Kollen, 2003; Daumas and M. De Ferriere le Vayer, 2007; Briot, 2011; Carnevali, 2011).

Luxury goods market has expanded dramatically since the 90's last century (Dubois & Duquesne, 1993; Vickers & Renand, 2003). Japan was the main Asian market in the 1980s, which was replaced by China since 2000 (Donzé & Fujioka, 2014). Although suffering from the global financial crisis, the worldwide personal luxury goods market only showed a little softness in 2009 (153 billion Euro) than the previous year (167 billion Euro). In 2010, even though the world was not fully recovered from the financial crisis, this market surpassed the year 2008 with 173 billion Euro (Bain & Company, 2011). During this period, consumption strongly declined in mature markets (the US and Europe), while Chinese consumers drove the growth globally (Bain & Company, 2010).

In 2011, China was the world's largest luxury market with a sales growth rate of 47 percent (Statistica, 2015). Chinese consumers have become the top luxury nationality since 2012 (Bain & Company, 2012). They lead the worldwide growth of

luxury goods demand. Their consumption accounts for the largest portion of global purchases (31 percent), followed by Americans (24 percent) and Europeans (18 percent), and represented about one-third of the global market in 2015, up from only 1 percent in 2000 (D'Arpizio, Levato, Zito, & Montgolfier, 2015).

Unger (2006) finds that the Chinese new Middle - Class is the main customer of luxury goods. According to Wang et al. (2011), young Chinese aged between 20 and 40 years constitute the main body of luxury consumers in China. 300 million young Chinese under 30 years old are showing significant purchasing power in the luxury market (Moor, 2005). Atsmon, Dixit, Leibowitz, & Wu (2011) reports that 45 percent of China's luxury buyers are aged under 35 years.

### **1.2. A New Trend Of Chinese Consumer Behavior: Purchasing Luxury Goods From Overseas Markets Instead of The Domestic Market**

Bain & Company's luxury market studies show that mainland China had been entering a new era of luxury cool down since 2013. In 2014, for the first time, the consumption of luxury goods in Mainland China decreased 1 percent to around 115 billion RMB (about 20 billion USD). However, at the same time, Chinese tourists spent 100 billion RMB (about 17 billion USD) overseas; the consumption in euro increased 17 percent (Bain & Company, 2015). Most products they purchased are luxury goods. In other words, the purchasing power of Chinese does not decrease but switch to other markets instead of their domestic market.

Table 2 exhibits Chinese expenditure regarding luxury goods from 2008 to 2014. Chinese total consumption increased from 141 to 380 billion RMB (around 20 to 65 billion USD), meanwhile, the ratio of overseas to total consumption increased from 57 to 70 percent.

Table 1: Chinese Expenditure (Billion RMB) Regarding Luxury Goods 2010-2014.

Consumption Year	Total	Oversea	Domestic	Ratio
2008	141	81	60	57.45%
2009	156	87	68	55.77%
2010	199	112	87	56.28%
2011	266	160	106	60.15%
2012	306	193	113	63.07%
2013	350	234	116	66.86%
2014	380	265	115	69.74%

Source: Bain & Company report 2008-2015, calculated by author.

Chinese large purchasing power attracts luxury companies doing business there. In spite of the increasing trend of luxury goods market as a whole in recent years, luxury companies faced new challenges from new angles: China is a new emerging market and Chinese is new entrants to western luxury companies. Comparing with the mature markets, luxury companies are operating in a new environment with a limited understanding of new customers, thus struggling in a hard time of operation. Bain & Company (2016) reports 58 retail stores closure of certain luxury brands (Prada, Louis Vuitton, Hugo Boss, Chanel, Giorgio Armani, Hermes, Versace, Tiffany, and etc.) in China during 2015. Simultaneously, 78 new stores are opened by the same brands in the same country. This adjustment is hard to be considered as either business decline or increase, but exploration. These companies are still trying to figure out how to do business in China.

On the other hand, luxury companies that have invested in China are losing sales heavily in this market. They are losing sales to their own retail stores located in other countries. In recent years, Chinese consumer's behavior has been illustrating at the different trend in purchasing luxury goods – meaning they prefer purchasing the same items that are offered in China from overseas markets. These purchases in China where

the domestic consumption occurs only account for nearly 20 percent of their global purchases (Bain & Company, 2015). The motivation of the dissertation derives from this main factor.

Buying luxury goods overseas, in fact, is not new but quite common. For example, travelers often buy these stuffs during vacation or at airport tax-free stores. What not common is some Chinese travelers fly to other countries aiming to buy luxury goods instead of to have a vacation there. In other words, normally, buying is a byproduct of traveling; however, for these Chinese, traveling is a byproduct of buying. Chinese spent 109.8 billion USD in 2016, and 115.29 billion USD in 2017 during traveling internationally (China Outbound Consumption Trend, 2016).

Moreover, among these Chinese travelers, most of them buy to sell (not resell) rather than to consume. This kind of business is called “Daigou” in Chinese, which is not second-hand goods trading but brand new product dealing. The Daigou normally charges a transaction fee for dealing, from about 10 percent to several times of the original price of the luxury items, depending on the demand and supply situation in the market. Bain & Company (2015) reports that the market size of daigou grew to around 55 - 75 billion RMB and 70 percent of consumers admitted they bought from a daigou in 2014. Their consumption of luxury goods from a daigou concentrated in cosmetics, followed by leather goods, watches, and jewelry.

In the following year, the market size of daigou declines to around 34 – 50 billion RMB. Meanwhile, “Haitao”, which means make orders directly from an overseas website by a consumer self, is emerging. It accounts for 12 percent of total luxury goods Chinese purchased worldwide in 2015 (Bain & Company, 2016). The advantage of haitao over daigou is the middleman is cut off.

In total, the portion of luxury goods consumption from overseas markets is



significantly higher than for the domestic market in China. In other words, even though Chinese consume more luxury goods than customers living in other countries, they choose to spend their money overseas rather than in their domestic market. Therefore, luxury companies are wasting their FDI on operating subsidiaries and retail stores in China. Therefore, to protect earning in China, some of them deny the online orders made in another country from Chinese living in China. This kind of denial provokes these Chinese customers who accordingly believe they were discriminated against. Eventually, luxury companies lose these customers.

More seriously, lawsuit claims are a bigger issue than losing sales. Sephora is a French cosmetics store owned by LVMH since 1997. The Reuters reported a lawsuit claims against Sephora in 2014. “Cosmetics retailer Sephora USA Inc has blocked the online accounts of scores of customers with Asian names because it suspected them of buying discount items in bulk to resell them, a new lawsuit claims.” (Daniel Wiessner, 2014). On May 25, 2017, “A California federal judge said Thursday he would grant final approval to a \$950,000 settlement ending class action claims that retailer Sephora breached contracts and racially discriminated against customers when it deactivated thousands of accounts created with Chinese domain name email addresses because it thought they were created by bots.” (Cara Bayles, 2017).

On the other hand, the Chinese global purchasing expansion increases the opportunities for several new businesses, such as the cross country digital business. A bunch of Chinese new information/data/media companies operates in releasing foreign discount information. They are not advertising companies, but they do increase the sales of luxury goods. In addition, they cooperate with certain retailing companies by offering specific discount codes or coupons. Furthermore, this kind of business increases the profit of some retailing companies who do not operate in

China. For instance, Neiman Marcus, Saks Fifth Avenue, Bergdorf Goodman, Nordstrom, Net-a-Porter, Harrods and etc. In this case, they are saving money from advertising, operating, and managing subsidiaries internationally. They are involved in international business, but they do not operate business internationally by themselves. They do not even come to a foreign country, customers from other countries come to them.

In sum, the Chinese customers bring both profits and challenges to luxury companies. Here comes a new era of international business, globalization, and marketing. Until now, none of the previous research can provide a robust analysis of this new situation.

### **1.3. CoO (Country-of-Origin), The Quality Guarantee from Luxury Companies**

What makes purchasing luxury goods from different countries unnecessary is the design and quality of them are homogenous around the world. The CoO (Country-Of-Origin) is an image of “Made-In” which presents products. Consumers thereby link the image, quality, and reputation of a good to a specific country by this simple mark, especially in international markets (Dichter, 1962; Nagashima, 1970; Morello, 1984; Bloemer et al., 2009; Usunier, 2006; Dubois, B. Czellar, S, Laurent, G., 2015). In the luxury industry, to maintain and control the quality and reputation of their products, luxury companies manufacture them in certain locations only.

For example, Louis Vuitton lists all the manufacturing location on its official website. Leather goods are created in workshops located in France, Spain, and the United States; sunglass, shoes, and Ready-to-Wear are made in Italy and France; watches are produced in Switzerland; jewelry is produced in France, Italy, and

Switzerland<sup>1</sup>. In general, one workshop produces one design for the whole world.

Therefore, no matter where consumers purchase these luxury goods, there is no difference in the quality, which is guaranteed by a specific manufacturer.

#### **1.4. A Paradox of Luxury Goods' Price**

Because the design and quality of luxury goods are homogeneous around the world, the only difference between a certain luxury good purchased from China and other markets is the price.

Price places a key role in luxury goods' consumption since it is may be extremely high. Some researchers believe that people determine quality by the price of goods. Consumers infer that a higher price implies a higher quality, thus for those who are seeking quality, high price luxury goods are the choice (Lichtenstein, Bloch, & Black 1988).

However, one can ask how high is extremely high? According to Dubois & Duquesne (1993), the price of luxury goods should be *absolutely* and *relatively* high. (1) *Absolutely* high is easier to be understood, which means much higher than the counterpart mass goods in the same industry. Therefore, a luxury item cannot be replaced by a common item. For example, the price of a Louise Vuitton crossbody bag is around \$3,000, but a similar design and material Zara bag is less than \$100. Customers choose to buy the expensive Louise Vuitton one, because it provides something else, which Zara cannot alternatively offer, like wealth display (Mamat, Noor, & Noor, 2015). (2) *Relatively* high is a little bit complicated. Vigneron and Johnson (1999) stress that customers' cultural and economic background shapes their perspective of the luxury goods consumption. Economically, the relatively high price

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<sup>1</sup> <https://us.louisvuitton.com/eng-us/faq>, revised on July 21, 2018.

of a luxury good can be measured via its affordability by customers. For the ones who can afford it, it is not that expensive, but for the ones who cannot afford it, it is expensive. In other words, the relatively high price means it is high for some people, but not high to someone else.

Economists apply elasticity to explain luxury goods, which have a high income or price elasticity of demand. When income rises, the demand for luxury goods will increase more than that. In contrast, normal goods, or mass goods, is inelastic to income or price change. Therefore, luxury goods can be defined as products which income elasticity of demand is greater than 1; meaning, consumers' purchasing decision is more sensitive to the luxury goods. When the price of common goods increases, quantity consumption will decline little. However, when the price of luxury goods increases, quantity consumption will decline or increase more, and when the income of consumers increases, the number of luxury goods consumption increases or decreases more. (Lancaster, 1971; Deaton & Muellbauer, 1980; Lipsey, 1989; Kemp, 1998).

Because the elasticity is an absolute value, which ignores the relationship between price and quantity demand. It can only give information about how much the change is, but not how the change is. Therefore, the relationship between price and quantity of luxury goods could be positive. Motivation researchers' state that the demand curve for luxury goods is upward, which means the relationship between the price and quantity demand is positive for luxury goods.

Veblen (1899) offers the *Conspicuous Consumption Theory* to explain this relationship as a wealth exhibition motivation of consumers. Leibenstein (1950) applies the theory of price to this explanation and proposes the *Veblen Effects*, which states consumers purchase more luxury goods when the price increase, because of the

exclusivity, which essentially displays wealth as well. Furthermore, Leibenstein (1950) proposes the ***Bandwagon Effect***, which states aggregate demand of a luxury good increases because others are consuming, and the ***Snob Effect***, which argues aggregates demand of a luxury good decreases because others are consuming. Therefore, consumers would love to pay a higher price for luxury goods, which is rarer because fewer people can afford it.

However, the new evidence we have observed these years show a different trend, that Chinese consumers may be price sensitive since they purchase luxury goods from oversea markets, where the design and quality of luxury goods are homogenous, but the price is heterogeneous.

### **1.5. A Different Attitude Towards Luxury Goods Holding by Chinese**

The modern English word “luxury” generated via Old French from Latin “luxuria” in about 14<sup>th</sup> century (Collins English Dictionary, 2012). In late 14c, it meant “sensual pleasure”. In the 1630s, it meant “habit of indulgence in what is a choice or costly”. From 1740, it started meaning “sumptuous surroundings”. Since 1780, it has been meant “something enjoyable or comfortable beyond life's necessities” (Online Etymology Dictionary, 2010).

The definition of “luxury” in business never be unified, and keeps changing with culture, economic development, time, and space (Kemp, 1998; Vigneron & Johnson, 1999; Yeoman, 2010; Nwankwo, Hamelin, & Khaled, 2014).

Many researchers see Chinese as newcomers to the luxury goods world. However, this is incorrect, as they are not knowledgeable that luxury goods expenditure has existed for thousands of years in China. Since B.C. 770, Chinese elites have been living a luxurious lifestyle. They cherish the aesthetics in their daily

lives, such as writing, drawing, collecting, and building gardens (Ngai & Cho, 2012; Lu, 2008). On the other hand, what is suggested by the researchers may have some viability if the luxury goods they mentioned are limited to western luxury companies' products, such as Rolex watches, Christin Dior's clothes, Chanel's handbags, etc.

The English word "luxury" is translated into Chinese "奢侈 (she chi)", which is a derogatory term that means wasting money on extravagant (unusual, unnecessary, or improper) things. This meaning of "luxury" in Chinese is different from its original definition in English and Latin.

Traditionally, the Chinese have consumed, cherished, and enjoyed the luxury goods for thousand years. However, none of the Chinese religions or traditional values historically encouraged and/or currently encourages this type of lifestyle. Neither Confucianism, Buddhism, nor Taoism has positive believe in luxury goods or life. On the contrary, they all inspire people to abandon this lifestyle and live a simple, economical, and humble one. Furthermore, historically, saving is treated as an outstanding moral quality. These traditional cultural values conflict with consumer purchasing behaviors or motivations that we are familiar with in the western world (Lu, 2008).

These Chinese Middle - Class, as new entrants to the global luxury goods market, are different from their western counterparts, who are mature and senior customers. In addition, this Chinese Middle - Class is different from their parents. Researchers of social science have noticed that generations are different and each generation has its own unique character, which is shaped by historical, political, and economic development. Consequently, different generations in China pursue different values and their purchasing behaviors are different (Lin & Wang, 2011; Ngai & Cho, 2012).

## 1.6. A Significant Price Gap Of Luxury Goods Between Oversea Market And Chinese Market

Recent information suggests: the factor of price difference may play a role in the Chinese consumers' decision-making strategies in purchasing these goods overseas rather than in their home market. For example, Table 2 exhibits how different the price can be for a same Louis Vuitton handbag (Capucines GM, M48870) in 2016.

Table 2: Price Difference of Louis Vuitton Handbag (Capucines GM, M48870)

Country	France	UK	USA	Japan	China
Price in Domestic Currency	€ 4,250	£ 3,950	\$ 6,050	JP¥ 680,400	CN¥ 46,500
Exchange Rate to RMB (Selling Rate)	7.3504	8.6354	6.9053	0.0624	1
Final Price in RMB	¥ 31,239	¥ 34,110	¥ 41,777	¥ 42,457	¥ 46,500

Source of Exchange Rate: Bank of China, in Nov.22, 2016

Source of the prices is the official websites of the Louis Vuitton located in different countries

Calculated by the author

In France, the price of a Louis Vuitton handbag (Capucines GM, M48870) is 31,239 RMB, but in China, it costs 46,500 RMB, in 2016. The difference is higher than around 2,000 USD. However, the quality of this handbag is exactly the same. No matter where a customer purchases the specific bag, it is produced only in Italy and the same bag sold in many different countries. Therefore, purchasing LV bag in a specific country other than Italy would not make a difference in terms of quality. Hence, the only difference between a luxury handbag purchased in Italy and in China is the purchasing price. Therefore, the consumers that purchase the same item in Italy exhibit sensitiveness to price as it costs more in China.

### **1.7. A Decision – Making Progress of Chinese Consumers Regarding Purchasing Luxury Goods**

Essentially, purchasing luxury goods is a decision-making process. Dichter (1960) is the pioneer who infers that people make purchasing decision unconsciously or noncognitively. Emotion is the one makes the purchase decision, not rational cognition. In addition, Bondt and Thaler (2009) claim that researchers ignore the “human” side when they research about decision-making by assuming that all human beings are rational. Therefore, shall we conclude that purchasing luxury goods are purely irrational?

Vaughn (1980; 1986) applies brain specialization theory to the decision-making research, which infers the decision-making process is processed through either thinking or feeling. Moreover, the famous “obedience to authority” experience designed by Milgram (1960) enlightens decision-making research to consider the external conditional environment, which can impact our emotional decisions. In addition, Bondt and Thaler (2009) mention that optimal choice and actual choice may be conflicted in certain circumstances.

In this case, the optimal choice for Chinese consumers to purchase luxury goods is in their domestic market with the lowest price in the world, which does not exist. Instead, their actual choice is to purchase from oversea markets, where the price is lower than their domestic market. Therefore, this decision-making process of the Chinese consumers can be separated into two steps: (1) emotional decision of whether to buy a luxury good or not, and (2) rational decision of how to buy a luxury good, which switched from an optimal choice to an actual choice considering the external conditional environment.



## **1.8. Motivation**

The motivation of this dissertation derives from this main factor. Chinese customers bring both profits and challenges to the luxury goods companies. This is a beginning of a new era of international business, international marketing and globalization. The previous search is not able to provide a robust analysis of this new trend. Observing this new trend motivated me to examine this purchasing behavior of the Chinese consumers that luxury goods from oversea markets.

Many researchers provide theories to explain luxury, luxury goods, luxury brands, luxury companies, luxury business and why people purchasing them. In recent years, marketing research of luxury industry has been driven into a customer purchasing decision motivation way (Cavender & Kincade, 2015), since some researchers learned that customers pursuing luxury goods not only for these good themselves but also for both internal and external motivations (Gao, 2009).

The motivation research regarding luxury goods in essential answers a question “why” to buy. However, why Chinese choose to buy luxury goods cannot explain why they buy the exact same luxury goods from other countries. While the luxury good itself is exactly the same as the world, but its price is not. Considering the income level, tariff and quotas, and price differences, luxury goods are comparatively more expensive for Chinese than for the customers living in developed countries. It seems as if after they make a decision to buy a luxury good they make a second decision about “how” to buy.

This dissertation aims to explain the decision-making processes of Chinese Middle - Class consumers in buying luxury goods. The Chinese society and Chinese Middle - Class consumers who are the main seekers of luxury goods are analyzed. Based on reviewing previous research, this dissertation offers a model which is tested

by several regressions. Data collected by sending a survey to a Direct-controlled municipality of China, Tianjin, which is one of the four municipalities cities directly controlled by the Chinese central government. This city is chosen because luxury companies are mainly located in tier-one cities. Therefore, this dissertation attempts to provide an in-depth understanding of Chinese customer behavior for both researchers and companies.

### **1.9. Research Statement**

Based on the observation of Chinese Middle - Class customers regarding luxury fashion goods, this dissertation's goal is to examine the novel behavioral patterns of the Chinese Middle - Class consumers that purchase luxury goods from the overseas markets instead of their domestic market by analyzing their decision-making strategies in purchasing these goods.

Chinese consumers, as new entrants to the global luxury goods market, are different from the western consumers that are more mature, who are also demographically senior as opposed to the younger and eager Chinese consumers.

Jin et al. (2015) tests Chinese consumers' purchasing motivation by comparing Veblen's theory (1899) of conspicuous motivation, which enhanced by Leibenstein (1950) with the Bourdieu's capital theory. They find that Veblen's theory is more applicable to China than Bourdieu's because economic capital impacts Chinese consumers more powerful than cultural capital in China nowadays. This dissertation also applies the two main theories to analyze Chinese Middle - Class consumers purchasing behavior.

In addition, whether the price – meaning the products are more expensive in the Chinese domestic market – is a factor that plays a role in the Chinese consumers'

decision-making strategies in purchasing these goods overseas rather than in the home market is examined as well.

Therefore, after reviewing the previous research, this paper applied an interpretive methodology by propositioning a model (1.0) and testing it by processing a regression (1.0).

I approach this process in two ways. First, I selected variables from the extant literature which influence the Chinese consumers' location decision regarding luxury fashion goods. Second, the selected variables are used in the estimation of the survey, which reflected Chinese consumer's decision of how to buy luxury fashion goods in the certain country. Data were collected by sending a survey to a Direct-controlled municipality of China, Tianjin. This city was chosen because luxury companies mainly located in tier-one and tier two cities. The target respondents were Chinese Middle - Class consumers who were born in the 80s (1980-1989) with luxury consumption experience.

Based on the results of the regression (1.0), more regressions were processed to find the best solution for this situation. Thereby, an adjusted regression (2.0) was found, double tested, and accepted. Based on the regression (2.0), an adjusted propositioning model (2.0) was built. The findings are provided by analyzing this model.

### **1.10. Contribution**

Since Chinese consumers are still new to the luxury goods market, limited research focuses on them. On the other hand, they are participating as the main buyers in this market, but neither researchers nor luxury companies have enough data or understanding of them. Therefore, this research is inspired to offer an in-depth

analysis of Chinese Middle - Class consumers regarding luxury goods expenditure.

Economic development significantly increases Chinese purchasing power, therefore luxury companies see a long-term business opportunity in China. However, they are facing new challenges in this market.

This dissertation examines the luxury goods, luxury companies, luxury customers, and luxury business in China. It points out that the luxury companies' operations in China are inefficient. Lack of familiarity with the market and customer decreases these companies' performance and increase their risks essentially. Since Chinese customers purchase luxury fashion goods from other countries, they are wasting their energy, cost, and management while operating in China. One main reason for this malfunction is China has its own particularity, generated from thousands of year's history, traditional culture, and new market economy.

Previous research on Chinese customer behavior regarding luxury goods mainly focuses on their motivation, not the whole society nor their purchasing decision. This dissertation will fill in this blank. My research starts by examining China as a new entrant into the western luxury goods market, followed by investigating the luxury businesses in China. Then I will analyze the Middle - Class consumers with several new variables, such as Hukou. China has a Hukou system, which registers people in different locations. Therefore, Hukou status is an official identity of a resident's location and socio-economic eligibility in a location. All the welfares, such as education, healthcare, social security and others, were tied up with Hukou's location. This is the first time, Hukou status is connected with the purchasing power of the Chinese Middle - Class consumers.

This dissertation also opens a new window for globalization research. Previous research on globalization focuses mostly on enterprises' operation and expansion

globally. This dissertation shows evidence of a new trend that nowadays, the customers are integrated into company research. These customers became global customers, and their behavior pushes luxury companies to the digital market. The FDI by these luxury companies seemed to have shrunken with this trend.

The study also helps to advance the previous literature concerning Chinese culture by providing information about the distinctions between the new generation and the old generation, and between individualist and collectivist cultural orientations.

This research is also the first to analyze the luxury fashion goods purchasing location choice in the context of Chinese new Middle - Class consumers. Therefore can revise the evaluation of Chinese purchasing power and understanding of Chinese purchasing behavior.

The research includes a conceptual model and tests it. Hence, the findings can be applied to other emerging countries. Thus, this research essentially has foundational value for both academic and industrial researchers. According to this research, luxury companies may be able to adjust their strategies and increase their profit eventually.

In sum, this dissertation provides an alternative understanding of the Chinese customers' luxury goods purchasing behaviors. Chinese Middle - Class customers' behaviors are anatomized from a new angle. Both Pierre Bourdieu's (1997) capital theory and Geert Hofstede's cultural dimensions theory is applied to Chinese luxury goods consumers. Therefore, an in-depth examination of Chinese customers of luxury goods expenditure is proposed.

### **1.11. Structure of Study**

Chapter 1 is an introduction to the research motivation, establishes the research statement, clarifies the research methodology, and measures the potential contribution

of this study. It concludes with the structure of the dissertation.

Chapter 2 provides background information for this research. It contains three parts: (2.1) luxury goods, (2.2) luxury fashion goods, and (2.3) luxury industry.

Chapter 3 reviews the literature in seven categories: (3.1) Chinese new Middle – Class, (3.2) motivation theories, (3.3) capital theory, (3.4) decision-making theories, (3.5) price differences analysis, (3.6) purchasing channel analysis, and (3.7) a summary of the literature review.

Chapter 4 outlines the methodology from a theoretical perspective that provides the direction for this dissertation. The research methods and research design.

Chapter 5 presents the consideration of data screening, data collection, data analysis, ethical issues, and the strengths and limitations. Variables are explained in relation to the research questions and research objectives.

Chapter 6 offers empirical results and analysis related to testing the hypotheses in the proposed research model. Based on the test results, a considered argument for the reasons for and relevance of the findings, and the significance of extant literature Are illustrated in this chapter.

Chapter 7 comprises a conclusion for this research and an assessment of the original contribution to knowledge and core managerial implications in the field.

Chapter 8 identifies the strengths and limitations and the entire study are acknowledged and potential areas for future research are highlighted.

## **2. Research Background – A Guidebook to the Luxury World**

This chapter provides a background of this research. The definition of luxury goods, luxury fashion goods, and luxury industry are reviewed in this chapter.

## **2.1. Luxury Goods**

Compare to the ambiguous definition of luxury, the definition of luxury goods is relatively clearer. Luxury goods differentiated from common or so-called mass goods, which satisfy basic needs, such as hunger or thirst, not only because their cost is higher and they also have monetary value, such as an investment or wealth display tool, but also because they can provide something that common (mass) goods cannot, such as sociability and self-expression. Common characteristics shared by luxury goods are exclusivity, high price, premium quality, aesthetic design, reputation, and etc. (Veblen, 1899; Nueno & Quelch, 1998; Djelic & Ainamo, 1999; Vigneron & Johnson, 1999; Nia & Zaichkowsky, 2000; Vickers & Renand, 2003; Yeoman, 2010).

Vickers and Renand (2003) compared luxury and common goods in three different dimensions: function, experience, and interaction. Common goods concentrate on functional dimension. On the contrary, luxury goods concentrate on experiential and interactional dimensions, providing personal and social identity. Furthermore, luxury goods deliver both tangible and intangible functions to consumers by satisfying not only their basic needs but also representative needs. They also carry both private and social value.

On the other hand, subjectivity makes defining luxury goods an impossible task. People live in different countries consider luxury goods in different categories (Phau & Prendergast, 2000; Smith, 2004). A research company, Research and Markets (2005), reports that consumers live in western countries divide luxury goods into three categories: personal (such as vehicles, clothes, jewelry, etc.), experiential (such as hotel and cosmetic surgery, etc.) and home (such as antique furniture, electronics, and apartment, etc.) luxuries. However, consumers live in eastern countries only accept the vehicle, gemstone, jewelry, watch, cloth, and etc., as luxury goods. Moreover,

people consider luxury goods differently based on their own wealth status. Someone may think a certain good luxury while someone else may believe that it is a common good (Hauck and Stanforth, 2007).

In Europe, A French association “Comité Colbert” (“to promote the concept of luxury” in English) founded in 1954 by Jean-Jacques Guerlain, provides a definition of luxury. It now has 81 members, all are the luxury brands. “Altagamma” (“high end” in English) is an Italian luxury brand committee, which is similar to the French association “Comité Colbert”. In the USA, Morgan Stanley Capital International (MSCI) and Standard & Poor's (S&P) develops the GICS (Global Industry Classification Standard), which also lists industries of luxury goods. On the whole, luxury goods contain haute couture (high fashion cloth) and accessories, perfumes, jewelry, designer homeware, hotel and gastronomy, great wines, champagne, and cognac, publishing and decorative arts, yacht, personal plane, and expensive cars (Lu, 2008; Chevalier & Mazzalovo, 2012).

## **2.2. Luxury Fashion Goods**

The consumption of these Chinese consumers concentrates on low-end luxury goods, which is different from the other countries. Bain & Company (2015) reports the accessories consumption counts for the most personal luxury goods expenditure, which is 30 percent of the global market, followed by apparel (24 percent of the global market), and followed by hard luxury (22 percent of the global market). On the other hand, Chinese spend the most money on cosmetics, perfume, and personal care categories (more than 30 percent), followed by watches (around 20 percent), and followed by suitcases and handbags (around 13 percent). However, the accessories consumption is almost the least of all purchases, which is around 7 percent. Thus, this



research focuses on luxury fashion goods, which are the main consumption and can be carried by a traveler or delivered from overseas.

The global luxury fashion market worth approximated 130 USD billion in 2007, with around 20 percent constantly annual growth rate. In both developed and emerging countries, such as France, Italy, Spain, USA, China, and India, the luxury fashion industry is one of the most profitable revenue engines (Okonkwo, 2007). In addition, the Bain & Company's reports regarding luxury goods are mostly luxury fashion goods, because the brands they covered in reports such as Chanel, Louise Vuitton, Prada, Hugo Boss and etc. are all luxury fashion goods.

***Chambre Syndicale De La Haute Couture Parisienne*** (English: Trade Association of High Fashion Parisian Girl), which was created in 1868, is the landmark of the modern luxury fashion industry (Crane, 1997; Djelic & Ainamo, 1999; Gao, 2009). Moore and Doherty (2007) state that luxury fashion retail firms are companies distributing accessories, clothing, shoes, handbags, and etc., which are made by/for the company. They can be recognized by premium quality and specific design. They have a brand name or can be identified by some logo/sign/mark. They are sold at an extremely high price in the prestigious retail channel. For example, Cartier watches, Hermes handbags, Gucci shoes, Chanel ready-to-wear clothes, and other famous brands' jewelry, perfume, apparel, and accessories, which display not an only functional utility but also prestige to customers (Vigneron & Johnson, 2004). Fashion is not only a visible good but also involved in daily life and culture. Luxury fashion goods involve deeper in society than common fashion goods, because they connect with their loyal customers emotionally (Okonkwo, 2007).

### 2.3. Luxury Industry - Worldwide Expansion

In 1960s-1970s, the USA and the developed countries of Europe, such as France, Belgium, Italy, and Switzerland, were the major markets of luxury goods. However, the Luxury industry has been reorganized because of the crisis of European capitalism in the 1970s. Evidence was noticed from France, Italy, and Switzerland. At the same time, the luxury market was shifted from developed countries to East Asia. Luxury companies were attracted by the economic rise and openness of Japan and China (Bonin, 2012; Merlo, 2012; Donzé, 2011; 2014; Donzé & Fujioka, 2014).

While new opportunity creates a new challenge. The traditional luxury companies who are family owned small - and medium-sized enterprises (SMEs) cannot fulfill this new worldwide demand, which pushed up by the new Asian consumers. Eventually, they concentrated into Multinational Enterprises (MNEs) by merging and acquiring, especially for Swiss (Swatch, Richemont) and French (LVMH, Kering) companies, during 1960s-1980s (Donzé & Fujioka, 2014). This reorganization armed luxury corporations with revised marketing strategies, hence they have globalized gradually since the 1990s. Luxury business is industrialized through this market extension (Donzé & Fujioka, 2014).

### 3. Literature review

This chapter reviews the literature on the research problems to establish a theoretical foundation upon which research hypotheses can be built.

This chapter begins with a review of the luxury market in China. Section 3.1 clarifies the Chinese consumers as the new Middle - Class and discuss whether their consumer behavior is as similar as or different from the Middle - Class living in mature markets. This is followed by Section 3.2, in which previous **Motivation**

**Theories** are reviewed. Hypotheses 1 is built on these theories. In Section 3.3, Pierre Bourdieu's (1997) **Capital Theory** is reviewed and applied into Chinese New Middle - Class. Hypotheses 2 to 4 are built on this theory. In Section 3.4, **Decision-Making Theories** are reviewed. Section 3.5 provides a price differences analysis to show how and why the luxury goods were priced so differently between China and other countries. Hypotheses 5 is based on it. Section 3.6 offers an introduction to the purchasing channel. Hypotheses 6 and 7 are built on it. Section 3.7 is the summary of the literature review. Eventually, the hypotheses generated from previous research are summarized in it.

In sum and in short, this chapter analyzes the Chinese consumers who purchase luxury goods by observing who they are, why they buy and how they buy.

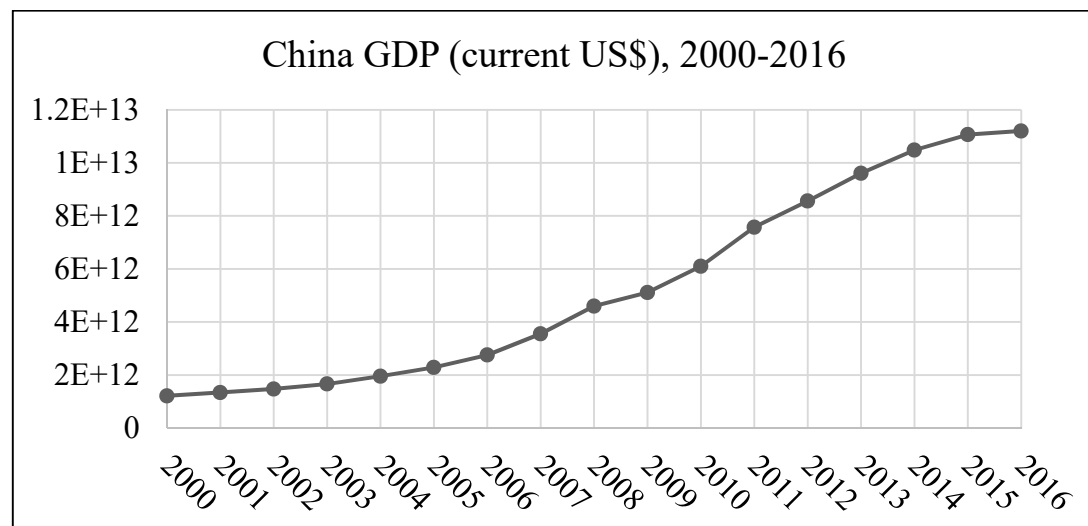
### **3.1. Main Chinese Consumers Of Luxury Goods: The New Middle - Class**

In December 1978, Chinese economic reform was launched. This reformation is seen as a signal to open the door to the world, and it is also a renaissance of Chinese traditional culture and a new beginning of Chinese modern culture. The belief of the Great Proletarian Cultural Revolution is abandoned. The Great Proletarian Cultural Revolution (1966-1976) is a socio-political movement against both western capitalism and traditional Chinese culture. During this time, China was a closed mainland to the western world.

After China opened the door for international business in 1979, the economic policy against FDI was released in 1992 (China's Economic Zones: Design, Implementation, and Impact, 2012; Donzé & Fujioka, 2014). The centrally-planned economy has been gradually replaced by a market-based economy. Since 2010, with a population of 1.3 billion, China is the second largest economy (World Bank, 2017)

The GDP of China keeps increasing (see Figure 1) while the Income Gini Coefficient, which can measure the inequality of income distribution among individuals or households within a country from a perfectly equal distribution (A value of 0 represents absolute equality, a value of 1 absolute inequality), shows that the income distribution range is about 0.46 to 0.49 in China from 2003 to 2006 (see Figure 2). Therefore, we can conclude that the income distribution is not equal distribution in China. Some Chinese are rich while others are not.

Figure 1. GDP (current US\$, trillion) of China, 2000-2016



Source: World Bank, World Development Indicators,  
<https://datacatalog.worldbank.org/dataset/world-development-indicators>

Figure 2. Income Gini Coefficient index, China, 2003-2016.



Source: <http://www.scio.gov.cn/zhzc/2/32764/Document/1421797/1421797.htm>,  
<http://www.Chinanews.com/cj/2017/01-20/8130559.shtml>

With economic development, China is transforming into a consumer orientation and market-driven society from a central plan and ascetic society. Tse et al. (1996) indicate that China is becoming a consumer society. This country just opens to the western world around 40 years. In the past, more than 30 years ago, Chinese society, changed several times, specifically from a command economy to a market socialist and then to a consumer society. As a new consumer society, there are demands for goods that they never had previously. This demand specifically gears towards luxury goods in recent years.

Unger (2006) finds that the Chinese new Middle - Class is the main customer of luxury goods. The Chinese Middle - Class, who is the main consumer of luxury goods, is emerging with the economic development as well. Chinese only consumed 1 percent of luxury goods in the global luxury market in 2000, while their consumption accounted about one-third of the global luxury market in 2015 (D'Arpizio, Levato, Zito, & Montgolfier, 2015). According to Wang et al. (2011), young Chinese aged

between 20 and 40 years constitute the main body of luxury consumers in China. 300 million young Chinese under 30 years old are showing significant purchasing power in the luxury market (Moor, 2005). Atsmon, Dixit, Leibowitz, & Wu (2011) reports that 45 percent of China's luxury buyers are aged under 35 years.

There is no universally accepted definition of Middle - Class. Gilbert and Kahl (1992) provide six classes to analyze the U.S.'s class structure, which is Capitalist, upper-Middle - Class, lower-Middle - Class, working class, working poor, and underclass. Thompson and Hickey (2005) make a little change based on Gilbert and Kahl's model. They separate the U.S. society into the upper class, upper-Middle - Class, lower-Middle - Class, working class, and lower class.

According to Carlson, Gallagher, Lieberthal, and Manion (2010), the Middle - Class is a discretionary customer, who has plenty of personal wealth to spend on clothing, vehicles, housing, services, and other goods. However, even though the GDP of China ranks only below the USA as the TOP 2, the GDP per capita of it ranks below 100 at the same time. Therefore, the Chinese Middle - Class is still emerging. They are still young and the first generation who joined this class less than two decades.

Even though the standard of Middle - Class in China is not very clear, plenty of associations and research or consultant companies set some standards to measure and distinguish the Chinese Middle - Class.

The World Wealth Report, co-published by Merrill Lynch and Capgemini, defines HNWI (High-Net-Worth Individual) as people who hold at least 1 million USD in financial assets. China is the fourth-largest HNWI country, with 415,000 population in 2008, increased to 1,034,000 and the highest annual growth rate (16 percent) in 2015. Behind HNWI population, affluent population, whose annual income is higher than

25,000 USD, also belongs to the rich level (Mastercard / HSBC joint study on China Affluent, 2007).

The Credit Suisse Global Wealth Report defines UHNWIs (Ultra High Net Worth Individuals) as individuals whose asset is higher than 50 million USD. Chinese account for 8 percent of global UHNWI.

McKinsey & Company defines consumers in households with annual income of 40,000 - 100,000 RMB (around 6060 - 15,150 USD) as the upper-Middle - Class in China (Farrell, Gersch, & Stephenson, 2006). Forbes and Credit Ease report (2013) that household income of 110,000 - 500,000 RMB per year accounts for 54 percent as the main part of Middle - Class in China.

In this dissertation, the standard from Forbes and Credit Ease report was accepted. However, it measures the household income, this research focuses on the individual. Thus the income level of one individual was calculated by dividing the household income between 110,000 to 500,000 RMB per year by two with an assumption that a household of the 80s' contains two workers. Therefore, the individual annual income between 60,000 to 250,000 RMB per year is seen as Chinese Middle - Class.

### **3.1.1. Do Customers Behave Universally or Particularly?**

#### **3.2.1.1. Universal Theories**

Farley and Lehmann (1994) test whether customers from different countries respond differently to a certain brand. Even though their study does not focus on the luxury goods, the research indeed enlightens an idea that consumers from different countries are not that different from each other.

With the globalization, country borders of luxury goods are fading away.

Consumers from different countries now have the similar taste of luxury goods. Cross-cultural customers see owning a global luxury good as a signal of fantastic taste, no matter where they live in (Douglas and Craig 1997; Levitt 1983; Anderson and He, 1998). Hassan and Katsanis (1994), Wiedmann, Hennigs, and Siebels (2007) also observe similar behaviors shared by cross-national customers. They believe that cross-national customers may behave more similar than they behave within a country. Customers' preference, taste, and attitudes are homogeneous cross cultures. Consumers from Asia have kept increasing since the 1990s during the last century, the most basic reason is "Wealthy consumers from emerging markets accept western luxury brands as the gold standard." (Catry, 2003; Nueno & Quelch, 1998).

Furthermore, Campbell (1987) states that consumers learn to buy. Consumer behavior does not generate automatically but develops with economic development. Anderson and Engledow (1977) believe the "global customers", who are traveling across nations, speaking not only their own mother language, and purchasing in airport stores, impact the consumer behavior of others. With the advancement of international business, globalization, and economic development, communist countries are transforming more towards capitalist. Western consumer culture is expanding from developed countries to emerging and developing countries (Belk 1995; Featherstone 1990; Mattelart 1989/1991; Sklair 1991).

In addition, the evidence of "Borderless consumer" (D'Arpizio et al., 2015) is being more observed in recent years, especially after the Financial Crisis of 2007. Chinese consumers have become lifesavers for luxury companies when the purchasing power of consumers from North America, Europe, and Japan declined since 2007.

Dawar and Parker (1994) believe that "cultural independent" goods exist in



several specific categories, such as cars, fashion items, and luxury objects. In addition, cross-cultural customers behave in the same way as developed country consumers do accompanying with the development of information search and cross-border communication. These are the “universal” consumer behaviors, regardless of country borders or cultural differences.

### **3.2.1.2. Particular Theories**

On the other hand, more researchers insist that Chinese customers have some special consumer behaviors according to their historical, economic, cultural and social environments. In the book, *The Oxford handbook of Chinese psychology*, the author, Michael Harris Bond (2012) states that “China is different from the west in all ways”. He notices that the unique history, culture, and beliefs and values generated from them make Chinese consumers behave in a different way from western customers since the behavior decision is so-called situation-specific.

Aaker and Williams (1998) find that Americans are more easily persuaded by ego-focused emotions as typical individuals who hold individualist beliefs, while Chinese are more easily touched by other-focused emotions as typical individuals who believe in group values.

### **3.1.2. Distinguishing Consumer Behaviors Between The Two Chinese Generations**

The new China (built in 1949) encompasses two distinct generations last century, some researchers classify them into three, but two generations, in fact, are clearer. (1) Chinese who were born in 1945-1960 belong to the “*Suffering Generation*”. They suffered during the Second World War, the Cultural Revolution (1966-1976), and lay-

off by SOEs (State Owned Enterprises) in the 90s. (2) Children of the “suffering generation” are called the “***Lucky Generation***”, who were benefited from the economic development after “Open the Door” policy. Cultural Revolution ended in 1976, Economic Reform started in 1978, and one child policy was enforced in 1979. Some of the “lucky generation”, who was born in a big city after 1979, is the only child of a family. Hence, this the one and only child generation normally were called the “Little Emperor or Empress Generation” (Inglehart, 1977; Hung et al., 2007; Hung, Gu, & Yim, 2007; Hedrick-Wong, 2008; Ngai & Cho, 2012).

These two generations are extremely different from each other since they grew up in totally different environments, which not only timing differences but also cultural and economic value differences. The elder/suffering generation live in a low-standard lifestyle and is conscious of price because before China opened its door, resources were scarce, production capability was low, people were poor, and society was unstable before the 80s. The younger / lucky generation does not suffer from the previous hard time, thus barely can share their parents’ growing pain. Both purchasing motivation and behavior of this generation are extremely different from their parents. They are materialistic, self-indulgence, and personal entertainment (Chen and Feng, 2000; Doctoroff, 2005; Dou et al., 2006; Wassner, 2009).

Furthermore, as a single child of a 4-2-1 family (4 grandparents, 2 parents, and 1 child), not only brings the younger / lucky generation entire attention from his or her parents and grandparents but also brings him or her extra pressures from elder generations, who lost their youth and opportunity to a hard time. They fulfilled the younger generation with their dreams and values of achievements and success. The younger / lucky generation get luxury goods as a reward from the elder generation, and they consume luxury goods to impress their peers and ease pressures. (Li et al.,

2009; Zhao and Belk, 2007; Yan, 2006; Scelzo & Lerman, 2009).

Consumers growing up in this environment cherish more individual value and achievement (Durvasula & Lysonski, 2010; Shan, Jiang & Wei, 2016). This young generation is also the first generation who had an international educational background (Corbin and Strauss, 1990). They live in the luxury world rather than hear or see the luxury goods on TV or the Internet. Their purchasing decision directly impacted by the foreign advertising and environment.

Therefore, in the modern society, some motivations of Chinese for luxury goods are as same as western consumers. Showing achievement and social status by purchasing worldwide recognition goods is driving the Chinese luxury market (Hung et al. 2011). However, as an emerging country, which is transitioning from a closed socialist country to a market country, and an old country with thousands of year's civilization, the customers, and their purchasing behavior are unique in some aspects.

In addition, The housing price in China is one of the barriers stop new blood reach the Middle - Class(Carlson, Gallagher, Lieberthal, & Manion, 2010). On the other hand, the price of housing “makes” some new rich or even affluent, but they are not the real Middle - Class, even with the same wealth as the real Middle - Class, because their behaviors are different.

Another inchoate process of Chinese Middle - Class is the lifestyle. The standard of Middle - Class life in developed countries contains high-quality housing, car, traveling vacation, and some relatively conspicuous consumption, such as luxury goods or services. However, this kind of lifestyle has not been fully formed in China (Carlson, Gallagher, Lieberthal, & Manion, 2010).

Therefore, this study refers to a specific Middle - Class for simplicity purpose. Even though the income level of this group was clarified by many previous types of

research, the disposable income of them are not thoroughly analyzed in luxury goods, since the most western research state that consumers of luxury goods are not price sensitive, but the Chinese Middle - Class consumers are supposed to be price sensitive, according to the fact they purchase luxury goods from overseas instead of from their domestic market seeking lower price with the same design and quality. Therefore, this study explores the underlying purchasing location choices of Chinese Middle - Class consumers by relating consumers' disposable income and their luxury goods consumption.

After analyzing the luxury market in China, it is time to re-examine the society and Chinese people. China is a newly emerging country, where the customers are young but different from the western young. The culture, history, tradition, social class, economy, and the environment in China are extremely different from the western world. Therefore, the Chinese customers show significant differences in purchase behavior from their western counterparts.

Hence, this research focuses on the younger / lucky generation and focuses on Middle - Class consumers, who were born in the 1980s.

### **3.2. Motivation Theories**

Many researchers provide theories to explain luxury, luxury goods, luxury brands, and why people purchasing them. In recent years, marketing research of luxury industry has been driven into a customer purchasing decision motivation way (Cavender & Kincade, 2015), since some researchers understood that customers pursuing luxury goods not only for these good themselves but also for both internal and external motivations (Gao, 2009). The customer intention of luxury goods explains the motivation of consumption with the values of luxury goods.

### 3.2.1. Status Motivation Theories

Motivation theories believe that motivations of consumption impact consumers' price sensitivity. Veblen (1899) defines the *Conspicuous Consumption Theory* as rich consumers purchase highly conspicuous goods and services to exhibit their wealth, thereby to achieve higher social status. Leibenstein (1950) applies the theory of price to the explanation of conspicuous consumption and proposes *Veblen Effects*, which states consumers purchase more luxury goods when the price increase, since it shows exclusivity, which displays wealth, thereby satisfy consumers' social needs. Creedy and Slottje (1991) also state that Veblen Effects, which is the conspicuous consumption, happens when prices of goods increasing the lead to more demand of consumers. Jin et al. (2015) prove Veblen's conspicuous consumption exists amongst Chinese luxury goods consumers by analyzing why the Chinese elite buy what they buy.

In addition, Leibenstein (1950) proposes the *Bandwagon Effect*, which states aggregate demand of a good increase because others are consuming. Further, Belk et al. (1982) point out people sees how the others perceive themselves as an extension of themselves. In addition, Belk's (1988) points out that people have the desire for a symbol whether they belong to a group or not. Luxury goods symbolize that customers belong to a prestige group, which is apart from the opposite group. For example, the new rich purchases luxury goods to display the wealth, and the people who want to be the new rich would like to buy the same luxury goods to pretend that they are the new rich.

Furthermore, Leibenstein (1950) proposed the *Snob Effect* that states aggregate demand decreases because others are consuming. Therefore, consumers would love to pay a higher price for luxury goods, which are rarer because fewer people can afford.

In addition, Charles et al. (2007) prove that the signal value of social status can be got through purchasing luxury goods at a higher price. Goldsmith, Flynn, & Kim (2010) processes a study among American college students, which proves that status seekers will pay more for luxury clothes.

McCracken (1990), Bell et al (1991), O'Shaughnessy (1992), Goldsmith et al. (1996), Eastman et al. (1999), and O'Cass (2000, 2002a, 2002b, 2004a, 2004b, 2008, 2013, 2014) expand conspicuous and social motivations into *status motivation*, which states that customers purchase luxury goods to show their status, which is the position in a society. Consequently, people who want to gain status by owning luxury goods. This motivation also stimulates their consumption of luxury goods.

### 3.2.2. Prestige Motivation Theory

Vigneron and Johnson (1999) conclude the environment people live in shapes their feelings about the luxury goods. Both societal and personal life interact with the recognition and feelings of the luxury goods. These authors state that people purchase luxury good to perceive prestige, which provides five different values to different customers.

First, *conspicuous value*. Consumers flaunt their wealth by owning prestige brand goods.

Second, *unique value*. Consumers feel unique by owning prestige brand goods, which is exclusive because not everyone can afford.

Third, *social value*. Consumers buy these prestige brand goods to fit in the social arena and the environment. For example, a white-collar, working in Wall Street, wears Armani suit to fit in the environment where everybody wears Armani suit.

Forth, *hedonic value*. Consumers are emotionally satisfied with owning prestige

brand goods. The intangible benefits, such as aesthetic appeal, move consumption.

Fifth, **quality value**. Consumers pursue superior technology and premium services with the motivation of owning prestige brand goods (Vigneron and Johnson, 1999).

### **3.2.3. Theories Regarding a Person's Self**

Sirgy et al. (1982; 1985; 1986; 1991) predict the relationship between self-concept and consumer behavior of luxury goods in the **Self-Congruity Theory**, which describes both self-consistency and self-esteem motivations can change people's purchasing decisions. O'cass and Frost (2002) mention the **Self-Achievement Motivation**, meaning people purchase luxury goods to show their achievement, success, and wealth. Vigneron and Johnson (1999) state that both self-respect and independence stimulate people to purchase goods which can provide hedonic feelings.

### **3.2.4. Materiality and Materialism Theories**

According to Borgerson (2013), materiality is defined as "interaction and co-creation with substantial implications for the effects of consumer identity, intersubjectivity, and being". Materiality in consumer culture is based on a proposition that people grow with changing. We become who we are from the interrelation between us and others. We and others define and recognize ourselves by what we have, or what we do not have. We want to be whom we want to be. In other words, we learn to be whom we learned from. By owning what they have, we feel like the others, whom we cherish, envy, or love.

Oxford English Dictionary (1989) defines materialism as "devotion to material needs and desires, to the neglect of spiritual matters; a way of life, opinion, or

tendency based entirely upon material interests." In consumer research, materialism has been defined as "the role of material objects in affecting terminal goals such as life satisfaction, happiness, and social progress" (Claxton & Murray, 1994). Richins and Dawson (1992) believe materialism is a type of life, which is based completely on material interests. Materialistic value thereby concentrates on three acquisitions:

First, *Acquisition Centrality*, which states Materialists' life center is to chase possessions and the process of acquisition.

Second, *Acquisition as the Pursuit of Happiness*, which believes Materialists cherish possessions because they measure their happiness by whether they have possessions or how many they have.

Third, *Possession-defined Success*, which argues Materialists judge people by estimating possessions they own.

Rather than religious and social critics of materialism, Csikszentmihalyi and Rochberg-Halton (1978; 1981; 1986) notice that it can be positive if it furthers the goals of one's life and personal values. This explanation is a little bit hard to be applied to research since the goals and values are different among people. Some of them are not really positive. For example, people steal money to enjoy better lives. This life goal is not a correct one. Therefore, these researchers apply value judgments to their analysis. Thus, materialism can be separated as a "good" materialism and a "bad" one (Richins and Dawson, 1992). In China, the good materialism can be extended to "reward" consumption, and the bad materialism can be extended to "mammonish" consumption. The former is to buy a luxury good rewarding hard work or good test scores, while the latter is to get a luxury good by all means, including stealing, lying, cheating, trading themselves, or anything else that against moral standards in the society.



### 3.2.5. Luxury Values Theory

Globalization is expanding the market for luxury goods, both opportunities and challenges come with the foreign customers. Even though customers live in different countries have different motivations to purchase luxury goods, they chase similar values of personal, social, financial, and functional aspects (Hennigs et al., 2012; Wiedmann, Hennigs, & Siebels, 2007).

Hennigs et al., (2012) concentrate previous luxury purchasing motivation theories in a figure (see Figure 3). (1) The **Financial Value** generates from the price value but has a broader dimension, which covers the cost, investment, and the desire people would love to sacrifice for the luxury goods (Ahtola, 1984). (2) The **Functional Value** of luxury goods concentrates on quality, reliability, usability, and uniqueness (Sheth, Newman, & Gross, 1991). (3) The **Individual Value** comes from people's individual experience, knowledge, and feeling, which reflect their self-identity, as well as hedonic, and materialistic values. (4) The **Social Value** focuses on the interaction between the buyers and their niche social group. Both conspicuousness and prestige values impact the decisions of consumption (Liu & Hu 2012; Vigneron & Johnson, 1999).

Figure 3: Dimensions of luxury value perceptions

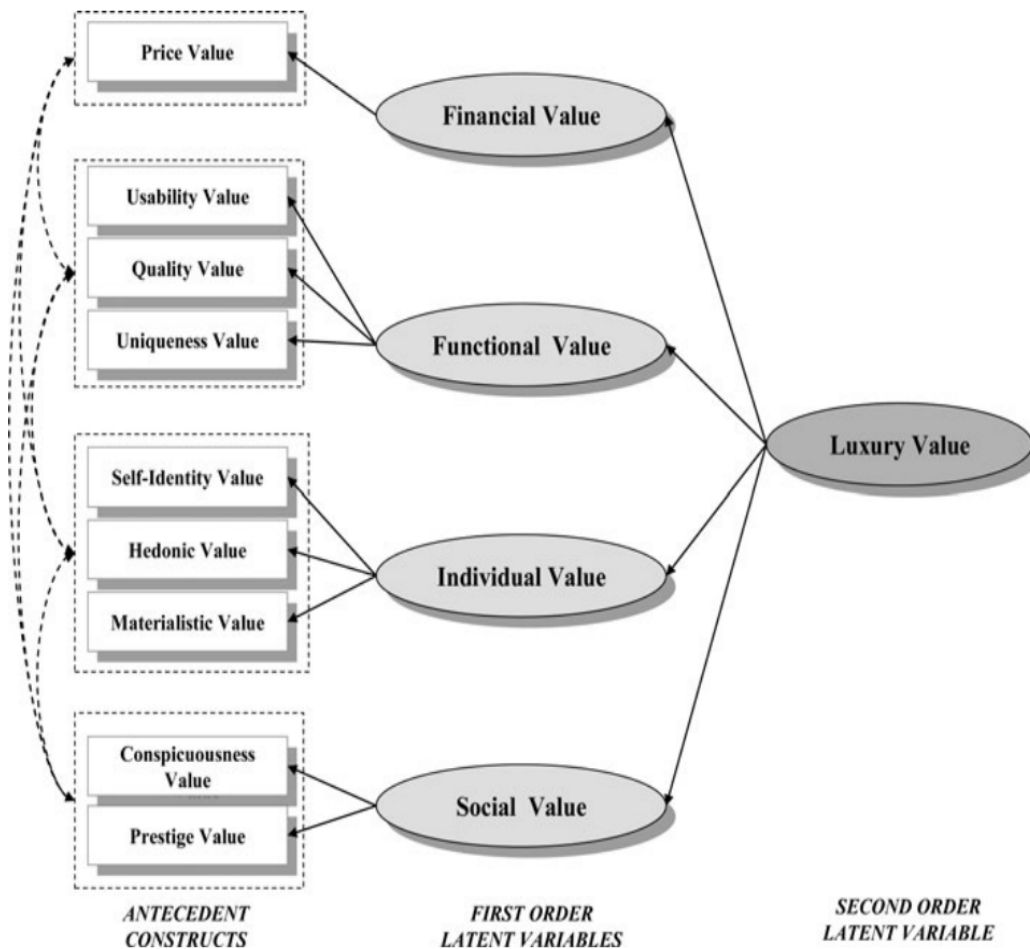


Figure 1. Dimensions of luxury value perceptions.

Source: Hennigs et al., 2012, p.1021.

### 3.2.6. Purchasing Luxury Goods as Gifts (Wong And Ahuvia, 1998)

People maintain social ties by exchanging a gift. (Belk & Coon, 1993; Camerer, 1988). Wong and Ahuvia (1998) compare luxury consumption between Confucian and Western Societies and finds that in collective societies, gift exchanging is a major motivation to purchasing luxury goods. In addition, the luxury gift can also exhibit the wealth of gift giver, thereby the conspicuous value of luxury goods are reflected as well.

### **3.2.7. Summary of the Motivation Theories and Hypotheses (H1)**

Motivation theories provide an integrated understanding that when the price of luxury goods increases, consumers purchase more because the attraction of luxury goods generates from the exclusiveness. Uniqueness and feeling accompanying with it are key reasons why consumers buy. Therefore, these consumers are not sensitive to price. They do not consider price as an important factor when they make a purchasing decision.

On the other hand, gift giving is a different situation. The feelings of maintaining social ties and exhibiting wealth can be different. Exhibiting wealth is active while maintaining social ties can be passive rather than active. In other words, people may have to give luxury goods to maintain their social group status even though they do not want to. In this case, the lower the price for the same luxury goods is attractive.

- H1: Purchasing motivations regarding luxury goods impact the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H1a: Chinese Middle - Class consumers who consume luxury goods themselves are not price sensitive, therefore they purchase fewer luxury goods from overseas markets.
  - H1b: Chinese Middle - Class consumers who do not consume luxury goods themselves are price sensitive, therefore they purchase more luxury goods from overseas markets.

### 3.3. Capital Theory

Bourdieu (1997) offers the capital theory, which states capital is a potential capability to acquire wealth. Therefore, owning different types of capital in a given society structures people's social level. Relying on the field where capitals function, Bourdieu classifies capitals into three fundamental forms: economic, cultural, and social capital. (1) ***Economic capital*** contains everything that can be converted into money or property right directly or immediately. (2) ***Cultural capital*** can be transformed into the economic capital under certain conditions and may be institutionalized into educational qualifications. (3) ***Social capital*** consists of social networks and can be converted into the economic capital under certain conditions. These three categories are interdependent with each other. All capitals are generated from the economic capital and are transformable into economic capital.

In addition, these capitals owned by parents can be delivered to their next generation by education. **Education**, consequently, plays a key role in the intro- or inter-generational reproduction of social and cultural capital. Moreover, Education impacts the transmission of all these three capitals among generations (Bourdieu, 1997; 2002; 2006).

Therefore, we can infer that the capitals a person has do not only impact his or her capability to acquire wealth (money inflow) but also his or her attitude to deal with their wealth and outflow of money. Thus, this paper applies the capital theory to Chinese society and examines its influence on Chinese Middle - Class consumers purchasing decision-making processes regarding luxury fashion goods.

#### 3.3.1. Cultural Capital Analysis of The Chinese New Middle - Class

According to Bourdieu (1987), cultural capital contains three forms: (1) ***Embodied form***: long-lasting disposition of mind and body, (2) ***Objectified form***: cultural goods (books, instruments, pictures, and etc.), and (3) ***Institutionalized form***: a specific objectification in the form of academic qualifications.

In other words, cultural capital first is a culture, and it can be inherited by the next generation. Cultural capital has certain standards, which are monitored by academic qualifications. For example, taste, aesthetics and decision-making art. Bourdieu's theory is able to explain the behavior of Chinese Middle - Class luxury goods consumers. In order to understand this further, it may be important to analyze some cultural factors first.

The definition of culture is vague because it can barely be proved right or wrong. According to Reeves-Ellington and Yammarino (2010), previous researches have provided more than 250 definitions of culture until 2010. All of them make sense in somewhere. Lowell (1934) summarizes the fundamental problem to define the culture is infinite. Bennett & Frow (2008) lists 4 main traditional definitions of culture: (1) the universalists believe that culture is a set of standards of perfection that people cherishing; (2) the structural scholar distinguishes culture from other life practice, such as economic, political, and social; (3) the anthropological researchers insist that all cultures, in essence, are homogenously valuable, because they are relative to location and time; and (4) the instrumentalists conclude culture is a resource, which can be transmitted into economic, social, and political ends.

### **3.3.1.1. Geert Hofstede – 6 Dimensions Of Cultures**

Geert Hofstede (1980, 1991, 2001) provides a broadly accepted definition of culture for international business, "It is the collective programming of the mind which

distinguishes the members of one group or category of people from another”.

Consequently, Leidner and Kayworth (2006) summarize culture as “shared values” within a collective group. In other words, culture is the values shared by a group of people. Moreover, different groups (distinguished by social class, party, gender, age, location, and etc.) conceive different values. Hofstede (1980, 1991, 2001) also explained that the acquisition of culture happens by learning, rather than by inheriting. He measures the dimensions of cultures in four basic areas:

- 1) ***Power Distance Index (PDI)***. It shows that power is unequally distributed within the society, as a result, members with less power in any institution (the basic elements of a society, such as family) and organization (the workplaces) recognize and accept this hierarchical order (Geert Hofstede, 1980, 1991, 2001).
- 2) ***Individualism versus Collectivism (IDV)***. Individualism states that the ties among individuals are loose. In other words, individuals are on their own, they take care of themselves and their immediate family only. On the contrary, collectivism pertains people cherish the value of the group. As a result, people in a certain society image themselves in terms of “I” or “we” can reflect the dimension of individualistic or collective society (Geert Hofstede, 1980, 1991, 2001). Diener et al. (1995) expand individualism as individuals pursue their own interests or goals.
- 3) ***Masculinity versus Femininity (MAS)***. Masculinity cherishes strength, such as heroism, success, and achievement. Consequently, societies with high scores of it are more competitive or strong. As its opposite, femininity has a bias against weakness. For example, taking care of the poor, and considering the quality of life. Accordingly, societies with high scores in this category are

more cooperative.

- 4) ***Uncertainty Avoidance Index (UAI)***. It detects people's recognition of uncertainty and ambiguity and their action to avoid it. Nervous stress and predictability from the uncertainty can generate a need for regulations or rules (Geert Hofstede, 1980, 1991, 2001).

These four dimensions were extended into six by Geert Hofstede himself, Gert Jan Hofstede, Michael Minkov and their research teams.

- 5) ***Long-Term Orientation versus Short-Term Normative Orientation (LTO)***.

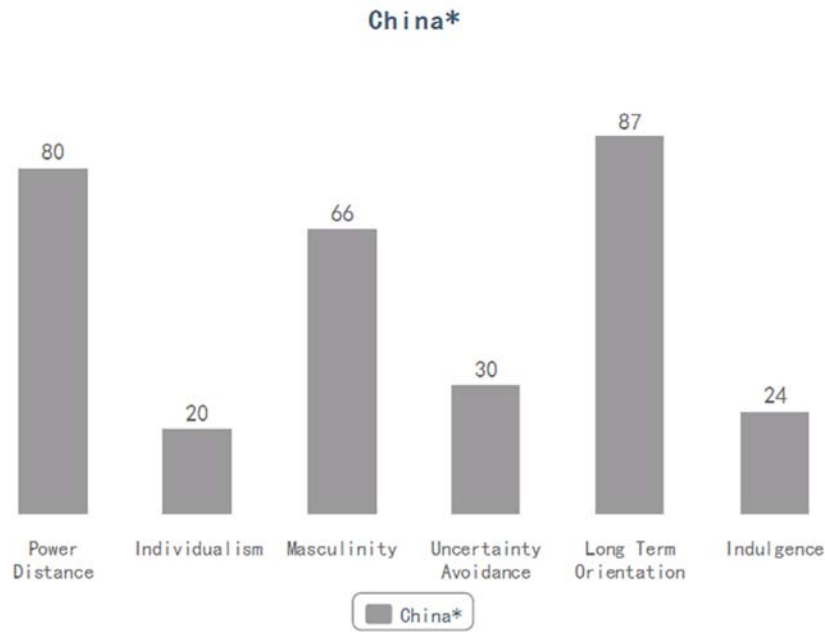
These reflect the attitude towards traditions in a society. Long-Term Orientation society values its traditions, and they consider education as a preparation for the future (Hofstede, 2001).

- 6) ***Indulgence versus Restraint (IND)***. Indulgence society allows people to enjoy their lives based on human being's nature, while restraining society does not and inhibiting enjoyment. In the kinds of societies, people are impacted by morality, ethics, and social norms (Hofstede 2011).

Recently, intercultural communication studies reveal that culture keeps on changing with time, and it is also impacted by cross-cultural communication (Vaagan, 2016). Cultural capitals, defined by Bourdieu, cover two origins: social and family background, and education, by which people absorb external aesthetic impact. Both standardize the taste of a person. As a result, people make a purchasing decision based on their taste and desire, generated from the taste (Lu, 2008). Furthermore, the purchasing decision contains more than aesthetic, as it considers where to buy the good in this case.

### 3.3.1.2. How the Chinese Culture Impact Chinese Consumption of Luxury Goods?

Figure 4: Hofstede's 6 Dimensions of China



Source: download from <https://geerthofstede.com/research-and-vsm/dimension-data-matrix/>

According to Hofstede's Index 2016 (see Figure 4), the culture of China was listed below.

**PDI=80** marks China at the higher rankings of power distance, which exhibits that China is a highly *hierarchal* society, in which inequalities among people are acceptable. Leadership and authority are respected, which explains why purchasing luxury goods as gifts is an important motivation for the Chinese. As a gift, a good need not to be specific. However, the price range is more important. For example, a decent gift for a mother-in-law may cost from around 100 to 1000 USD, but not 10 USD. Therefore, the price is a key role in the decision-making process of gift purchasing.



**IDV=20** shows China as a *collective* country, where individuals live in for a group rather than for themselves. In-group consideration impacts people's daily life.

Markus and Kitayama (1991) split self into independent self and interdependent self. The former is mostly found in western culture and presents as individualism; while the latter is normally found in eastern culture, and presents as collectivism.

Zhang and He (2012) reveals that Chinese customers have the strong exhibitive motivation, which impacts luxury goods expenditure because China is a collective cultural country. Wong & Ahuvia (1998) compare social impacts on luxury goods expenditure and find that customers in individualistic cultures buy luxury goods for their self-expression; however, customers in collective cultures buy the same things because of social needs. They also compare the conspicuous driven consumption of luxury goods between western and eastern countries and concludes that individualistic buyers are motivated by themselves. They purchase luxury goods to amuse their own inner self-preference. On the contrary, collective consumers more like are pushed to buy these stuff by the social pressure, not for their own pleasure.

Social needs in a collective country, such as China, are changing with economic development. Increasingly, observation in Chinese luxury expenditure shows conspicuous motivation, because, for the new generations, personality and individuality are important (Jin et al. 2015). The symbolic role is important in both collective and individualistic society. People live in different societies purchase symbolic goods to exhibit their economic, political, and social status.

Correspondingly, people infer each other's status by the things they buy or the things they wear (Levy 1959; Solomon 1983; Belk 1988; Belk et al. 1982; Burroughs et al. 1991; Richins 1994). The psychological motivation for pursuing uniqueness from obtaining luxury goods reflects a person's individual orientation rather than a

collective one (Snyder & Fromkin, 1977). Jin et al. (2015) analyze Chinese conspicuous driven consumption of luxury goods as they pursue signaling and symbolic values, such as reputability, taste, personality, and social status, which proves Veblen effects (1899) of Chinese luxury goods consumers. Furthermore, their paper proves that Veblen's theory is more applicable than Bourdieu's capital theory in analyzing Chinese consumers' purchasing behavior. In a collective country China, Chinese purchase the same luxury goods as people lived in individualistic countries, but the motivation of Chinese consumers are different. They consider the pursuit of luxury goods as improvement of their social status and reputability, not personal enjoyment or pleasure, nor taste.

**MAS=66** shows China is a *Masculine* society, in which people are motivated by achievement and success, thus competition amongst people are accordingly high. Achievement and success can be exhibited by purchasing and obtaining luxury goods because of their uniqueness and exclusiveness (Jin et al., 2015). In addition, intelligence like a luxury good, it is also something that the Chinese would love to compare and show off. Purchasing an exactly the same luxury good, but spending less money is a sign of being smart. In a collective society, once this is possible, the others will follow up because of the "in-group" consideration. The ones who cannot catch up with the pioneer will be seen as not so intelligent.

**UAI=30** shows China has a low score on **Uncertainty Avoidance**. Chinese are acceptable, adaptable and even comfortable with ambiguity. Indeed, the Chinese enjoy taking advantage of the ambiguity or uncertainty. For example, one main reason why Chinese people prefer to purchase luxury goods from overseas is the price difference, which, in fact, is related to saving on tariffs. This market is a little bit "grey" because the unofficial dealers, daigou, avoid the tariff. However, for the customers, it may not

be illegal in most cases, the only thing needs to be considered is the chance. If the General Administration of Customs taxed the package shipped from another country to a buyer, then he or she needs to pay the tariff. But if not, then he or she may be thought lucky. The chance is random.

**LTO=87** identifies China as a very *pragmatic* culture. Even with its thousands of year's traditions, Chinese are adaptable to different situations, environments, conditions, locations, contexts, and time. The desire for luxury goods and respect for traditional values make Chinese luxury consumers different from their western world counterpart, who is not priced sensitive to the luxury goods. Chinese consumers are chasing luxury goods, but with the consideration of buying it at the lowest price.

**IND=24** reflects that China is a *Restrained* society. Cynicism somehow influences Chinese attitudes, beliefs, behaviors, and judgments. For example, traditional Chinese culture advocates thriftiness, which makes Chinese consumers feel wrong when they are spending money on luxury goods. The desire for luxury goods is indulgent and conflicts with social norms in China.

Recently, researchers find that economic development brings new and different values from the western world to China, such as self-realization, materialism, and indulgence. New generations in China pursue luxury goods for their own pleasure and gratification. Even though this behavior is against the traditional value of endorsed frugality, thriftiness, and the habit of saving (Deng & Jin 2008; Wang & Lin 2009).

Besides spending more money on luxury goods overseas than in the domestic market, Chinese customers display another behavior which differs from the western saving for luxury goods. To purchase a luxury good, some young customers will save money for several months (Chadha & Husband, 2007; Yu, 2014; Wu et al., 2015).

Moreover, saving and spending bring different feelings to consumers. Such

behavior is observed as decreasing expenditure on unnecessary goods or services in favor of rising household savings or the future significant objectives (Sussman & O'Brien, 2016). Purchasing Luxury goods is normally seen as an unnecessary expenditure. However, middle and upper-class customers do not see high price as an important factor. In actuality, Chinese Middle - Class customers care about the price they pay for the luxury goods. They always feel it is unfair to buy an item for a much higher price for the same luxury goods. It is not only the price itself, but also the feeling of unfairness, guilt and the feeling of wasting money are important factors.

Cynicism, therefore, can explain the price sensitivity of the Chinese customer in luxury expenditure. These consumers spend as less money as possible on the purchase of luxury goods. This behavior is related to not wanting to waste money and buying it smartly and economically.

### **3.3.1.3. Summary of Cultural Capital and Hypotheses (H2)**

Cultural capital of the group Middle - Class is almost homogenous. On the other hand, culture shapes an individual's purchasing motivation regarding luxury goods.

As a (1) *hierarchal* society, China has a specific passive gift exchange behavior, which means the gift giver essentially do not want to give a gift to the gift-taker, but has to. As a (2) *collective* country, some Chinese purchase luxury goods to fit into their social group while some others purchase these to exhibit difference. As a (3) *Masculine* society, Chinese consumers are motivated by achievement, success, and competition. With a (4) *low score on Uncertainty Avoidance*, Chinese are acceptable, adaptable and even comfortable with ambiguity. Indeed, the Chinese enjoy taking advantage of the ambiguity or uncertainty. Purchasing luxury goods from overseas is a “grey” action because it avoids tariff by chance. In a (5) *very pragmatic* culture,

Chinese customers are chasing luxury goods, but with the consideration of buying it at the lowest price. China is a (6) ***Restrained*** society. Therefore, purchasing luxury goods make consumers feel guilty because this may be considered as something against the traditional values of cherishing saving. Purchasing luxury goods at lower price decreases the feeling of guilt because the consumer is saving money.

- H2: Based on the traditional Chinese cultural values, Chinese Middle - Class is price sensitive, therefore they purchase more luxury goods from overseas markets than in their domestic market.

### **3.3.2. Social Capital Analysis of The Chinese New Middle - Class**

Bourdieu (1987) states that social classes can be classified according to people's occupation. People who work in the similar level and/or live in similar conditions, share similar characters and, as a result, behave in the similar ways. He essentially links what a person owns in a society (social capital) with what he or she can gain by owning it. In other words, Bourdieu first identifies and separates social classes from each other by distinguishing what kind of social capitals people own, then deduces the common behavior of a certain social class, and finally concludes that the social class is gained by owning specific social capitals in this society. As per him, social capital consists of social networks (membership of a specific group) and can be converted into the economic capital under certain conditions. A typical case of converting social capital into economic capital is when parents graduate from an Ivy League University, their children have more chance to go to the same or equivalent university. After graduating from an Ivy League University the new generation can easily find a good

job and earn a decent income. It can also be said that the apple of the Middle - Class does not fall far from their parents' tree.

Social classes are changing with economic development in China. Industrialization, modernization, urbanization, and globalization, all impact the economic growth. New social classes are generated from it. China is transforming from a traditional agricultural society to a modern business society. Thus, in terms of occupation and organizational, economic, and cultural (technological) resources ownership, Chinese people can be categorized into different social classes.

According to Lu (2002), the social capital in China is an organizational resource, which contains administrative and political powers. The more a person owns organizational resources, the more power he or she has. For example, a CEO of a company has more organizational resources than a taxi driver. The Economic capitals contain property rights, ownership, entrepreneurship, and copyright. The cultural capital is technological resources, such as professional knowledge and skills. They are either identified by an educational degree or certified by a professional association, such as CPA, and CFA. The higher the social class, the more resources they have, and vice versa. Occupation a person has decided on how much resources he or she can have but this is only up to a certain extent. Eventually, based on the occupation a person has, Lu (2002) categorizes Chinese social class into five levels: Top Class, Top Middle - Class, Middle - Class, Low Middle - Class, and Low Class.

- (1) The **Top Class** consists of high-level government officials (such as foreign ministers or commerce secretaries), top managers and owners of MNEs, and advanced professional skilled experts (such as nuclear or rocket scientists).
- (2) The **Top Middle - Class** consists of medium level government officials, middle managers of big corporations, top managers and owners of small and medium-

size corporations, and senior professional skilled experts.

- (3) The **Middle - Class** consists of civil servants, owners of small business, self-employees, employees of corporations and junior professional skilled experts.
- (4) The **Low Middle - Class** consists of blue-collars, farmers, and servers.
- (5) The **Low Class** consists of the unemployed and people who live in poverty.

According to Li (2010), the Chinese Middle - Class members are significantly different from each other. Based on their occupation, they can be separated into three clusters: economic, political, and cultural and educational Middle - Class. (1) The Economic Middle - Class is composed of owners, employees of foreign or joint-venture companies, speculators of stock and real estate, and etc. (2) The Political Middle - Class is formed by government officials, office clerks, lawyers, and etc. (3) The cultural and educational Middle - Class is constituted by academics and educators, think tank scholars, and etc.

Compare with the western world, China has a specific social capital, Hukou.

### **3.3.2.1. Hukou**

The social class of Chinese is not only decided by occupation, but also some other social capitals impacting the occupation. For example, the Hukou system, which is a household registration system. It registers people in different locations. Therefore, Hukou status is an official identity of a resident's location and socio-economic eligibility in that location. All the welfares, such as education, healthcare, social security and others, are tied up with Hukou's location.

Agricultural Hukou status is rural Hukou status, while non-agricultural Hukou status is urban Hukou status. Local Hukou status is for the residents who were born in

this location, and non-local Hukou status is for the internal migrants, who were not born in this location (Chan & Buckingham, 2008; Zhang & Tao, 2012).

This status is determined by people's birth location, not by their current living addresses. The locality of one's Hukou is the only location this person can claim attainable entitlements, such as welfare and education (Wang, 2005; Zhang and Wang, 2010).

Differences of Hukou status creates inequality among people, such as educational attainments, occupation opportunities and etc. (Cheng and Selden, 1994; Mallee, 2006). Wu and Treiman (2007) find that not only the people themselves are prevented from the upward mobility by Hukou status, but also this lingers on to the next generations who suffer from having fewer opportunities. The newborn shall be registered as the same Hukou type as the parents, no matter where he or she is born in (Cai, 2007).

Researchers show that people with agricultural Hukou status end up with low-salary jobs because their educational background is comparatively weaker than the ones with better education and have non-agricultural Hukou status (Liu, 2005). On the other hand, two independent research, Li and Li's (2007) and Fu & Ren's (2010) both finds that Hukou status is not significantly affected rural migrant's income.

Changing Hukou registration from one location to another is very hard because it needs an official approval (Zhang & Tao, 2012). City government issues legal forms for applicants, but only the qualified residents have the chance to change their Hukou status. Different cities governments provide the different context of requirements. However, these requirements are similar to each other. Qualifications of applicants can be categorized into five: employment, family reunion, special contribution, investment, and others. All the requirements, in essence, are according to the elite or



highly intelligent internal migrants only, based on their wealth or human merit. Highly educated people can find jobs which offer Hukou welfare, while elite people can purchase real estate in certain cities to change the Hukou location.

A local Hukou status in a big city, especially tier one city, is a guarantee that a child can go to a high-quality kindergarten, primary school, junior and senior high school, and college and university. A high-quality school is a guarantee of a high-income job, and a high social level, in the future.

Hence, in China, the capital analysis can be complicated. Hukou impacts the capital a Chinese citizen can own or inherit. Therefore, the Chinese are eager to change their Hukou status to the tier one cities, where welfares are better than other cities. However, this process is so hard and expensive. Only a small group of people can accomplish. However, it is the priority of a million people. Therefore, they would do anything to pursue this target. Purchasing a house or an apartment is a necessary way for lots of Middle - Class, because for lots of highly educated people, who have a good job with a Middle - Class level income, but without a Hukou grantee. In this case, the only way they can change their Hukou status is to buy a house or an apartment. However, the price of real estate in China, especially in tier one cities, is nearly unaffordable for most of them. Therefore, the purchasing power of luxury goods of Chinese Middle - Class is discounted because of the high real estate price. (In the section 3.3.2.3. Real Estate, a more detail analysis is provided.)

On the other hand, the one who was born with a Hukou in tier one city does not have the Hukou problem. There is no necessity for them to switch the Hukou location. Hence, a Middle - Class individual with a local Hukou status has more money to spend on luxury goods, compared with a Middle - Class individual without a local Hukou status. Therefore, the one has a local Hukou status shall be less price sensitive

than the one does not have a Hukou status. in other words, the former would purchase less luxury goods from oversea markets, while the latter would purchase more.

### **3.3.2.2. The New Chinese Female Middle - Class**

Veblen (1899) in his first research finds out conspicuous consumption, and he also observes vicarious consumption, which means male members of a family show off their wealth through supporting their female relatives' conspicuous consumption. In this case, the females, such as mothers, wives, daughters, sisters, even secret lovers are consuming the wealth that is not really earned or owned by themselves. A hundred years later, nowadays, this phenomenon has been changed with economic development. The new Middle - Class females are highly educated and employed, hence they have large assets and investments. They spend their own money on anything they want, and they also spend their money on their children, husbands, and parents.

The luxury fashion market is the only market, in which male consumers buy more than female consumers. Especially luxury watch market in China, which is worth around 1.3 billion USD, with 20 percent annual growth rate in 2010. China is the world third-largest gold market. Chinese purchase 253 tons of gold every year, counted 8 percent of world consumption. The reason male consumers dominate this market is simply that men are highly interested in luxury fashion goods, especially the luxury watch, and they fully control their own income (Michel Chevalier & Pierre Lu, 2010).

On the other hand, working women can afford luxury fashion goods on their own income (Michel Chevalier & Pierre Lu, 2010). In China, the female Middle - Class is the new purchasing machine. As per Bain & Company (2013), about 70 percent of

women work, while the global average number is 53%. In addition, working women made more top managerial positions in corporations in China than the global average as well. Most working women in China can afford luxury fashion goods as they have high income now (Michel Chevalier & Pierre Lu, 2010).

Zhong (2014) proves that Chinese female purchase luxury goods because of both social and personal motivation. Tai and Tam (1997) compare lifestyle within the greater China. They find the females of mainland China showed significantly higher purchasing power than their counterparts in Taiwan and Hong Kong regarding well-known brands and foreign goods. They believe the Chinese females living in the mainland are the least price sensitive while those living in Hong Kong are turning more rationally value and quality seeking when spending. They conclude that the Chinese females living in the mainland are the youngest consumers, and they have changed their attitudes regarding luxury goods towards their Hong Kong and Taiwanese counterparts, but they are not there yet.

The research of Tai and Tam was published in 1997, twenty years before this dissertation, now I have a chance to double test the forecast from them. Twenty years later, the gap between working female in mainland China and Hong Kong is closed, since the economic performance in mainland China has surpassed that of Hong Kong. Therefore, the working female shall be more rational than before, and seek value and quality instead of brands when spending their money on luxury goods. Hence, they may be price sensitive now, which means they may purchase more luxury goods from oversea markets than from their domestic market. There is no evidence showing that the Chinese male Middle - Class has the same behavior.

On the other hands, a housewife may be taken cared for by her husband, no matter she has a job or not. She may get luxury goods as a gift, or she can spend

money on luxury goods owned by her husband. However, she also has to share the burdens in the family, such as saving money for children and paying house loans to banks. So as her husband. Therefore, compared to the single Middle - Class, married Middle - Class may have higher purchasing power but more price sensitive to the luxury goods. Therefore, they may choose to purchase more luxury goods from the oversea market.

### **3.3.2.3. Summary and Hypotheses of the Social Capital (H3)**

According to Pierre Bourdieu (1987), social classes can be classified according to people's occupation. In addition, social capital consists of social networks (membership of a specific group) and can be converted into the economic capital under certain conditions (Pierre Bourdieu, 1987). A person can change his or her social capital by getting married or changing his or her occupation. Acquiring occupation requires an educational background in most cases. In China, Hukou, as an important social capital, impacts on the educational opportunity. Social capital decides on people's social stratum, thereby impacting why and how people consume luxury goods. For example, a male may purchase luxury goods but never consume them by himself, but gives them to his wife, daughter, or girlfriend.

- H3: Social capital impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H3a: Hukou status impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
    - H3a1: Chinese Middle - Class consumers with a local Hukou are not price sensitive. Therefore, they purchase fewer luxury goods from oversea markets.

- H3a2: Chinese Middle - Class consumers without a local Hukou are price sensitive. Therefore, they purchase more luxury goods from overseas markets.
- H3b: Gender impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H3b1: Female Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from overseas markets.
  - H3b2: Male Chinese Middle - Class consumers are not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.
- H3c: Marital status impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H3c1: Married Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from the overseas market.
  - H3c2: Single Chinese Middle - Class consumers are not price sensitive. Therefore, they purchase fewer luxury goods from the overseas market.

### **3.3.3. Education Analysis of the Chinese New Middle - Class**

Bourdieu (1987) argues that education interacts with all the three other capitals, which can transform from one to another through education. Sociologists state that socioeconomic status from parents can be delivered to their next generation through education. Hence, education can redistribute social resources and social class accordingly (Reay et al., 2005).

For example, as the case, I listed in the social capital part if parents graduated from an Ivy League university, their children have more chance to go to the same or equivalent university. After the new generation graduate from an Ivy League

university, they can easily find a nice job and earn a decent income. On the other hand, the children whose parents that did not attend an Ivy League university, have less opportunity to be accepted or afford the same university education. However, this way may be the only way for these children to catch up with the ones whose parents graduated from Ivy League universities.

The correlation between education and social class in China can be traced back to a thousand years ago. Keju, a Civil Service Examination, introduced in the Han dynasty (220-206BC) and systematized in the Sui dynasty (581-617AD), allows male civilians to take and the ones earned high grades will have positions in the government. Education for the examination thus became the only way for people who were not born into a royal or aristocratic class to change their social class in imperial China (Cressey, 1929).

This pattern has been keeping to today in relation to three most important examinations for Chinese people: (1) the National College Entrance Examination (NCEE), which can be considered as Chinese SAT, (2) the National Post-Graduate Entrance Examination, which is the Chinese GRE, GMAT, and LSAT, and (3) Civil Servant Recruitment Examination, which offers job positions in the government.

Almost all the Chinese depend on these examinations to change their lives and social class. Graduating from a good university or having a higher education degree is a guarantee to a high-income job, and the Civil Servant Recruitment Examination can provide a Middle - Class status directly. Ko & Han (2013) research on motivations for Civil servants' jobs seekers in China and find that high social status, prestige, and high salary are the basic motivations for Chinese university students.

According to Li (2010), besides income, education, occupation, lifestyle, some other factors also need to be considered when we define a Middle - Class. Occupation

and income level decide which social class people belong to. The higher the social class a person is classified as the higher the income he or she can gain. Since 90s last century, the return of education has kept increasing. Taking one additional year of education can bring a labor force 6 to 7 percent income rise. This ratio of return on education in China is close to the one in the western world (Lu, 2002). Therefore, education seems the only way for the Chinese to change their lives. Higher education is a guarantee of a better job, higher income, and a higher social class.

Since education seems to be the only way to change Chinese people's social level and help them to acquire better lives. However, this opportunity is rare because educational resources are limited and the population is high. Furthermore, the excess competition of it keeps growing consequently. Kai (2012) suggests three distinct reasons for the fierce competition.

First, the degree of competition in education expanded from junior and senior high school to primary school, and even to kindergarten. A slogan of the Chinese parents is "Do not let your kid left behind at the beginning". Second, the competition in education now expands broader than before. Not only the students themselves were involved in this battle, but also their parents, teachers, schools, and even districts. Third, the forms of competition in education are more complicated. Previously, students competed with scores and schools competed with the quantity of high-score students. Nowadays, students also compete with "special capabilities" such as art and sciences like physics and/or Math Olympics.

Therefore, the competition for educational resources in China is extremely high. In 2008, among 10.5 million students that took the National College Entrance Examination (NCEE), only 57 percent were admitted to universities in China, and only the top 10 percent of them were admitted to tier-one universities, such as Beijing

University, Tsinghua University, and Fudan University, and etc. (Commonwealth of Australia, 2009).

The early lifestyle of young generations is kindly cruel because they just have one simple lifestyle, all for the National College Entrance Exam (NCEE), before their college years. An offer from a top university is a guarantee of a higher social level and a decent life. Eventually, these young people grow up as highly educated winners who pursue success in their whole life. Achievements make this young generation luxury goods customer today. To reflect growing social status, the grown-up young generation purchases luxury goods as compensation for the hard work (Ngai & Cho, 2012).

### **3.3.3.1. Internal Migration for Education Opportunities**

National College Entrance Examination (NCEE) is important because it is barely the only chance a person can have to change his or her life and social status in China. Unfortunately, educational resources have been distributed unequally in China.

The National College Entrance Examination, similar to American SAT is the entrance examinations for students who will apply for college admission. However, unlike SAT, in which all the students are graded on all exactly the same test, NCEE provides different tests in different locations and universities offer applicant different score requirements based on their Hukou location. For example, 4 provinces (Shanxi, Jiangxi, Henan, and Hebei) of China used the same NCEE test (NCEE I) in 2016. Applicants with Hebei Province Hukou needed 711 scores in science to get an offer from Beijing University, while these with Shanxi Hukou only need only 671<sup>2</sup>. Therefore, NCEE stimulates internal migration in China.

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<sup>2</sup> resource: Beijing University, <http://www.gotopku.cn/programa/admitline/7.html>



Moreover, educational resources are not only unequally distributed in colleges but essentially in all education level from kindergarten. A good kindergarten is a guarantee for a good primary school, and for a good junior school, and for a good high school, and finally for a good college. Children's education opportunities are bound to their Hukou, and they are bound to the address of their house. Consequently, purchasing a house in a good district is a priority for all Chinese parents.

Therefore, Internal migration for education opportunities has two dimensions: move from one city to another city (cross-city migration) and move from one district to another district in the same city (in-city migration). Both motivations are education driven in China, and the only way to accomplish is purchasing a house or an apartment.

#### **3.3.3.2. International Migration To Higher Education**

Some researchers state that Confucian culture is dominating the ideology of Chinese, such as pursuing high education, respecting to authority, and cherishing family. Consequently, Chinese parents have high control power in their children's lives, and they endure all of their financial, social, and emotional resources for their children. On the other hand, these children have duties to obey their parents, respect them, and take care of them, which is a specific Chinese ideal of "filial piety". Therefore, Chinese parents, in essence, invest in their children's education and count on the payoff from their children in the future (Salili, Fu, Tong, & Tabatabai, 2001; Bodycott & Lai, 2012).

Students from rich families, whose parents' occupations are cadre, businessmen, or professionals, and students from poor families, whose parents are farmer or worker, are both eager for the international higher education. They chase the opportunity to

improve their language skills, achieve high-quality education, get high-income job offers and access migration opportunities, as well as earn better career prospects in China after returning back (Li & Bray, 2006; Bodycott & Lai, 2012; Kajanus, 2015).

Parents of elite families (domestic politico-economic elite and the new cosmopolitan elite) provide everything for their children, but with conditions, as they choose where their children should go, which university to be admitted to, and which major they shall study. Parents of the Middle - Class, keep saving money for years, so they can support their children's oversea education as well. Parents of low-income families can only support parts of their children's oversea education, and these students have to cover the rest living and tuition fees by earning a scholarship, or working (Kajanus, 2015).

Daigou is a not-illegal job for Chinese students who are restrained working in some foreign countries. For example, in the USA, international students with F-1 (student) visa have 20 legal work hours on campus, but they do not need any permission to be a Daigou because the job of Daigou is shopping and shipping in essence. Moreover, no income taxes are in existence in either country. The payment can be completed in China, where Chinese students are not working at.

From 1978 to 2015, more than 4 million Chinese students went overseas for education. Around 1.2 million of them are still living overseas, around 2.2 million of them went back to China<sup>3</sup>. In a survey of Daigou, around 30 percent of Chinese international students worked or are still working as a Daigou overseas (Yang, et al., 2015).

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<sup>3</sup> Source: reports from Ministry of Education of the People's Republic of China. Revised from [http://www.moe.gov.cn/jyb\\_xwfb/gzdt\\_gzdt/s5987/201603/t20160316\\_233837.html](http://www.moe.gov.cn/jyb_xwfb/gzdt_gzdt/s5987/201603/t20160316_233837.html) on July 24, 2018

### **3.3.3.3. Summary of the Education**

Bourdieu (1987) argues that education interacts with all the three other capitals, which can transform from one to another through education. In China, education may be the only way for most people to change their social stratum and then increase their economic capital eventually. To reach this final target, changing the Hukou status by purchasing a house or an apartment is necessary. In other words, education opportunity guarantees a higher social stratum, costing million RMBs and several years hard working (hypotheses will be provided in 3.3.3.3. Real Estate, with economic analysis).

In addition, Educational background affects consumers' choice of purchasing channel (which will be analyzed in section 3.6). For example, Haitao is to order luxury goods online from websites located in other countries, which means to process this channel, a consumer must familiar with another language. Therefore, consumers having a higher degree or having been graduated from foreign colleges have more chance of purchasing online.

### **3.3.4. Economic Capital Analysis of the Chinese New Middle - Class**

According to Pierre Bourdieu (1987), Economic capital contains everything that can be converted into money or property directly and immediately, such as real estate. Jin et al. (2015) noticed that economic capital is more critical than cultural capital in purchasing decision of luxury goods for Chinese consumers. Even though China is ranked as the 2<sup>nd</sup> highest GDP country among the world, it is ranked at 104<sup>th</sup> in GDP - per capita (PPP) (US\$) list in 2017, as per the Index Mundi<sup>4</sup>. Therefore, the

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<sup>4</sup> <https://www.indexmundi.com/g/r.aspx?v=67>, revised on July 24, 2018.

purchasing power as a whole is at the top of the world, while the purchasing power of individuals is not.

#### **3.3.4.1. Income Analysis of Chinese New Middle - Class**

Dubois and Duquesne (1993) state that the price of luxury goods should be absolutely and relatively high. The former means it should be higher than the counterpart common goods, and the later means it is only high for the ones who barely can afford it. For the ones who can afford it, it is not that expensive. Furthermore, they argue that because of the Veblen effect, the higher the income of an individual, the higher the propensity to purchase luxury goods. Therefore, with an income increase, individuals lose their price sensitivity to luxury goods gradually. Hence, Chinese Middle - Class consumers with higher income are less price sensitive, and they purchase fewer luxury goods from oversea markets.

#### **3.3.4.2. Earmarking Money**

Previous researches find that besides economic capacity, money also has the mental capacity of people, which in turn impacts their purchasing decision. Owners use the mental account to earmark or label their money by assigning specific amounts of money to a specific account for a specific utility. In other words, money is earmarked to expenditure goals (Tversky and Kahneman 1981; Kahneman and Tversky 1984; Thaler 1985; Shefrin and Thaler 1988; Zelizer, 1989, 2011; Belk & Wallendorf, 1990; Heath and Soll 1996; Soman 2001; Bradford, 2009; Levav & McGraw, 2009; Sussman & Alter, 2012; Sussman & O'Brien, 2016).

Bradford (2009) labels money by earmarking it into two goals: (1) prosaic money, which will be spent on typical demand, such as to maintain daily life, and (2)

indexical money, which will be spent on specific demand, such as to maintain a social life. Therefore, consumption can be achieved through either prosaic or indexical account, according to consumers' feelings of expenditure. In other words, before consumers spend money, they measure the expenditure of money on their feelings. Some expenditures are necessary, while some others are enjoyable, while some others are wasting. Therefore, the feelings for the money impact consumers' decision about whether or how to spend it. Hence they spend their money in order of priority to their feeling.

#### **3.3.4.3. Real Estate**

In the education analysis part, we already know that the education seems the only way to change a person's life in China. And real estate is a guarantee to better education. Moreover, real estate, as a way to change Hukou status needs to be considered as well in making decisions about a person's class identity. In China, a house or an apartment is a "must-have" by all means, because of education and marriage. It is a need. Therefore, the expenditure of real estate has a priority before all other consumptions.

##### **3.3.4.3.1. Real Estate Price -Income Ratio (P/I-Ratio)**

China's Real estate market was reformed in 1998. Price-Income Ratio (P/I-Ratio), is a signal of housing affordability, which is calculated as the ratio of the average house price to the average family income or the ratio of median house prices to median family incomes (Carliner, 2002). Internationally, a P/I ratio of 5.1 is a signal of unaffordable (Suhaida et al., 2011). The Price-Income Ratio (P/I-Ratio) of real estate in China's urban area increased from 7.11 in 1998 to 15.37 in 2012 (except in

2008) (Li & Song, 2016).

Table 3 shows an adjusted P/I ratio, which is calculated by average house price to the average disposable income per person, instead of average family income, in the four-municipality, which is under the direct control of the government in China in 2013-2016. The P/I ratio is adjusted for two reasons. First, more and more single people are purchasing a house. Second, the disposable income is more accurate for measuring the purchasing power of people. This table shows the highest P/I ratio was 54 in 2016, Beijing. The highest average number was 47 in Beijing from 2013 to 2016. In addition, The P/I ratio in Tianjin, the city where the data of this research is collected, was 38 in 2016, and the average number is 33 (see Table 3).

Table 3: Adjusted Price-Income Ratio in the four-municipality is under the direct control of the government in China (2013-2016).

Price-Income Ratio	2013	2014	2015	2016	average
Beijing	0.44	0.42	0.46	0.54*	0.47
Shanghai	0.38	0.36	0.43	0.48	0.41
Tianjin	0.32	0.31	0.32	0.38	0.33
Chongqing	0.32	0.28	0.25	0.23	0.27

Source: The National Bureau of Statistics of the People's Republic of China, <http://data.stats.gov.cn/>  
Calculated by the author.

In addition, the annual average salary of employees in non-private companies is 67,569 RMB (about 10,000 USD), and the annual average salary of employees in private companies is 42,833 RMB (about 7,000 USD), in 2016, China. The annual average salary of employees in non-private companies is 119,928 RMB (about 20,000 USD), and the annual average salary of employees in private companies is 66,881 RMB (about 10,000 USD), in Beijing<sup>5</sup>. Meanwhile, the average price of living house is 37,362 RMB/m<sup>2</sup> (around 6,000 USD/m<sup>2</sup>) in Beijing. Thus, the price of a 2

<sup>5</sup> [http://www.xinhuanet.com/2017-07/03/c\\_1121257436.htm](http://www.xinhuanet.com/2017-07/03/c_1121257436.htm), revised on July 25, 2018.

bedrooms 100 m<sup>2</sup> apartment was 3,736,200 (around 600,000 USD)<sup>6</sup>.

Therefore, the price of real estate in China is too expensive for Chinese compare to their income. Furthermore, the extremely high price of the real estate in China significantly reduced Chinese people's purchasing power on luxury goods. There are three specific motivations for Chinese putting purchasing an apartment on the top of the expenditure list, education-driven motivation, marriage-driven motivation, and investment-driven motivation.

#### **3.3.4.3.2. Education - Driven Motivation**

The internal migration based on a points-based system. Potential migrants are evaluated in different categories, such as age, marriage, education, occupation, tax payment, and etc. Ownership of a house or an apartment worth the most in this system. Furthermore, purchasing a house or an apartment, not renting in a good district, is the only way to switch the Hukou from one district to another inside a city before 2018. Therefore, purchasing a house or an apartment is the must-have expenditure Chinese.

#### **3.3.4.3.3. Marriage – Driven Motivation**

Living in a transitioning country, Chinese face the conflict between its traditional and collective society, and new values, lifestyles, norms, influence, standards, etc., specifically from western individualistic society. With urbanization and one child policy, new generations in China exhibit individualistic characters, this reflects on their self-esteem, personality, and expansion of personal networks of friends, but not necessarily on their family. Young couples prefer to live separately from their elderly

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<sup>6</sup> <http://mini.eastday.com/mobile/170102124950189.html>, revised on July 25, 2018.

parents (Bauman, 2000; Klocker et al., 2012; Li and Shin, 2013).

Traditionally, Chinese young couples live with the husband's parents. This is related to the Confucian concept of filial piety, which states that "filial piety is the first priority among 100 goodness (百善孝为先)". Therefore, Chinese children have duties to obey their parents, respect them, and take care of them (Salili, Fu, Tong, & Tabatabai, 2001; Bodycott & Lai, 2012; Zhan and Montgomery, 2003).

Simultaneously, as parents, Chinese elders have a duty to purchase a house or an apartment for their son, enhancing the male's marital prospects according to traditional norms (Chang, 2013; Cohen, 1998). Essentially, owning a house or having the capability to buy one is a necessary condition for marriage for Chinese young single men.

Exchange theory applies reciprocity into explaining this relationship between parents and their next generation. Elder generation provides educational investment, housework assistance, financial support, and grandchild care, to exchange younger generation take care of them in the future, and repay the educational and marriage expenses (Frankenberg et al., 2002; Lee & Xiao, 1998; Li, Feldman, & Jin, 2004; Zhang, 2005; Chen, 2001; Cong & Silverstein, 2011; Frankenberg et al., 2002). Therefore, purchasing a house or an apartment is more important and serious than purchasing luxury goods.

#### **3.3.4.3.4. Investment – Driven Motivation**

The price of real estate in China keeps increasing at an average annual nominal rate of 11 percent in the past three decades, accompanied by a sharp increase curve of the demand (Li & Song, 2016). As a consequence, the return rate of investing on a house or an apartment is higher than most types of investment in China, such as



investment in the financial market through portfolio investment. Therefore, investing in a house or an apartment reduces the Chinese purchasing power of purchasing luxury goods.

#### **3.3.4.4. Summary and Hypotheses of the Economic Capital (H4)**

According to Pierre Bourdieu (1987), Economic capital contains everything that can be converted into money or property directly or immediately, such as real estate. However, the price of real estate is not affordable for most Chinese people.

Purchasing a real estate is the main way to change the Hukou location, and the Hukou location impacts the opportunity of education. In addition, a house or an apartment also impacts the marriage of young couples. Moreover, the crazy price of the real estate stimulates investment in this market.

Therefore, spending money on real estate has a higher priority than luxury goods. Chinese Middle - Class with higher income is less price sensitive regarding the motivation theories, so they purchase fewer luxury goods from overseas markets. While Chinese Middle - Class with higher loan or rent of their houses are more price sensitive, so they purchase more luxury goods from the overseas market.

- H4: Economic capital impacts the final decision of the Chinese Middle - Class regarding luxury goods.
  - H4a: Chinese Middle - Class consumers with higher income are not price sensitive, therefore purchase fewer luxury goods from overseas markets.
  - H4b: Chinese Middle - Class consumers with higher Monthly Payment of House (Loan or Rent) are price sensitive, therefore purchase more luxury goods from overseas markets.

### **3.3.5. Summary and Hypotheses of the Capital Theory Analysis of the Chinese New Middle - Class (H2-4)**

Pierre Bourdieu's (1997, 2002, 2006) capital theory stated that capital is a potential capability to acquire wealth. Three capitals: social, economic and cultural capitals are interdependent. All the capitals are generated from the economic capital and are reducible into economic capital. These resources owned by parents can be delivered to their children education, which consequently plays a key role in the intergenerational reproduction of social and cultural capital. In other words, education impacts the transmission of all these three capitals among generations.

Specifically, all marital status, Hukou status, and gender status reflect on the social capital an individual has. A married individual may purchase the luxury goods as gifts and they may have higher expenditure on house and education for next generation (this is analyzed with more detail in Education and Economic capital parts); therefore, they are price sensitive for luxury goods. Thus, as to Hukou, individuals with a local Hukou can live in parents' house before getting married, so they have more money left for expenditure than the ones without a local Hukou. Female Chinese Middle - Class is more price sensitive now than before, as they purchase more luxury goods overseas than from their domestic market. On the other hand, there is no evidence shown that male Chinese Middle - Class is more price sensitive than before as they purchase fewer luxury goods overseas than from their domestic market.

The economic capital measured by income and expenditure on house. The cultural capital in this dissertation is almost homogenous because the luxury consumers are limited in the new Chinese Middle - Class who were born between 1980 and 1989. Furthermore, the impact of culture capital combined with motivation

by separating the motivation into two categories: consuming luxury goods by oneself or purchasing luxury goods as gifts to others. In addition, both the Education level and education location impact the capability of purchasing from overseas markets.

Therefore, hypotheses of the capital theory are:

- H2: Based on the traditional Chinese cultural values, Chinese Middle - Class is price sensitive, therefore they purchase more luxury goods from overseas markets than in their domestic market.
- H3: Social capital impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H3a: Hukou status impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
    - H3a1: Chinese Middle - Class consumers with a local Hukou are not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.
    - H3a2: Chinese Middle - Class consumers without a local Hukou are price sensitive. Therefore, they purchase more luxury goods from overseas markets.
  - H3b: Gender impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
    - H3b1: Female Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from overseas markets.
    - H3b2: Male Chinese Middle - Class consumers are not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.
  - H3c: Marital status impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.

- H3c1: Married Chinese Middle - Class consumers are price sensitive.  
Therefore, they purchase more luxury goods from the overseas market.
- H3c2: Single Chinese Middle - Class consumers are not price sensitive.  
Therefore, they purchase fewer luxury goods from the overseas market.
- H4: Economic capital impacts the final decision of the Chinese Middle - Class regarding luxury goods.
  - H4a: Chinese Middle - Class consumers with higher income are not price sensitive, therefore purchase fewer luxury goods from overseas markets.
  - H4b: Chinese Middle - Class consumers with higher Monthly Payment of House (Loan or Rent) are price sensitive, therefore purchase more luxury goods from overseas markets.

### **3.4. Decision-making Theories**

Dichter (1960) is the pioneer who infers that people can make purchasing decisions unconsciously or noncognitively. Emotion is the one who makes the purchase decision, not rational cognition. In addition, Bondt and Thaler (2009) claim that essentially, researchers ignore the “human” side when they research about decision-making by assuming that all human beings are rational.

However, as a daily action decision-making is a complex process, in which scholars keep debating whether it is done consciously or unconsciously, and rationally or emotionally for decades.

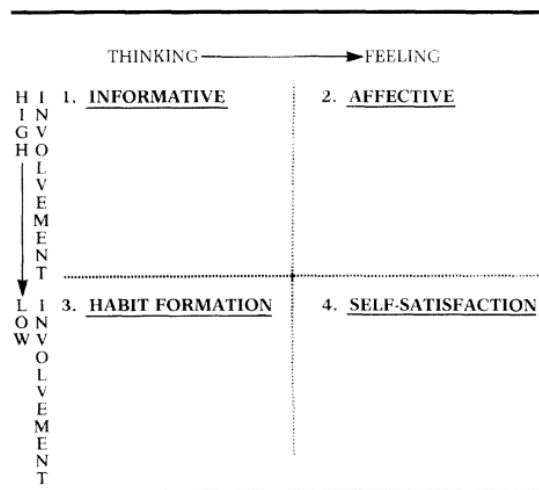
Vaughn (1980; 1986) applies brain specialization theory to marketing research, which infers the decision-making process is processed through either thinking or feeling. The famous “obedience to authority” experiment designed by Milgram (1960) enlightens researchers to consider the external conditional environment, which

impacts the decision. Several financial decision researchers claim that a decision can be both rational and irrational.

### 3.4.1. Brain Specialization Theory

Vaughn (1980; 1986) applies brain specialization theory to marketing research. His FCB Grid (see Figure 4) links customer involvement with brain specialization, which also explains how customers deal with information during this process. Brain specialization theory can be briefly concluded as the two hemispheres of our brain handle different functions. The left side makes rational/cognitive decisions, basing on logic reasoning. On the contrary, the right side makes emotional/effective decisions, based on feelings (see Figure 4).

Figure 5: A FCB Model



Source: Vaughn (1980), How Advertising Works: A Planning Model, Journal of Advertising Research. Oct80, Vol. 20 Issue 5, p30.

Quadrant 1 is high involvement-thinking-informative, which describes extensive information that is handled by left rationally thinking the part on a brain regarding the

importance of goods. For example, purchasing of a house is such a decision.

Quadrant 2 is high involvement-feeling-affective, in where information is less important than feelings because the importance of goods is related to the consumers' self-esteem. This decision is still based on high involvement for the customers as it does not focus on rational parts, such as function or price, but concentrates on emotional parts, such as satisfaction or happiness.

Quadrant 3 is low involvement-thinking-habit, where thinking is not as important as before because consumers have a constant habit (loyalty) to buy such goods.

Quadrant 4 is low involvement-feeling-self-satisfaction, in where thinking process is not necessary and customers can easily be satisfied. Purchasing goods like chocolates, cigarettes, and hamburgers can be identified as this kind of decision-making process.

Because purchasing luxury goods requires customers highly interested in and have some knowledge, this decision process is also related to self-concept consumers give themselves (Rossiter, Percy & Donovan, 1991; Vigneron & Johnson, 1999). Therefore, this decision is both emotional and rational.

### **3.4.2. External Conditional Environment Impact**

Professor Stanley Milgram designed an experience at Yale University in 1960, which is well known as “obedience to authority” among human beings. In this experience, a naïve subject is designed to control an electric shock to an unknown victim, who in fact is a trained confederate of the experimenter. Experimenters then order subjects to shock victims without giving any reason. The results are astonishing because the naïve subjects show that human beings would impose pointless distress on innocent strangers only because a legitimate authority commanded them to do so

(Caiazza, 1985).

Even though this research is genuinely designed to test the obedience and authority of humans, it is applied to many another research areas, such as the decision-making process of employees in financial companies. In financial companies, employees have access to magnificent wealth with limited monitor and control. All of the ethics, standard, profession, code, and legislation can prevent them from harming the benefit of clients partially. However, neither motivation nor decision-making process is visible. All human being are attracted to money naturally, and all of us are afraid of punishment in jail as well. Therefore, both internal and external conditions impact human beings' decision-making processes simultaneously.

### **3.4.3. The Optimal Choice and The Actual Choice**

Decision – making is also a personal experience, which means different people have their own behavior. For example, investing one billion dollars in the financial market is a conscious and rational decision for some people, which involves probabilistic understanding, imprecise data analysis, and risk tolerance consideration. On the other hand, it can be irrational and intuitional for others. For instance, some people invest in stock without any analysis, just because he or she “believes” its price will go up. For them, it is not a rational decision (Bondt & Thaler, 2009; Eapen, 2009).

The decision-making process of buying a nice luxury watch is not significantly different in essence. There can be two distinct decision-making ways as well. Customers need to make a decision on a choice amongst items as which to buy. In this process, the brand name is compared, design and aesthetics are considered, and price affordability is measured. On the other hand, consumers may buy it just because they

get attached to it emotionally.

In behavioral finance, Bondt and Thaler (2009) argue that optimal choice and actual choice are conflicted, thus it can create problems for modern financial theory modeling, while this situation can be suitable for the common purchasing decision. In other words, we can assume that people want the optimal choice, but they only have limited actual choices. Therefore, their behavior is restricted by the choices they have.

For example, let's compare purchasing online and in store. First of all, both goods and prices are exactly the same. Therefore, the only thing needs to be considered for the consumers is the channel for purchasing. Going to a shopping mall can be costly in terms of time and transportation, while it provides extra enjoyable experience, and maybe a cup of coffee or a tasteful ice-cream or a movie, as a bonus. On the contrary, ordering online saves both time and transportation, but the customer may need to wait for the shipment or pay extra to get the package to arrive earlier. Thus, the decision between choosing to purchase in-store or online can be rational. Consumers compare the cost of transportation and shipment or measure the emotional convenience and inconvenience.

In addition, what if the price is not the same but the good itself is? How should consumers make a decision on whether to purchase online or in store? Then there is a chance that the price will be considered rationally.

#### **3.4.4. Summary of Decision-making Theories**

In addition to purchasing motivation regarding luxury goods, decision-making theories argue that all of our decisions (rational or irrational, emotional or unemotional) are made by our own choices. Because purchasing luxury goods requires consumers to be highly interested, knowledgeable and self-concept (Rossiter,



Percy, and Donovan, 1991; Vigneron & Johnson, 1999), this decision is both emotional and rational, and both internal and external. Motivations for consuming luxury goods generate from internal emotions, while the choice of how to buy them is limited by the actual choices in the external environment. In other words, if there is a way to get a luxury good with lower prices and the same design and quality, then why not choose it? Any rational person will choose to purchase it in this way.

### **3.5. Price Differences Analysis**

The price difference may be a reason why Chinese choose to buy from other countries. For example, Table 1 exhibits how different the price can be for a same Louis Vuitton handbag (Capucines GM, M48870). In France, the price equals to 31,239RMB considered exchange rate, but in China, it costs 46,500 RMB. The difference is higher than around 2,000 USD. However, no matter where a customer purchases this bag, it is, in fact, made in the same country and has the same quality. The only difference is the price.

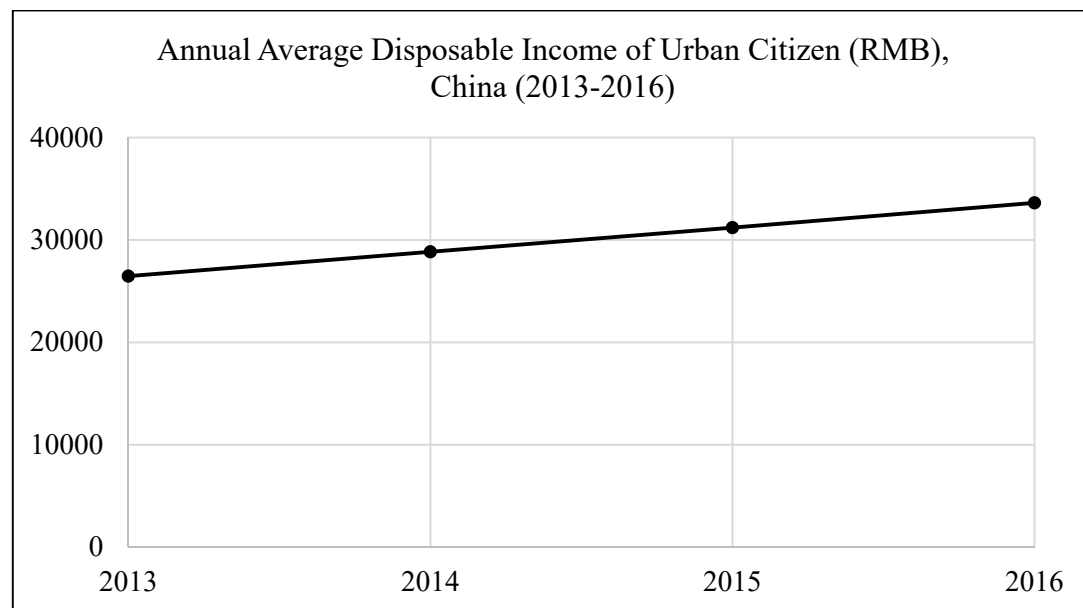
Meanwhile, the Annual Average Disposable Income of Chinese Urban Citizen is 33616 RMB, which equals to 4868 USD calculated with 6.9 as the exchange rate, in the same year, 2016. Therefore the Monthly Average Disposable Income of Chinese Urban Citizen is 405 USD.<sup>7</sup> Moreover, the Average Monthly Disposable Income of Chinese Middle - Class(20 percent) is 1743 RMB (252 USD), Average Monthly Disposable Income of Higher Middle - Class(20 percent) is 2665 RMB (386 USD), and Average Monthly Disposable Income of the Highest Class (20 percent) is 4938 RMB (715 USD) at the same time.<sup>8</sup>

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<sup>7</sup> Resource: The National Bureau of Statistics of the People's Republic of China, 2017

<sup>8</sup> Resource: 中华人民共和国 2016 年国民经济和社会发展统计公报, in the original report, only annual Disposable Income was reported, the monthly number is calculated by the author

Figure 6. Annual Average Disposable Income of Urban Citizen, China (2013-2016)



Source: The National Bureau of Statistics of the People's Republic of China,

<http://data.stats.gov.cn/>

Therefore, even for the highest class Chinese, if they choose to purchase a luxury bag from overseas, it can save them about three months disposable income. Furthermore, we can infer that price difference impacts Chinese customers' decision of where and how to buy luxury goods. One reason why Chinese customers care about the price difference is due to their wealth and wealth distribution.

### 3.5.1. Pricing Strategies for Luxury Companies

One of the root cause of this price different gap is laid in the luxury goods companies' pricing strategies. According to Wild and Wild (2014), cooperation has two international pricing policies, one is worldwide and the other is dual pricing policy.

A *worldwide* pricing policy is to set a unique price in all the countries as the

company's own country. However, it is difficult to implement for several reasons. First, production costs differ from nation to nation, and selling prices may adjust to these additional costs. Second, producing in one location does not guarantee one selling price in all target markets because the cost of reaching different markets varies. Third, a company may decide to lower or raise a selling price to match the purchasing power of buyers in a target market. Fourth, fluctuating currency values must also be taken into account. When the value of the currency in a country where production takes place rises against a target market's currency, the product will become more expensive in the target market (Wild and Wild, 2014).

On the other hand, **dual** pricing policy is a pricing policy in which a product has a different selling price in export markets than it has in the home market. When a product has a higher selling price in the target market than it does in the home market (or the country where production takes place), it is called price escalation. It is commonly the result of exporting costs and currency fluctuations. But, sometimes a product's export price is lower than the price in the home market. Some companies determine that domestic market sales are intended to cover all production costs. They, then require exports to cover only the additional costs associated with exporting and selling in a target market (such as tariffs). In this sense, exports are considered a sort of "bonus." (Wild and Wild, 2014).

In the luxury fashion market, the price in China is normally much higher than in other countries. One reason is higher price can stimulate conspicuous consumption, and another reason is the taxes, tariff, and quotas in China are high.

### **3.5.2. Taxes, Tariff, and Quotas in China**

Taxes, tariff, and quotas are for some original reasons that the final price of

luxury goods in China is much higher than in other countries. According to the General Administration of Customs (GAC) of China, Import tax consists of import customs duty (ICD), value-add tax (VAT), and consumption tax (CT). Import customs duty rates fall into general duty rates and preferential duty rates. The preferential duty rates apply to goods originally produced or manufactured in countries with which the People's Republic of China has concluded a trading agreement. Otherwise, the general duty rates will be applied.

In 2015, the ICD=10%, VAT=30%, CT=17%, and the tax base of VAT and CT equal to  $CIF \times 157\%$ . Therefore, the final VAT=47%, and the final CT=27% essentially. In addition, the final aggregate tax on imported goods equals  $CIF \times 84\%$  (CIF is cost insurance and freight price in total) (Xiong, 2015).

Furthermore, According to the General Administration of Customs (GAC) of China, Buying from overseas is not illegal for the customers, even though they do take advantage of avoiding the ICD, VAT, and CT. If the General Administration of Customs of PRC holds an international package for a customer, he or she needs to process the “Clearance”, which in fact pays the ICD, VAT, and CT by chance. Considering the population of Chinese, this chance, in fact, is extremely low. The worst situation is to pay all these taxes, and the final price of the good, a customer buy from overseas will close to or equal to the price in China. Shipment fees are normally given to the sellers, so customers do not need to consider it<sup>9</sup>.

### **3.5.3. Summary of Price Difference Analysis (H5)**

The price difference is extremely large between the mainland China and overseas markets, therefore, Chinese Middle - Class consumers purchase from overseas markets

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<sup>9</sup> Source: <http://www.sevenseas-China.com/haigui/828.html>, revised on February 11, 2018.

where the price is the lowest.

- H5: Chinese Middle - Class consumers purchase from overseas markets where the price is the lowest.

### **3.6. Purchasing Channels Analysis**

This section introduces how the Chinese consumers purchase from overseas markets by analyzing four purchasing channels.

#### **3.6.1. Purchasing During Travel**

Travel is the traditional way to purchase luxury goods from overseas. Duff (1997) estimates global customers spent 70 billion USD on luxury goods and 20 percent of sales came from duty-free shops in airports in 1996. Besides in airports shopping, consumers purchase their luxury goods from flagship stores owned by luxury companies and retail stores in overseas countries.

#### **3.6.2. Purchasing In Domestic Market**

The flagship store is defined as a momentous retail store, which normally owned by luxury companies (not always, in Japan, Louis Vuitton runs a joint venture strategy rather than the wholly owned strategy) (Kozinets et al., 2002; Hata, 2004). Bitner (1992) proposes three strategic functions for flagship stores. These functions offer an environment for customers' emotional needs, such as a pleasant and a free experience, as well as their physical needs, such as shopping. They provide a description of the luxury company rather than only the luxury goods of the company. They signal an alluring desire of the customers. In other words, the main function of flagship stores is considered as a vehicle for creating, maintaining, and delivering the "sense" of luxury

for the luxury companies. It communicates with customers emotionally and enhances the impression of the luxury brands. A flagship store itself plays as a mass media, which transporting the personality of the luxury company. The most basic purpose of the flagship stores is building, positioning, and valuing the brand rather than earning a profit (Fernie et al., 1998; Kozinets et al., 2002; Hata, 2004; Jackson, 2004; Mores, 2007; Fionda & Moore, 2009; Nobbs et al., 2012; Arrigo, 2015).

Moreover, Moore et al. (2000) places opening flagship stores of luxury companies as a landmark of their internationalization process. Flagship is the principal way for luxury companies' FDI entry strategy.

However, retailers such as Louis Vuitton, Giorgio Armani, Hermes, and Versace have been closing flagship stores in China since 2013, according to the China Daily<sup>10</sup>. In the first two months of 2016, Louis Vuitton closed 2 stores, and Burberry closed one in China. German fashion house Hugo Boss has announced to close around 20 stores in March 2016<sup>11</sup>.

Bain & Company's luxury market studies show that mainland China had been entering a new era of luxury cool down since 2013. In 2014, for the first time, the consumption of luxury goods in Mainland China decreased 1 percent to around 115 billion RMB (about 20 billion USD). However, at the same time, Chinese tourists spent 100 billion RMB (about 17 billion USD) overseas; the consumption in euro increased 17 percent (Bain & Company, 2015). Most products they purchased are luxury goods. In other words, the purchasing power of Chinese does not decrease but switch to other markets instead of their domestic market. Chinese consumers keep increasing their expenditure abroad, therefore the domestic consumption only accounts for only 20 percent of their global purchases.

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<sup>10</sup> [http://www.chinadaily.com.cn/hqgj/jryw/2015-11-13/content\\_14330136.html](http://www.chinadaily.com.cn/hqgj/jryw/2015-11-13/content_14330136.html), revised on June 14, 2017.

<sup>11</sup> [https://www.guancha.cn/economy/2016\\_03\\_11\\_353669.shtml](https://www.guancha.cn/economy/2016_03_11_353669.shtml), revised on June 14, 2017.

One reason that Chinese choose to purchase luxury goods from overseas is luxury companies just starting their online business in China. For example, the data this dissertation collected is the annual consumption in 2016, however, the Louis Vuitton ([louisvuitton.cn](http://louisvuitton.cn)) started to do online business on July 21, 2017. Moreover, it only delivers some goods to some big cities, such as Beijing, Shanghai, Shenzhen, Guangzhou, and etc. Therefore, for the consumers who do not live in these cities, they have several alternative choices to buy a piece of luxury goods.

(1) Consumers can make a phone call (by calling 400 6588 555) to order a piece of luxury good from the LV official website. A sells assistant will help the consumers in making this order. Then the consumers wait several days for the delivery.

(2) Consumers can place an online order in a foreign countries' online store, making sure they deliver to China. Normally the website shows this information (deliver globally) on the main page. Then the consumers wait several days for the delivery.

(3) Consumers can buy luxury goods when they travel to other countries.

(4) Consumers can pay a Daigou, negotiate about the price, and then wait several days for the delivery.

Moreover, Chinese Middle - Class consumers who purchase Hermès need to build their credit record in the Hermès stores, which means they start buying from small items, then once their purchasing power is approved, they can consume more expensive luxury items, such as a Birkin bag.

The main reason these flagship stores losing profit is the convenience. The market for luxury goods is not shrinking in China but replaced by online business, Daigou, and Haitao.

### **3.6.3. Purchasing from a Dealer (Daigou)**

Daigou means a parallel purchase, defined by Bain & Company (2014). Daigou is a new business among Chinese people. Daigou can be a noun and a verb. As a verb, it can be directly translated into “hiring someone to buy something instead of shopping by yourself”. As a noun, it refers to a person, who is a dealer essentially. He or she is living in a country other than China and hired to buy luxury goods for the final consumers who live in China, and ships them back to China. In other words, Daigou is a C2C (customer to customer) business (China’s E-Commerce market data monitoring report, 2013). Moreover, a Daigou can also be a traveler, who purchases luxury goods at the airport or during the vacation in other countries, brings them back and sell them to the final consumers in China.

In 2012, the market size of oversea Daigou was at 48.3 billion RMB; in 2013, the number increased into 76.7 billion RMB in China (China’s E-Commerce market data monitoring report, 2013, 2014). Market size of Daigou was estimated at 55-75 billion RMB, and 70 percent of consumers have bought luxury goods from Daigou in 2014 (Bain & Company, 2014).

The history of Daigou is not long, but the form of it is switching from C2C to B2C. There are two categories of C2C Daigou, in stock and pre-order. In stock, Daigou means the Daigou purchased some goods and listed them on a website for selling, such as Taobao.com (owned by Alibaba Group Holding Limited, NYSE: BABA), which in fact is a Chinese eBay. Pre-order Daigou means that customers made a decision of a good first and then find and hire a Daigou to purchase and ship this good to him or her (Wang, 2011).

B2C Daigou is a company that works as a dealer. The company can provide special services like Chinese customer services, and RMB payment (China’s E-



Commerce market data monitoring report, 2013). For example, usashopcn.com is a professional Daigou company. It is a Chinese company with three subsidiaries located in the USA, and all goods purchased in and shipped from the USA.

The motivation for Chinese customers purchasing from Daigou is the lower price or unavailability of certain luxury goods. Foreign retail companies and outlets always offer a special discount, and with the appreciation of RMB, the final price of a luxury product can be much cheaper than in China, but the design and quality are the same (Wang, 2011).

#### **3.6.4. Purchasing Online From Websites Located In Overseas (Haitao)**

Haitao means Chinese customers purchase from the overseas website directly. The goods are shipped directly from the foreign retail company (like Shopbop, Net-A-Porter, Amazon.jp, YOOX, MatchesFashion, Farfetch, Forward, Neiman Marcus, Nordstrom, and Saks Fifth Avenue), or the goods are shipped to an express company or transport company first, and then this company ships the goods to China.

#### **3.6.5. Summary of the Purchasing Channels (H6-7)**

Purchasing channels provide Chinese Middle - Class consumers choices of how to buy their luxury goods. They can fly to overseas markets by themselves, or pay a Daigou to buy for them in overseas markets, or order online directly from overseas markets.

For the Chinese Middle - Class consumers who can fly to overseas markets by themselves, they purchase fewer luxury goods from overseas markets because purchasing luxury goods may not be their main aim when they fly to other countries. On the other hand, for the Chinese Middle - Class consumers who hire a Daigou or

order online directly from overseas markets, they purchase more from overseas markets.

Therefore,

- H6: Purchasing channels impact Chinese Middle - Class consumers purchasing decision regarding luxury goods.
  - H6a: Chinese Middle - Class consumers who travel to other countries purchase fewer luxury goods from overseas markets.
  - H6b: Chinese Middle - Class consumers who do not travel to other countries purchase more luxury goods from overseas markets.

Moreover, one motivation of haitao is to cut the middleman, Daigou, that proves the consumers who use haitao to purchase their luxury goods is more price sensitive and smarter. In addition, haitao requires consumers at least know a foreign language. In some cases, a VISA credit card issued by a foreign country is necessary, because the orders paid by Chinese credit cards will be rejected for certain companies.

Therefore, the education background impacts consumers' consumption from overseas markets.

- H7: Education background impacts the capability of purchasing luxury goods from overseas markets, thereby impacts the final decision regarding luxury goods.
  - H7a: Education Level impacts the capability of purchasing luxury goods from overseas markets, thereby impacts the final decision regarding luxury goods.
    - H7a1: Chinese Middle - Class consumers with a graduate degree purchase more from overseas markets.
    - H7a2: Chinese Middle - Class consumers without a graduate degree purchase fewer from overseas markets.
  - H7b: Education Level impacts the capability of purchasing luxury goods from overseas markets, thereby impacts the final decision regarding luxury goods.

- H7b1: Chinese Middle - Class consumers with an overseas educational background purchase more from overseas markets.
- H7b2: Chinese Middle - Class consumers with an overseas educational background purchase fewer from overseas markets.

### **3.7. Summary Of The Literature Review and Hypotheses (1-7)**

The literature review provides a deep understanding of Chinese luxury business, Chinese new Middle - Class consumer, and their specific purchasing behavior and decision-making process. In the following part, I propose an empirical model based on this understanding.

Based on the literature review, this dissertation proposes several hypotheses to explain why Chinese purchasing luxury goods which are available in China from overseas.

- H1: Purchasing motivations regarding luxury goods impact the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H1a: Chinese Middle - Class consumers who consume luxury goods themselves are not price sensitive, therefore they purchase fewer luxury goods from overseas markets.
  - H1b: Chinese Middle - Class consumers who do not consume luxury goods themselves are price sensitive, therefore they purchase more luxury goods from overseas markets.
- H2: Based on the traditional Chinese cultural values, Chinese Middle - Class is price sensitive, therefore they purchase more luxury goods from overseas markets than in their domestic market.

- H3: Social capital impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
  - H3a: Hukou status impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
    - H3a1: Chinese Middle - Class consumers with a local Hukou are not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.
    - H3a2: Chinese Middle - Class consumers without a local Hukou are price sensitive. Therefore, they purchase more luxury goods from overseas markets.
  - H3b: Gender impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
    - H3b1: Female Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from overseas markets.
    - H3b2: Male Chinese Middle - Class consumers do not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.
  - H3c: Marital status impacts the final decision of Chinese Middle - Class consumers regarding luxury goods.
    - H3c1: Married Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from the overseas market.
    - H3c2: Single Chinese Middle - Class consumers do not price sensitive. Therefore, they purchase fewer luxury goods from the overseas market.
- H4: Economic capital impacts the final decision of the Chinese Middle - Class regarding luxury goods.
  - H4a: Chinese Middle - Class consumers with higher income are not price

sensitive, therefore purchase fewer luxury goods from overseas markets.

- H4b: Chinese Middle - Class consumers with higher Monthly Payment of House (Loan or Rent) are price sensitive, therefore purchase more luxury goods from overseas markets.
- H5: Chinese Middle - Class consumers purchase from overseas markets where the price is the lowest.
- H6: Purchasing channels impact Chinese Middle - Class consumers purchasing decision regarding luxury goods.
  - H6a: Chinese Middle - Class consumers who travel to other countries purchase fewer luxury goods from overseas markets.
  - H6b: Chinese Middle - Class consumers who do not travel to other countries purchase more luxury goods from overseas markets.
- H7: Education background impacts the capability of purchasing luxury goods from overseas markets, thereby impacts the final decision regarding luxury goods.
  - H7a: Education Level impacts the capability of purchasing luxury goods from overseas markets, thereby impacts the final decision regarding luxury goods.
    - H7a1: Chinese Middle - Class consumers with a graduate degree purchase more from overseas markets.
    - H7a2: Chinese Middle - Class consumers without a graduate degree purchase fewer from overseas markets.
  - H7b: Education Level impacts the capability of purchasing luxury goods from overseas markets, thereby impacts the final decision regarding luxury goods.
    - H7b1: Chinese Middle - Class consumers with an overseas educational background purchase more from overseas markets.
    - H7b2: Chinese Middle - Class consumers with an overseas educational

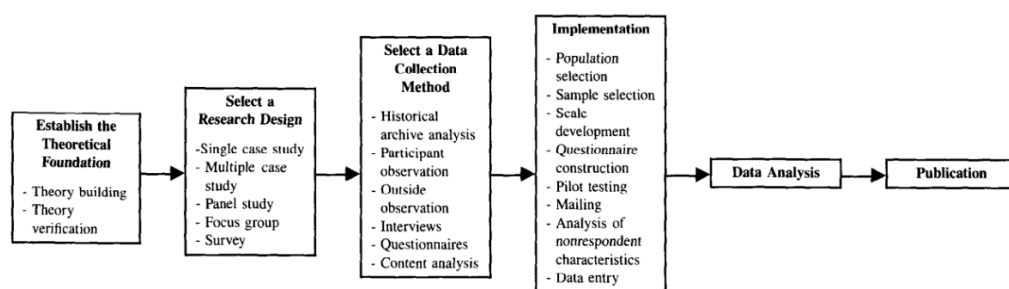
background purchase fewer from oversea markets.

#### 4. Methodology

Following hypotheses from the literature review, this chapter demonstrates the process of the research. In social science, all the empirical research arranges methodology, which is a method of establishing research design (Wagner, 1997; Crotty, 2009; Easterby-Smith et al., 2012). The research design exhibits the structure of the research: data collection, analysis of the data, and discussion of the results (Churchill, 1979; Churchill Jr & Peter, 1984; Churchill & Iacobucci, 2005; Iacobucci & Churchill Jr, 2010).

Flynn et.al. (1990) provide a six-pillar empirical study conduction, starting from a theoretical foundation to publication (see Figure 7 below). Researchers establish their theoretical foundation by building theories, design research, select a data collection method, implementation, analyze data, and publish the research eventually.

Figure 7: Six-Pillar Empirical Study Conduction



Source: Flynn, B., Sakakibara, S., Schroeder, R., Bates, K., and Flynn, E. (1990). Empirical research methods in operations management, *Journal of Operations Management*, 9(2): 250-284. P.254

## **4.1. Research Methods**

In this selection, the purpose of this research is clarified. The theory of this research is argued. The measurement of this research is provided. The sample collection is discussed.

### **4.1.1. The Purpose of the Research**

The purpose of a research is the foundation of designing a research. We do not “choose” a research method, rather a research method “suits” our research. According to Newman (2014), purposes of a research can be categorized into three groups: exploration, description, and explanation. *Exploratory* research answers the question of “what” when the research subject is rarely understood. The *descriptive* research presents a map with details of specific circumstances. The *explanative* research focused on the question of “why”. A research sometimes can have multi motivations. For instance, before we address the answer to why we describe our observation of what is going on. Therefore, this kind of research is both descriptive and explanative research.

In this research, the purpose is to explain why Chinese consumers purchase luxury fashion goods from overseas rather than from their domestic market, and the investigation of Chinese consumers’ purchasing behaviors are necessarily provided.

### **4.1.2. The Theory of the Research**

Flynn et al., (1990) suggest that all the scientific research shall provide a theory as a foundation. Theories can be built or verified in empirical studies, and because these two methods cannot be done in the same research, authors shall choose the appropriate one for the research.

Theory verification and building are two different study methods. (1) **Theory verification** method uses data to test pre-generated hypotheses. Data are gathering for statistic testing. With the significance tests, the hypotheses will either be true or false. (2) **Theory building** method is more like to generate theory from data. Therefore, it is not a hypothesis but rather an assumption.

The basic debate between theory verification and theory building methods is the application of data. The former only uses them to test hypotheses, while the latter uses them to help to build theory. Moreover, theory building method, in some case, is still based on an existing theoretical foundation. New researchers are elaborating the initial theory of applying data. By sampling, collecting, and discussing data, scholars can enrich the prior theory, thus build a new one (Glasser & Strauss, 1967; Tse et al., 1995; Flynn et al., 1990).

The choice of research method shall direct the research question efficiently. The present study to investigate Chinese consumers' purchasing decision regarding luxury fashion goods focuses on **building theory** to help academic researchers and industrial managers understanding the Chinese consumers' purchasing behaviors.

In addition, the **positivistic** methodology is also an emphasis on testing existing theory. On the contrary, the **interpretive** methodology focuses on building theory based on existing theories. The main motivation for interpretive methodology is to answer "how and why" questions. The most specific character of the interpretive methodology is it highly relies on empirical data, especially in marketing research, which is closer to the reality. Therefore, in the marketing research area, the semi-structured, or unstructured prior theories need to be completed by gathering and analyzing empirical data (Carson, et. Al., 2011). In this dissertation, the **interpretive** methodology is applied and empirical data are collected to test the theory built by the



author.

#### **4.1.3. Measurement of the Research**

Measurement is a tool researcher use to test the hypothesis, provide evidence, and evaluate explanation and finding of the research (Neuman, 2014). *Qualitative* measurements are normally open-ended to provide in-depth understanding directly from the investigation, whereas *quantitative* measurements ask the questions about “what and how many”. In other words, a quantitative method is a numerical form, while the qualitative method is not (Wienclaw, 2015; Neuman, 2014).

In this dissertation, a *quantitative* measurement is processed, since all the variables are measured by numbers. In terms of Punch (2013), the quantitative method follows the five steps: investigate problems, structure research questions, and hypotheses, collect data, interpret results, and discuss conclusion.

On the basis of the literature review and practical knowledge, this research addresses the following research questions:

1. How the Chinese Middle - Class purchase from overseas?
2. How much Chinese Middle - Class spend in overseas and domestic markets on luxury goods?
3. What factors influence their purchasing decision-making regarding luxury goods?

#### **4.1.4. Sample Collection of the Research**

According to DeVellis (1991), in many behavioral types of research, variables are not investigable directly, either impossible or impracticable. Therefore, in terms of Newman (2014), researchers choose some observations to mirror or represent a large population. This is a sampling process, by which researchers can analyze and

understand a smaller group, then apply what they learn from it on a big map.

Eventually, based on sampling analysis researchers can generalize a more common understanding of the entire population.

The most serious concern about the sampling is the question, is it accurate? Is it persuasive? Can the samples reflect significant observation? The process of choosing samples in quantitative research relies on the representative sample, which is a small selected observation that can reproduce or represent a huge population. In addition, the sample size is not a guarantee for a representative sample. For example, self-selection yields a non-representative sample (Neuman, 2014).

The probability sampling is the “gold standard” in sampling since its accuracy has been controlled by mathematically predictable sampling errors, which is a deviation between what is in the sample data and an ideal population parameter due to random processes. The probability sampling essentially relies on random sampling process. The target population is classified at the beginning. The sampling frame is all the target population can be reached. This process has some basic flaws, in some case, it is impossible; sometimes, it is unaffordable and/or expensive, and it is impractical or takes too long (Neuman, 2014). On the other hand, the non-probability sampling process is less accurate but more practical than the probability one. Hence it is acceptable in the social research. There are two nonprobability sampling methods: convenience and quota samples (Neuman, 2014).

Convenience sampling (also called availability, accidental, or haphazard sampling) is easy for researchers to get because it is more available and/or convenient. However, the samples picked by this method are usually no representative, thus it is not really acceptable in collecting accurate samples. On contrary, quota sampling can provide a quasi-representative sample, hence it has been accepted as a nonprobability

sampling method in social research. The process of quota sampling is in two steps. First, researchers separate target observations into different categories based on the research and its measurements. Then researchers make a decision about how many samples needed in each category. This method ensures that the samples have some diversify at least (Neuman, 2014).

In this research, a quota sample can provide an appropriate observation. According to Hinkin (1995), the multivariate analysis relies on a certain amount of sample size testing significance of hypotheses. Hinkin (1995) proves that 150 observation of a sample is enough for an exploratory factor analysis, and 200 observation of a sample is the minimum size for confirmatory factor analysis.

## **4.2. Research Design**

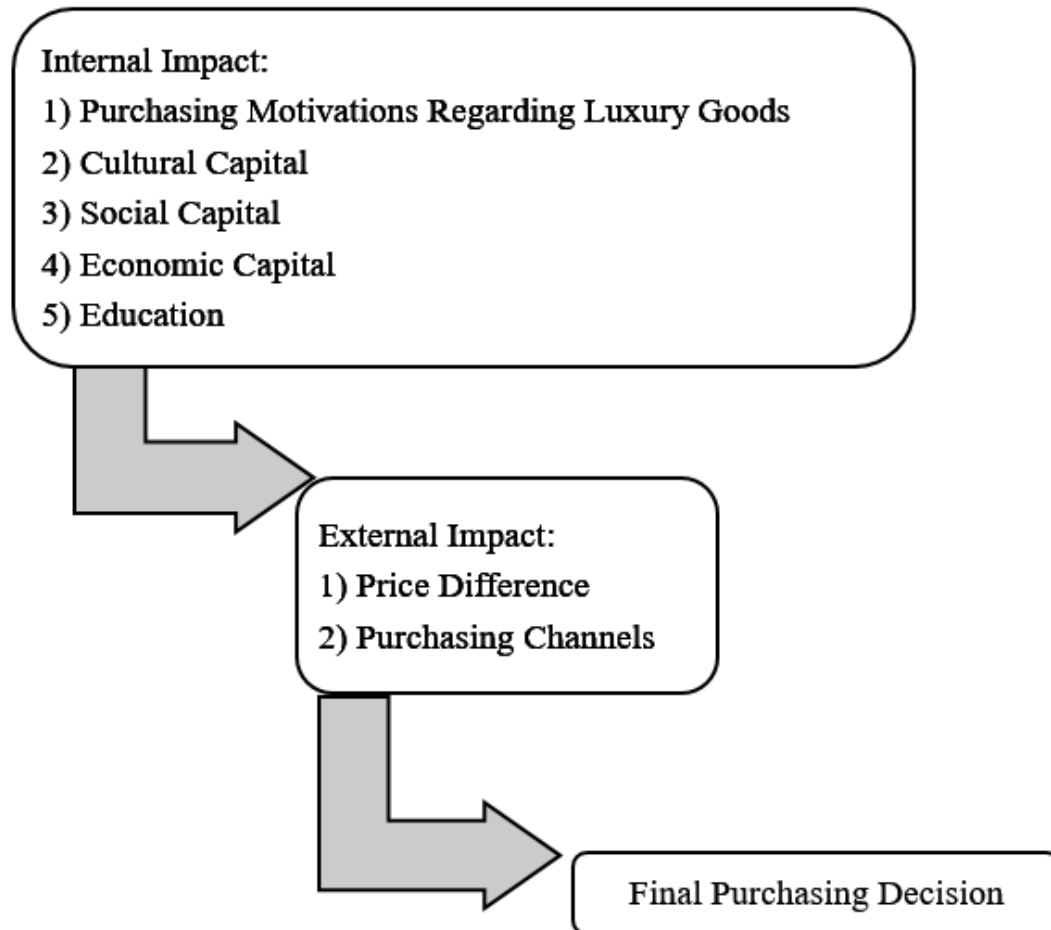
A propositional model (1.0) is proposed based on the hypotheses. A regression model (1.0) is processed to test it. After data collection, SPSS is executed to test this regression. Based on the results of the regression model (1.0), it is adjusted and double tested. Hypotheses are rejected or accepted. Thereby the propositional model (1.0) is examined and adjusted. Eventually, an adjusted propositional model (2.0) is provided.

### **4.2.1. Propositional Model (1.0)**

A propositional model is provided to exhibit how Chinese consumers make their purchasing decision regarding luxury goods.

#### 4.2.1.1. Purchasing Decision Analysis Model 1.0

Figure 8: Model 1. Luxury Goods Purchasing Decision Model



This model is tested and adjusted by several cross-section regressions.

#### 4.2.1.2. Variables of Propositional Model

##### 4.2.1.2.1. Purchasing Motivations Regarding Luxury Goods

Base on the luxury value theory of Hennigs et al., (2012) and adjusted by other motivation theories showed on section 3.2, the purchasing motivations regarding luxury goods are divided into four categories according to the values of luxury goods cherished by the Chinese Middle - Class. They are financial, functional, individual

and social values. Therefore, purchasing motivations of consumers are linked with these four categories (see Table 4).

Table 4: Purchasing Decision Based On an Adjusted Luxury Value Theory of Hennigs et al., (2012)

<b>Values of Luxury Goods to Consumers</b>	<b>Purchasing Motivation</b>	<b>Consumption Category</b>	<b>Purchasing Decision</b>
Financial Value	Investment Motivation	Luxury goods are consumed by the Chinese Middle - Class individual who purchased them.	They are not priced sensitive, therefore they purchase fewer luxury goods from overseas
Functional Value	Quality motivation		
Individual Value	Wealth or success conspicuousness, Self-reward, Happiness acquirement		
Social Value	Social needs: Active Gift exchange, Passive social group relationship Maintenance	The Chinese Middle - Class individual who purchased the luxury goods is not the final consumer who consumes the luxury goods.	They are price sensitive, therefore they purchase more luxury goods overseas.

Source: Hennigs et al., 2012, p.1021.

In Table 4, investment motivation seeks financial value from the luxury goods; quality motivation seeks functional value from the luxury goods. Individual value reflects an individual's purchasing motivation of conspicuousness of wealth or success, self-reward, and happiness acquirement. Chinese Middle - Class individuals exchange gifts actively, such as giving luxury goods to their family members or friends and maintain their social group passively, such as giving luxury goods to their clients or bosses.

Therefore, consumption is categorized accordingly with purchasing motivations. Chinese Middle - Class consumers who consume luxury goods themselves are not priced sensitive, therefore they purchase fewer luxury goods from overseas. On the

other hand, Chinese Middle - Class consumers who do not consume luxury goods themselves are price sensitive, therefore they purchase more luxury goods from overseas.

#### **4.2.1.2.2. Cultural Capital**

Based on the traditional Chinese cultural values, Chinese Middle - Class is price sensitive, therefore they purchase more luxury goods from overseas markets than in their domestic market.

#### **4.2.1.2.3. Social Capital**

Social capital identifies who we are, which contains three main status in China: Hukou status, gender status, and marital status. It measures how an individual makes a final decision regarding purchasing luxury goods.

Chinese Middle - Class consumers with a local Hukou are not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets. On the other hand, Chinese Middle - Class consumers without local Hukou are price sensitive. Therefore, they purchase more luxury goods from overseas markets.

Female Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from overseas markets. While male Chinese Middle - Class consumers do not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.

Single Chinese Middle - Class consumers do not price sensitive. Therefore, they purchase fewer luxury goods from the overseas market. While married Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from the overseas market.

#### **4.2.1.2.4. Economic Capital**

Economic capital impacts the final decision of Chinese Middle - Class regarding how to buy luxury goods. Chinese Middle - Class consumers with higher income purchase fewer luxury goods from overseas markets. While Chinese Middle - Class consumers with higher Monthly Payment of House (Loan or Rent) purchase more luxury goods from overseas markets.

#### **4.2.1.2.5. Education**

Education interacts with all the three other capitals, which can transform from one to another through education. In China, education may be the only way for most people to change their social stratum and then increase their economic capital. Educational background limits consumers' choice of purchasing channel. For example, Haitao is to order luxury goods online from websites located in other countries, which means to process this channel, a consumer must be familiar with another language. Therefore, consumers having a higher degree or have graduated from foreign colleges have more chance of purchasing online.

Therefore, Chinese Middle - Class consumers with a graduate degree easily purchase from overseas, hence they purchase more from overseas market. While Chinese Middle - Class consumers, without a graduate degree, hardly purchase from overseas, thereby they purchase fewer from overseas markets.

In addition, Chinese Middle - Class consumers with an overseas educational background easily purchase from overseas, thereby they purchase more from overseas market. On the other hand, Chinese Middle - Class consumers with an overseas educational background hardly purchase from overseas, hence they purchase fewer from overseas markets.

#### **4.2.1.2.6. Price Difference**

Chinese Middle - Class consumers purchase from overseas markets where the price is the lowest.

#### **4.2.1.2.7. Purchasing Channels**

Purchasing channels impact Chinese Middle - Class consumers' purchasing decision regarding luxury goods. Chinese Middle - Class consumers who travel to other countries purchase fewer luxury goods from overseas markets. On the other hand, Chinese Middle - Class consumers who do not travel to other countries purchase more luxury goods from overseas markets.

### **4.2.2. Tests Design – Regression**

#### **4.2.2.1. Regression Model (1.0)**

$$C = \beta_0 + \beta_1 P_m + \beta_2 H + \beta_3 G + \beta_4 M + \beta_5 I + \beta_6 Ph + \beta_7 Ele + \beta_8 Elo + \beta_9 P + \beta_{10} Pc + e_i \quad (1.0)$$

#### **4.2.2.2. Dependent Variable (C=O-D)**

Dependent variable C (=O-D) is the difference of consumption between overseas (O) and domestic (D) markets regarding luxury fashion goods of a Chinese Middle - Class 2016.

#### **4.2.2.3. Independent Variables**

Table 5 is a summary of independent variables and their measurement with hypotheses, which is explained below.



Table 5: Independent Variable Summary

Measurement	Independent Variable	Name Description
Purchasing Motivation Regarding Luxury Goods	Pm (-)	Purchasing Motivation Regarding Luxury Goods 1- Luxury goods are Consumed only by the consumer who purchased them 0- Luxury goods are NOT Consume only by the consumer who purchased them
Social Capital	H (-)	Hukou Status 1- with a Local Hukou 0- without a Local Hukou
	G (-)	Gender 1-Female 0-Male
	M (+)	Marital Status 1- Married 0- Not Married
Economic Capital	I (-)	Monthly Income
	Ph (+)	Monthly Payment of House (Loan or Rent)
Education	Ele (+)	Educational Level 1- Graduate Degree 0- Non
	Elo (+)	Education Location 1- Oversea Education 0- Domestic Education
Price Difference	P (+)	Price Differential Ratio
Purchasing Channel	Pc (-)	How to buy from overseas markets 1- Travel by oneself 0- Not Travel by oneself

#### 4.2.2.3.1. Purchasing Motivation Regarding Luxury Goods (Pm-)

Chinese Middle - Class consumers who consume luxury goods themselves are not priced sensitive, therefore they purchase fewer luxury goods from overseas. On the other hand, Chinese Middle - Class consumers who do not consume luxury goods

themselves are price sensitive, therefore they purchase more luxury goods from overseas.

#### **4.2.2.3.2. Cultural capital**

Cultural capital is homogeneous since all participants are Chinese Middle - Class consumers, who have the same culture. In addition, motivation can reflect the impact of culture. Therefore, it is not be tested directly in the regression but it is analyzed indirectly.

#### **4.2.2.3.3. Social Capital factors**

##### **4.2.2.3.3.1. Hukou Status (H-)**

Chinese Middle - Class consumers with a local Hukou are not priced sensitive. Therefore, they purchase fewer luxury goods from overseas markets. On the other hand, Chinese Middle - Class consumers without local Hukou are price sensitive. Therefore, they purchase more luxury goods from overseas markets.

##### **4.2.2.3.3.2. Gender (G-)**

Female Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods from overseas markets. While male Chinese Middle - Class consumers do not price sensitive. Therefore, they purchase fewer luxury goods from overseas markets.

##### **4.2.2.3.3.3. Marriage Status (M+)**

Single Chinese Middle - Class consumers do not price sensitive. Therefore, they purchase fewer luxury goods from the overseas market. While married Chinese Middle - Class consumers are price sensitive. Therefore, they purchase more luxury goods

from the overseas market.

#### **4.2.2.3.4. Economic Capital Factors**

##### **4.2.2.3.4.1. Monthly Income (I-)**

Monthly income (I) represents the economic capital a Chinese Middle - Class has. Chinese Middle - Class consumers with higher income are not price sensitive therefore they purchase fewer luxury goods from overseas markets.

##### **4.2.2.3.4.2. Monthly Payment of House (Ph+)**

While Chinese Middle - Class consumers with higher Monthly Payment of House (Loan or Rent) purchase are price sensitive therefore they purchase more luxury goods from overseas markets.

#### **4.2.2.3.5. Education Factors**

##### **4.2.2.3.5.1. Educational level (Ele+)**

Chinese Middle - Class consumers with a graduate degree easily purchase from overseas, therefore they purchase more luxury goods from overseas markets. While Chinese Middle - Class consumers without a graduate degree hardly purchase from overseas, therefore they purchase fewer from overseas markets.

##### **4.2.2.3.5.2. Educational Place (Elo+)**

Chinese Middle - Class consumers with an overseas educational background easily purchase from overseas, therefore they purchase more luxury goods from overseas markets. On the other hand, Chinese Middle - Class consumers with an overseas educational background hardly purchase from overseas, therefore they purchase fewer from overseas markets.

#### **4.2.2.3.6. Price Differential Ratio (P+)**

P (Price differential ratio) is calculated as a price index by the author. The process of calculation is listed below:

First of all, 3 oversea markets are picked for measuring the price differences from the mainland market of China. They are Great British, USA, and France. Hence, the impact of the exchange rate can be tested accordingly.

Second, brands are chosen from the Bain & Company's reports (2015). The brands must be available in both mainland China market and oversea markets. One thing noticed during this research is the goods supplied in different countries are different. For example, Armani does not sell men's watch on a Chinese website. In addition, products of the chosen brands shall cover all 5 categories of luxury fashion goods, which are (1) cosmetics, perfume, and personal care, (2) suitcase and handbag, (3) jewelry and watch, (4) cloth and shoes, and (5) accessories. Eventually, three luxury brands: Hugo Boss, Burberry, and Versace, were chosen.

Third, I process a sample choice among each category, because, in every category, dozens, even hundreds of products are available. For example, Versace offers 25 perfumes and 59 sunglasses. Therefore, I use average price as the measurement of each category, which is calculated by deducting the lowest price product from the highest price product among the same categories. In addition, for a comparison purpose, samples need to be available for all brands. Therefore, in (1) cosmetics, perfume, and personal care category, bestseller foundation, 100 mL/ 3.4 fl. oz. perfume and cream are picked. In (2) suitcase and handbag category, since all brands provide similar designs, the cheapest and highest price are chosen from the whole category. In (3) jewelry and watch category, the watch is chosen, since jewels are nearly countless. In (4) cloth category, work dress suits are chosen, because they are

the most common design and available for all brands. Besides, this research focuses on Middle - Class consumers, work dress is their must-have consumption. In addition, work shoes (pumps) are chosen, since this research focuses on Middle - Class consumers, this kind of design is their must-have expenditure. In (5) accessories category, scarf, hat, and sunglasses are picked.

Fourth, all the prices were found on the brand's official website and exchanged into RMB to compare with the prices in China. The exchange rate is an average selling price which calculated by the author<sup>12</sup>.

Fifth, the lowest price of each category overseas is picked, and then divided by the price in China. This ratio shows the price differences between the overseas and domestic market for Chinese customers. The higher the ratio is, the closer the price in a foreign country to that in China.

Since this index measures the ratio of lowest international price to the domestic price, the bigger the number, the higher the price in overseas markets. Therefore, if Chinese Middle - Class consumers are price sensitive, they purchase more from overseas as the ratio decreases.

#### **4.2.2.3.7. Purchasing Channel (Pc-)**

Three purchasing channels are categorized into two. Purchasing luxury goods during travel means purchasing in overseas markets in person; while purchasing luxury goods through Daigou or Haitao means purchasing in overseas markets, but not in person.

Chinese Middle - Class consumers who travel to other countries purchase fewer luxury goods in overseas markets. On the other hand, Chinese Middle - Class

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<sup>12</sup> Sources from <http://www.Chinamoney.com.cn/fe/Channel/17383>, revised on January 10, 2018.

consumers who do not travel to other countries purchase more luxury goods in overseas markets.

## **5. Data**

This section exhibits how to collect data and the respondents of the data collection.

### **5.1. Does Time Matter? Cross-Sectional or Longitudinal Data**

If time is not relative with the research, a cross-sectional data collection (gathering data at a certain time point) is applied, otherwise, a longitudinal data collection (gathering data from multiple time points) is more suitable for the research. Cross-sectional data reflects a “snapshot” analysis; while longitudinal data provides a movement of circumstances (Neuman, 2014).

This research collects cross-sectional data since time does not reflect the decision-making of Chinese people when they purchase luxury goods overseas.

### **5.2. How to Collect Data? - Survey**

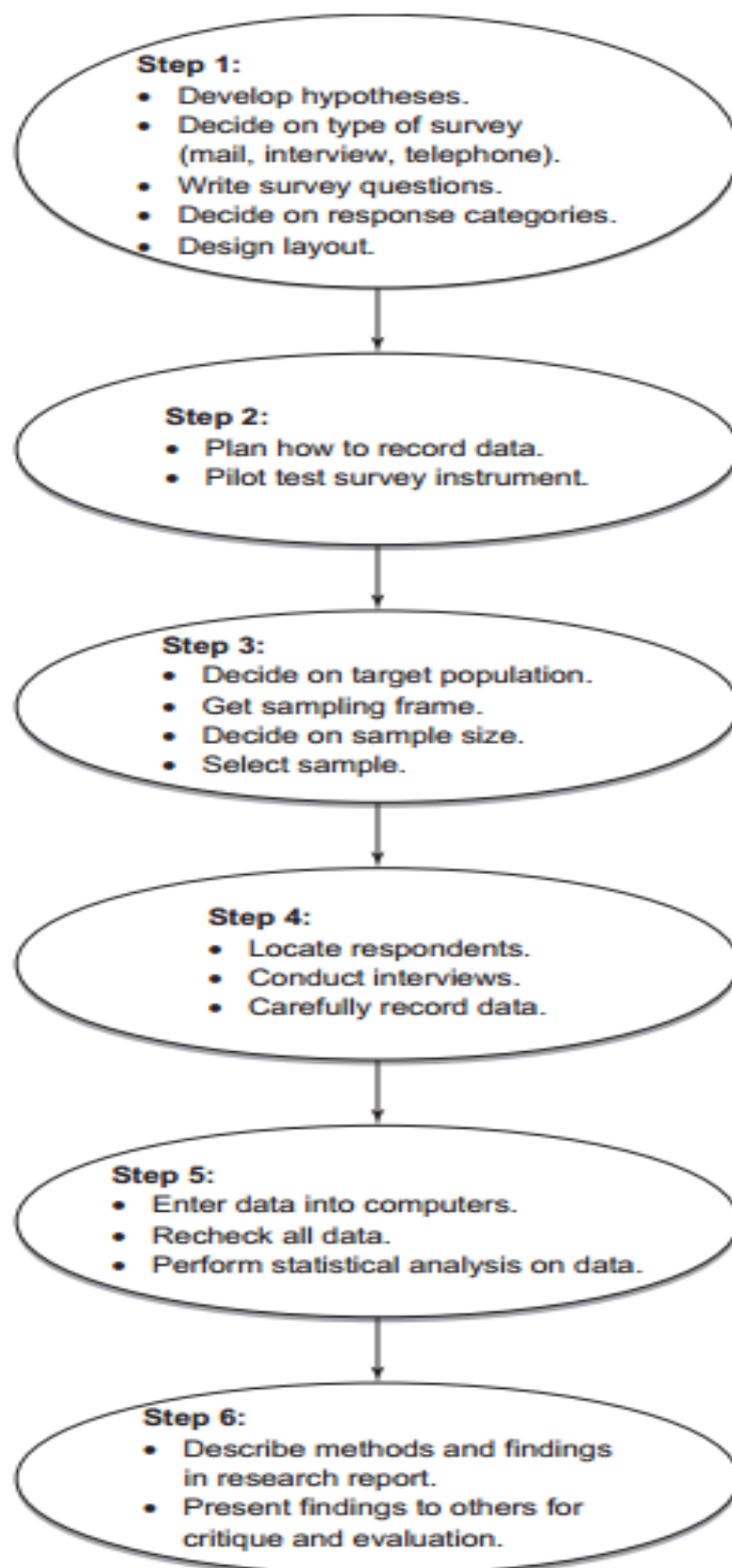
In social science, the survey has a long history and has been proved as an important data-collecting technique, which essentially asks people some questions relate to the topic (Ranchhod & Zhou, 2001; Blaxter *et al.*, 2010; Neuman, 2014). Research questions concerning “who, what, where, how many, and how much” can be addressed with survey strategies or analysis of archival records, but archival records are analyzed in research concerning historical events (Yin, 2003). The experimental method can be used to answer “how” and “why” questions; however, it requires control over behavioral events (Neuman, 2014).

The nature of the questions in this dissertation implies that the survey method is the appropriate approach. According to Groves (1996), “surveys are quantitative beasts”. Researchers can measure different aspects of respondents at once. The self-reported survey allows researchers to investigate a large number of respondents’ behaviors, beliefs, opinions, and characteristics in a single survey. This method is also useful in identifying the relationship among different variables and test the hypotheses on them, which is hard to be done with experimental methods (Bryman & Bell, 2011; Bryman, 2012; Haslam & McGarty, 2003; Neuman, 2014; Collis & Hussey, 2009).

Surveys can be addressed in different forms, such as a phone interview, internet opinion polls, and various types of questionnaires. They normally are processed by delivering sample groups the same questions, measuring many variables, and testing multiple hypotheses step by step (Neuman, 2014). This is what the dissertation is based on.

According to Neuman (2014), survey collection takes six steps (see Figure 9).

Figure 9: Steps In The Process Of Survey Research



Source: Neuman, 2014, p.320



The first step is to conduct a questionnaire, which is the vehicle delivered research questions and hypotheses to the respondents. The survey questions are designed logically and easily to be understood and answered by participants (Bryman & Bell, 2011; Bryman, 2012; Hague, 2002; Neuman, 2014).

The second step is a pilot test design, which is necessary for the final survey since researchers want to make sure that the content of questions is really clear enough to the readers (Neuman, 2014). The importance of the pilot test generates from the difficulty of the relationship between encoding and decoding. In other words, can respondents get what researchers want to ask? It needs to be tested since words are polysemic (Hall, 1993). This problem is more serious in cross-cultural and cross-language research because of the translation. For example, this research is designed in English, but the research focuses on Chinese, and the data is collected in China. Therefore, the pilot test is more necessary to make sure that (1) the design can be delivered in Chinese, and (2) the Chinese respondents can understand, respond, and provide actual data to this research (Neuman, 2014).

The third step is a sample selection process. Samples must be carefully selected to reflect the research objectives and they should be practical (Neuman, 2014). Moreover, the sample size decides whether the estimation of the research is persuasive and reliable or not (Henry, 1990). Logically, the larger the sample, the closer it is to the reality, thus the lower the error is. For instance, fourfold increases in sample size can increase the accuracy by 2. Therefore, to double the accuracy of an estimation needs four times to increase in the sample size. Statically, the larger sample size the higher significance. Practically, we cannot ask questions of every potential respondent. Logically, we do not need to do so. We only need “enough” sample to

reflect an acceptable significance (Neuman, 2014).

The fourth step is to release the surveys, collect them back and record response from respondents. The fifth step is to run the test with data and analyze the result. And the last step is to discuss findings and conclude the research (Neuman, 2014).

### **5.2.1. Open-Ended Questions, Closed-Ended or Hybrid Questions?**

Open-ended questions are such questions to which respondents can provide any answers without restraints. Advantages of open-ended questions are answers are unlimited, detailed, and may provide unanticipated findings. However, disadvantages of open-ended questions are answers maybe irrelevant or useless, since respondents have a different measurement of their own. Moreover, even the answers are homogenous, they are still very hard to be analyzed by statistical technology (Neuman, 2014).

On the other hand, closed-ended questions, in fact, are multi-choice. Respondents' answers are under the control of researchers. The choice of the question form is based on which one is more appropriate for the data collection. In other words, the one can collect more accurate data is the one should be applied in the research. Closed-ended questions are easier and faster for both data collectors and respondents, and the data are more suitable for statistical analysis under the design and control of research. Yet this way has its own disadvantages, such as the answers can be inaccurate because none of the provided choices is the answer (Neuman, 2014).

To take advantage of both choices, researchers can also consider partially open questions, which gives combined choices (fixed choices plus an additional open-ended choice "other") to respondents (Neuman, 2014). This method allows respondents to provide their real answers and also allows researchers to control the

frame of the survey simultaneously. In this research, a closed-ended questionnaire is appropriately applied, because all data are numbers.

### **5.2.2. Questionnaire**

The above arguments and evidence support this study to choose the deductive approach and use a quantitative research strategy through a survey questionnaire. Rely on these, a questionnaire is designed to detect purchasing decision-making process regarding luxury goods among variables within the Chinese context.

When designing questionnaires, numbers of factors are considered (Bryman and Bell, 2011; Bryman, 2012). For example, first, researchers need to understand the respondents who will provide feedback on the research, then how to reach them? They also need to control the feedback from the respondents, the answers shall be accurate. The better designed the questions, the more accurate respondents will get from the data (Neuman, 2014). The size of the sample, types of questions, and numbers of questions all need to be decided when designing the questionnaire (Bryman and Bell, 2011; Bryman, 2012).

The questionnaire of this research is originally developed in Chinese (Appendix B), then translated into English (Appendix A). A field survey is conducted in China since January 2017 using a structured and self-administrated questionnaire following a recall method.

The questionnaires are distributed in a Direct-controlled municipality of China, Tianjin, China. The city is chosen because most luxury brands are available there, attracted by the large consumer market and great spending power of the residents live in it (HKTDC Research, 2012). Consumers in this city are, therefore, more likely than those elsewhere to have experienced luxury consumption.

Furthermore, according to US News Best Global Universities in China (2016), Nankai University is ranked as number 14 and Tianjin University is ranked as number 25 in China. Both are located in Tianjin<sup>13</sup>. Moreover, Tianjin is close to Beijing, the capital of China and the price of real estate is much higher than that of other cities.

The target respondents are Chinese consumers who were born in the 80s (1980-1989) and had luxury consumption experience. According to Wang et al. (2011), young Chinese aged between 20 and 40 years constitute the main body of luxury consumers in China. Atzman's group has reported that 45 percent of China's luxury buyers are aged under 35 years (Atzman et al., 2009; 2011; 2012). Moreover, they are the first one-child generation, who is now also the main part of the Middle - Class.

### **5.2.3. Online Survey**

Surveys collect data through different forms, such as phone call, face-to-face interview, email, and mail. Recently, accompanying with electronic technology development, online survey replaced traditional forms to be the new data collection vehicle (McDonald & Adam, 2003; Neuman, 2014; Miller, 2006). The online survey is still surveyed, therefore shares the same benefits and drawbacks as traditional surveys, even though it is faster and easier than some of the data of the other collecting methods (Brace, 2004; Fowler, 2002; Comley, 2007; Sue, 2007). The most basic motive to apply online survey is the geographical distance (Sue, 2007). Using an online survey, researchers can deliver the survey to as many people as possible.

Online survey avoids some bias, such as “moral correct answer”, by offering anonymity. In a face-to-face interview, respondents may give a false answer but may sound correct while in actually opposite to they really answer. Moreover, online

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<sup>13</sup> source: <http://www.usnews.com/education/best-global-universities/China>

survey increases the honest answers ratio of sensitive questions. For example, many people would not like to provide their financial situations in a face-to-face interview, but in the online anonymous survey, they respond honestly (Neuman, 2014; Brace, 2004; McDonald & Adam, 2003).

Regardless of the benefits of an online survey, we also have to admit that this method also has its problems. Comparing to traditional surveys, online survey respondents are unverified. They are barely tracked, and their representativeness is questioned by some researchers. The accuracy may not be one hundred percent (Tse, 1998; Taylor, 2000).

Low response ratio and poor representativeness are two main concerns of an online survey (Comley, 2007; Tse, 1998), but the online survey companies complement this problem by providing enough amount and reliable response.

Given this situation and the advantages of online surveys, a self-administered online survey approach to data collection is adopted in this study.

### **5.3. Collected Data – Respondents**

A Chinese online survey company, Wenjuanwang, which is a survey money - alike company is used to design, deliver, and recall the online survey. Furthermore, college students who are living in the city are hired to deliver and to collect data back streets and/or in stores. These students go to shopping malls, Starbucks, and McDonald's to deliver and collect surveys in person, they also process data collection online at Sina Weibo, a Facebook – like a social network. Furthermore, WeChat, a social App is also used to deliver the survey to these students.

## **6. Test Result, Finding, and Discussion**

This dissertation utilizes SPSS to analyze the data by testing and adjusting regressions. Thereby the propositional model is examined and adjusted.

Following descriptive statistics of the sample, the result analysis starts with a test of the original regression. The resulting analysis included several tables of the descriptive statistics as well as the R square, adjusted R square, F test, and *p*-value.

Based on its result, the regression 1.0 was adjusted by removing some unnecessary independent variables one by one. Compared the results of the R square, adjusted R square, F test, *p*-value, and standardized beta coefficient with the original regression model 1.0, an adjusted regression model 1.1 was propositioned. I repeat this process, eventually an adjusted regression model 2.0 is accepted, and an adjusted propositional model 2.0 is suggested. The findings are based on analyzing it.

### **6.1. Descriptive Statistics Of The Sample**

The survey was delivered from September 1<sup>st</sup> to December 1<sup>st</sup>, 2017 in Tianjin, China. In 3 months, at least 100 surveys were delivered every day. Therefore, at least  $100 \times (30+31+30) = 9100$  surveys were delivered, Out of that, 3768 surveys were collected back and 231 is valid.

#### **6.1.1. Consumption**

Appendix 2.1 shows among the 231 valid respondents, the minimum domestic consumption regarding luxury fashion goods of Chinese Middle - Class is zero, while the maximum domestic consumption is 200,000 RMB. The mean of it is 4,588 RMB. Meanwhile, the minimum overseas consumption is 200 RMB, while the maximum overseas consumption is 885,000 RMB. The mean of it is 35,690 RMB. These

numbers exhibit that Chinese Middle - Class spent the highest consumption of luxury fashion goods overseas, which cost 885,000 RMB, while some of these consumers spent zero in their domestic market in 2016. These 231 respondents spent 8,244,450 RMB in total on luxury goods overseas, and 1,059,900 RMB in total in the domestic market in 2016 (see Appendix 2.1).

A consumption ratio, which equals to overseas consumption divided by the total consumption in both overseas and domestic markets shows the minimum ratio is 0.02, which describes 2 percent of luxury goods are purchased from overseas markets. And the maximum ratio is 1, which describes all the luxury goods are purchased from overseas markets. The mean of it is .8766, which describes on average, around 88 percent of luxury goods were purchased from overseas markets by Chinese Middle - Class 2016 (see Appendix 2.1).

The minimum consumption difference ( $C=O-D$ ) between overseas (O) markets and the domestic (D) market regarding luxury fashion goods of a Chinese Middle - Class is negative 70,000 RMB, which means at least one consumer spent 70,000 RMB more in the Chinese domestic market than overseas markets in 2016. While the maximum consumption difference (C) is 835,000 RMB, which means at least one consumer spent 835,000 RMB more in overseas markets than in the Chinese domestic market in 2016. The mean of the consumption difference (C) is 31,101.95 RMB, which means the average amount of consumption Chinese Middle - Class consumers spent in overseas markets is 31,101.95 RMB higher than in their domestic market in 2016 (see Appendix 2.1).

In addition, Among the 231 Chinese Middle - Class consumers, 24 of them spent more money in their domestic market than in overseas markets; 4 of them spent the same amount of money in their domestic market as in overseas markets, and 203 of

them spend less money in their domestic market than in overseas markets. 149 of them, which accounts for 64.5 percent of the total consumers, only purchase from overseas markets (see Appendix 2.2).

#### **6.1.2. Purchasing Motivations (Pm)**

Purchasing motivations regarding luxury goods (Pm) is divided into 4 categories, and eventually grouped into 2 dummy variables: dummy (1) means the luxury goods are only consumed by the consumer who purchased them; while dummy (0) means luxury goods are not only consumed by the consumer who purchased them (so they are the gifts). Among the 231 Chinese Middle - Class consumers, 162 of them purchased luxury goods only for themselves, while 69 Chinese Middle - Class consumers purchased luxury goods as gifts in 2016 (Note: the 69 Chinese Middle - Class consumers may purchase luxury goods for themselves too, but they are not the ONLY consumer of the luxury goods they purchased, because at least one of their consumption is a gift) (See Appendix 2.3).

#### **6.1.3. Social Capitals**

In the social capital group, of the 231 Chinese Middle - Class consumers, 64 of them has a local Hukou, while 167 of them do not have a local Hukou (See Appendix 2.4). 170 of them are females, and 61 of them are males (See Appendix 2.5). 175 of them were married, and 56 of them were not (See Appendix 2.6).

#### **6.1.4. Education**

In the education group, Among the 231 Chinese Middle - Class consumers, 41 of them have a graduate education, while 190 of them do not have (see Appendix 2.7);



23 of them have the overseas educational background, while 208 of them have the domestic background, in 2016 (see Appendix 2.8).

#### **6.1.5. Economic Capitals**

Among the 231 Chinese Middle - Class consumers, the minimum monthly income (I) is 5,000 RMB and the maximum of it is 21,000 RMB since this is the range of Middle - Class accepted in this research. The mean of the monthly income is 10,487 RMB, which means the average income of these 231 Chinese Middle - Class consumers was 10,487 RMB per month in 2016 (see Appendix 2.1).

Among the 231 Chinese Middle - Class consumers, the minimum monthly payment of house (Ph) is 0 RMB, while the maximum monthly payment of house is 37,000 RMB in 2016. The mean monthly payment of house (Ph) is 3681.95 RMB, which means the average monthly payment of house (Ph) was 3681.95 RMB in 2016 (see Appendix 2.1).

#### **6.1.6. Price Differential Ratio (P)**

The minimum price differential ratio (P) of luxury goods between overseas and domestic markets is 0.58, while the maximum of it is 0.81, which means the lowest price of an item of luxury goods in an overseas market equals to 58 percent of the domestic price of the same item of luxury goods. Meanwhile, the highest price of an item of luxury goods in an overseas market equals 81 percent of the domestic price of the same item of luxury goods in 2016. Furthermore, the mean price differential ratio of luxury goods between overseas and domestic markets is 0.72, which means the average price of an item of luxury goods in an overseas market equals to 72 percent of the domestic price of the same item of luxury goods in 2016 (see Appendix 2.1).

#### **6.1.7. Purchasing Channel (Pc)**

Among the 231 Chinese Middle - Class consumers, 126 of them purchasing luxury goods in overseas markets by themselves, while 105 of them did not purchase luxury goods during their travel in 2016 (see Appendix 2.9). Even though there is a possibility that the one who travels and buys in overseas markets is a Daigou (a dealer, who purchases luxury goods and resells these brand new goods without consuming them), this possibility is ignored by two reasons. First, normally a Daigou lives in a foreign country rather than flies to other countries to buy luxury goods because the cost is too high, and time is too long. Normally Daigou is not a full-time but a part-time job. Mostly not a real job at all. Second, for the individuals who travel and buy, even though they sell some of their goods, still keep some for themselves.

#### **6.1.8. Luxury goods Purchased from Overseas Markets**

Among the 231 Chinese Middle - Class consumers, 63 percent of them purchase suitcases and handbags, in 2016. Cosmetics, perfume and personal care account for 58 percent, followed by clothes and shoes, which account for 37 percent, jewelry and watch, which account for 30 percent. Accessories are the fewest luxury goods Chinese Middle - Class consumers purchase from overseas markets, which account for 27 percent (see Table 6).

Table 6: Luxury Goods Purchased by Chinese Middle - Class from Oversea Markets  
in 2016 (see Appendix 2.10)

Luxury Goods Category	Consumption From Overseas
Cosmetics, Perfume and Personal Care	58%
Accessories	27%
Suitcases and Handbags	63%
Jewelry and Watch	30%
Clothes and Shoes	37%

## 6.2. Hypothesis Tests and Analysis

A linear regression was used to test the hypothesis of this research because it can estimate the relationship between a dependent variable and several independent variables.

### 6.2.1. Analysis of the Original Regression Model (1.0)

$$C = \beta_0 + \beta_1 P_m + \beta_2 H + \beta_3 G + \beta_4 M + \beta_5 I + \beta_6 P_h + \beta_7 E_l + \beta_8 E_o + \beta_9 P + \beta_{10} P_c + e_i \quad (1.0)$$

Where,

C = the difference in consumption between overseas and domestic markets  
regarding luxury fashion goods of a Chinese Middle - Class 2016.

P<sub>m</sub> = Purchasing Motivation Regarding Luxury Goods

H = Hukou Status (Dummy Variable, 1= with a local Hukou, 0= without a local Hukou)

G = Gender (Dummy Variable, 1= female, 0= male)

M = Marital Status (Dummy Variable, 1= married, 0= not married)

I = Monthly Income

Ph = Monthly Payment of House (Loan or Rent)

Ele = Educational Level (Dummy Variable, 1= with a graduate degree, 0= without a graduate degree)

Elo = Educational Location (Dummy Variable, 1= oversea, 0= domestic)

P = Price Differential Ratio

Pc = Purchasing Channel (Dummy Variable, 1= travel by oneself, 0= not travel by oneself)

#### **6.2.1.1. The test result of the regression (1.0)**

The statistical test results of regression 1.0 show that the R square is .278, the adjusted R square is .246, and Durbin-Watson is 1.864 (see Appendix 3.1), indicating all independent variables (Pm, H, G, M, I, Ph, Ele, Elo, P, Pc) together can explain 27.8 percent of the consumption difference between oversea and domestic market of the Chinese Middle - Class regarding luxury fashion goods. The F-value is 8.490 with the significant value 0.000, indicating the fitness of this model is significant (see Appendix 3.1).

#### **6.2.1.2. Hypotheses analysis based on the regression (1.0)**

According to this test result, the sig. of the Pm (purchasing motivation regarding luxury goods) is .14, which indicates that the purchasing motivation, regarding luxury goods, is not a very significant impact on the purchasing decision of where to buy the luxury goods (see Appendix 3.1).

The sig. of H (Hukou status) is .492, and of G (gender) is .099, M (marital status) is .274, which indicates that neither Hukou nor marital status significantly impacts the

purchasing decision of Chinese Middle - Class regarding purchasing luxury goods.

However, gender significantly impacts purchasing decision of Chinese Middle - Class regarding purchasing luxury goods. In sum, the social capital hypotheses are partly supported by the test (see Appendix 3.1).

The sig. of I (monthly income) is .000 and of Ph (monthly payment of house) is .171, which indicates that income significantly impacts the purchasing decision of Chinese Middle - Class regarding purchasing luxury goods, while the price of the house does not significantly impact the purchasing decision of Chinese Middle - Class regarding purchasing luxury good. Therefore, the economic capital hypotheses are partly supported by the test (see Appendix 3.1).

The sig. of Ele (education level) is .001, while the sig. of Elo (education location) is .783, which indicate that the education level significantly impacts the purchasing decision of where to buy the luxury goods, but the education location does not impact the purchasing decision of where to buy the luxury goods. In sum, the education hypothesis is supported by the test (see Appendix 3.1).

The sig. of P (price differential ratio) is .170, which indicates that the price difference is not a significant factor impacting the purchasing decision of where to buy the luxury goods. The hypothesis of price is not supported by the test (see Appendix 3.1).

The sig. of Pc (purchasing channel) is .015, which indicates that the purchasing channel impacts the purchasing decision of where to buy the luxury goods significantly. The hypothesis of a purchasing channel is supported by the test (see Appendix 3.1).

The fitness of this model seems not bad because the sig. of the regression is 0.000. However, the sig. of several independent variables are too high in the

regression (1.0), which means they need to be removed from the regression. In other words, this model is not entirely unreliable, but not the best. Therefore, I process an adjusted regression (1.1) test with the Elo removed since the sig. of Elo (education location) is 0.783 which is the highest.

### 6.2.2. Adjustments of the Original Regression Model

$$C = \beta_0 + \beta_1 Pm + \beta_2 H + \beta_3 G + \beta_4 M + \beta_5 I + \beta_6 Ph + \beta_7 Ele + \beta_8 P + \beta_9 Pc + e_i \quad (1.1)$$

The statistical test results of regression (1.1) show that the R square is still .278. However, the adjusted R square increased to .249, Durbin-Watson increases 1.866, and the F-value increased to 9.459 with the significant value 0.000 also (see Appendix 3.2). Therefore, the regression (1.1) improved the regression (1.0).

However, in the regression (1.1), five of the independent variables are still not significant, they are H (.483), M (.274), Ph (.171), P (.166), and Pm (.137), (see Appendix 3.2). Therefore, the H (.483) was removed to get an adjusted regression model (1.2).

$$C = \beta_0 + \beta_1 Pm + \beta_2 G + \beta_3 M + \beta_4 I + \beta_5 Ph + \beta_6 Ele + \beta_7 P + \beta_8 Pc + e_i \quad (1.2)$$

The test result of regression (1.2) is significant with F-value increases to 10.604 from 9.459, and p-value equals 0.000. The R Square decreases to .276 from .278, while the adjusted R square increases to .250 from .249, and the Durbin-Watson increases to 1.868 from 1.866. These results indicate that the regression (1.2) improves the regression (1.1).

However, the sig. of M (.227), P(.200), Ph (.199), Pm (.154), and G (.103) are still not significant, which means that they did not significantly impact the dependent

variable, therefore the M (.227) is removed from the regression (1.2) as well. By removing the M from the regression (1.2) I attend regression (1.3).

$$C = \beta_0 + \beta_1 Pm + \beta_2 G + \beta_3 I + \beta_4 Ph + \beta_5 Ele + \beta_6 P + \beta_7 Pc + e_i \quad (1.3)$$

The test result of regression (1.3) is significant with F-value increases to 11.884 from 10.604, with a p-value equals to .000. The R square decreased to .272 from .276. However, the adjusted R square decreased to .249 from .25, and the Durbin-Watson decreases to 1.844 from 1.868. These results indicate that the regression (1.3) does not improve the regression (1.2). So as the other insignificant independent variables. Therefore, the regression (1.2) shall not be adjusted. It is the most appropriate regression model, which has the highest adjusted R square .25, and its F-value (10.604) with p-value of 0.000 is significant as well (See Table 7).

Table 7. A Summary Table of R Square, Adjusted R Square, F, and Sig. (Summarized By the Author)

Regression	Adjustment	R Square	Adjusted R Square	F-Value	Sig.	Durbin-Watson
1.0	The original Model	.278	.246	8.490	.000	1.864
1.1	Remove Elo	.278	.249	9.459	.000	1.866
1.2 (2.0)	Remove Elo & H	.276	.250	10.604	.000	1.868
1.3	Remove Elo, H & M	.272	.249	11.884	.000	1.844

Eventually, one of the adjusted regressions, the regression (1.2) was accepted as

the final adjusted regression model (2.0).

$$C = \beta_0 + \beta_1 P_m + \beta_2 G + \beta_3 M + \beta_4 I + \beta_5 Ph + \beta_6 Ele + \beta_7 P + \beta_8 Pc + e_i \quad (2.0)$$

### 6.2.3. Analysis of the Adjusted Regression Model (2.0)

The final adjusted regression model is:

$$C = \beta_0 + \beta_1 P_m + \beta_2 G + \beta_3 M + \beta_4 I + \beta_5 Ph + \beta_6 Ele + \beta_7 P + \beta_8 Pc + e_i \quad (2.0)$$

Where,

C = the difference in consumption between overseas and domestic markets  
regarding luxury fashion goods of a Chinese Middle - Class 2016.

P<sub>m</sub> = Purchasing Motivation Regarding Luxury Goods

G = Gender (Dummy Variable, 1= female, 0= male)

M = Marital Status (Dummy Variable, 1= married, 0= not married)

I = Monthly Income

Ph = Monthly Payment of House (Loan or Rent)

Ele = Educational Level (Dummy Variable, 1= with a graduate degree, 0= without a graduate degree)

P = Price Differential Ratio

P<sub>c</sub> = Purchasing Channel (Dummy Variable, 1= travel by oneself, 0= not travel by oneself)

The R square is .272, and the adjusted R square is .249, which indicating 24.9 percent of the consumption difference between oversea and domestic market of the Chinese Middle - Class regarding luxury fashion goods can be explained by this model with the 8 independent variables together. F-value is 10.604, with 0.000 as the



significance, indicating the test result is significant (See Appendix 3.3).

### **6.3. Finding and Discussion**

According to the test result, the final model is:

$$C = -108,154 + 14,412 * P_m + 16,067 * G + 12,818 * M + 4 * I - 1 * Ph + 48,806 * Ele + 75,096 * P + 23,917 * P_c \quad (3.0)$$

#### **6.3.1. Purchasing Motivation Regarding Luxury Goods (N/A)**

The Sig. of purchasing motivation is  $.154 > .05$ , which is not significant.

Therefore, not enough evidence exists to conclude that the purchasing motivation impacts the final decision of the Chinese Middle - Class regarding how to purchase luxury goods. In other words, when they make a decision to buy luxury goods from overseas markets instead of their domestic market, their motivations for owning luxury goods are not involved in this process. No matter whether they purchase a piece of luxury goods for themselves exhibiting their success or achievement, or they purchase it as a gift to their boss, these motivations do not impact their decision regarding how to buy this luxury product.

#### **6.3.2. Gender (+)**

The Sig. of Gender is  $.103 > .05$ , which is not significant. Therefore, not enough evidence exists to conclude that the gender impacts the final decision of the Chinese Middle - Class regarding how to purchase luxury goods. However, this number is close to  $.10$ , which is considered acceptable. In other words, even though gender does not impact the final decision of Chinese Middle - Class regarding how to buy the luxury good, female Chinese Middle - Class purchase more luxury goods from

oversea markets than in their domestic market.

This evidence supports the previous research of Tai and Tam (1997), who believe the females live in the mainland of China will behave like their counterparts who live in Hong Kong with rational consideration regarding luxury goods. 20 years later, this research proves their theory, the new female generation shows rationality in the decision-making process regarding luxury goods. They purchase more from overseas markets, considering the international market rather than their domestic market only.

On the other hand, male Chinese Middle - Class do does not have this rationality.

#### **6.3.3. Marital Status (N/A)**

The Sig. of marital status is  $.227 > .05$ , which is not significant. Therefore, not enough evidence exists to conclude that the marital status impacts the final decision of the Chinese Middle - Class regarding how to purchase luxury goods.

#### **6.3.4. Income (+)**

The Sig. of income is  $.000 \leq .05$ , which supports that enough evidence exists to conclude income impacts the final decision of Chinese Middle - Class regarding how to purchase luxury goods. When income increases, the Chinese Middle - Class purchase more from overseas markets. In other words, when income increases, consumers have higher purchasing power, and they choose to purchase more from overseas instead of their domestic market.

#### **6.3.5. Payment of House (N/A)**

The Sig. of payment of house is  $.199 > .05$ , which is not significant. Therefore, not enough evidence exists to conclude that the payment of house impacts the final

decision of the Chinese Middle - Class regarding how to purchase luxury goods. In addition, this evidence proves that the purchasing power of the Chinese Middle - Class does not impact by the burden of their expenditure. Even though the house is must have in their lives, their consumption still goes toward the luxury goods when the income increases.

#### **6.3.6. Education Level (+)**

The Sig. of income is  $.000 \leq .05$ , which supports that enough evidence exists to conclude education level impacts the final decision of Chinese Middle - Class regarding how to purchase luxury goods.

Higher education enhances the chance for Chinese Middle - Class consumers to purchase from overseas markets since purchasing directly from a foreign country needs the consumers to know a foreign language. Therefore, the higher education level a Chinese Middle - Class consumer has, the more he or she purchases from overseas markets. In other words, without higher education background may limit Chinese Middle - Class consumers' capability to purchase from overseas.

#### **6.3.7. Price (N/A)**

The Sig. of purchasing motivation is  $.200 > .05$ , which is not significant. Therefore, not enough evidence exists to conclude that the price impacts the final decision of the Chinese Middle - Class regarding how to purchase luxury goods. In other words, when they make a decision to buy luxury goods from overseas markets instead of their domestic market, the price difference between the overseas markets and the domestic market is not involved in this decision-making process.

This finding narrowly supports several previous types of research. Even though it

does not prove that when price increases, Chinese Middle - Class purchase more or fewer luxury goods, it shows when Chinese Middle - Class make decisions about how to buy the luxury goods they do not even consider the price difference.

### **6.3.8. Purchasing channel (+)**

The Sig. of income is  $.014 \leq .05$ , which supports that enough evidence exists to conclude purchasing channels impact the final decision of Chinese Middle - Class regarding how to purchase luxury goods. For the ones who travel to other countries, they purchase more from overseas markets. Although these people who purchase more luxury goods from overseas markets could be dealers (Daigou), who would sell these items later, this finding still exhibits that the limited purchasing channels in the domestic market impact the final decision regarding how to purchase luxury goods for Chinese Middle - Class consumers.

### **6.3.9. Discussion**

Based on the data and tests' result, the final regression is

$$C = -108,154 + 14,412 * P_m + 16,067 * G + 12,818 * M + 4 * I - 1 * Ph + 48,806 * Ele + 75,096 * P + 23,917 * P_c \quad (3.0)$$

Based on the data, regressions test results show that the decision of Chinese Middle - Class purchasing luxury goods from the overseas market instead of their domestic market is impacted by 3 factors significantly: income (.000), education level (.000), and purchasing channel (.014). When their income increases 1 RMB, the difference between their overseas and domestic consumption of luxury goods increases 4 times more. The higher education they have, the more consumption they spend overseas than domestically. An individual who has a master degree spends 48,806

more RMB purchasing luxury goods from overseas than an individual who does not have a master degree. An individual spends 23,917 more RMB through a foreign purchasing channel than in the domestic market.

In addition, even though the gender (.103) factor is not significant, but close enough to show that female Chinese Middle - Class purchase more luxury goods from overseas markets than in their domestic market. Specifically, a Chinese female Middle - Class spends 16,067 more RMB on luxury goods in overseas market than a Chinese male Middle - Class.

On the other hand, none of the marital status (.227), price (.200), payment of house (.199), and purchasing motivation (.154) significantly impact the purchasing decision of Chinese Middle - Class regarding luxury goods. This result followed previous research proved that luxury goods consumers do not consider price as an impact factor when they purchase them. No matter why they purchase the luxury goods, for exhibiting their wealth or giving as gifts for social functions, are they married or not, they do not consider the price of luxury goods, nor their burden of payment of the house.

In other words, we can state that for the Chinese Middle - Class who can afford luxury goods, they buy what they want only if their income can support their consumption, they have a higher degree, or they have the access to purchase luxury goods for overseas channels.

Moreover, based on this finding, the Chinese Middle - Class, even though they are the first generation of Middle - Class in China, is not different from their western counterpart regarding luxury goods.

## 7. Conclusion

This dissertation attempts to explain a new customer behavioral trends of Chinese Middle - Class consumers who purchase luxury goods from overseas markets rather than from their domestic market. I applied an interpretive methodology to the propositional model (1.0) and tested it by processing the regression (1.0).

During three months, 9100 surveys were delivered in a Direct-controlled municipality of China, Tianjin, in 2016. 3768 of them were collected back and 231 of them were valid.

Based on the results of the regression (1.0), more regressions is processed to find the best solution for this situation. Thereby, an adjusted regression (2.0) is found, double tested, and accepted.

This research shows that Chinese Middle - Class consumers are different from their western counterpart whose main decision regarding luxury goods made by their motivation. Motivations may impact the decision of whether to buy a piece of luxury goods, but they do not impact the rational decision of how to buy it. In other words, we can conclude that purchasing from overseas markets instead of their domestic market is a rational decision only. The emotional factor does not influence this decision at all.

Female Chinese Middle - Class show their rationality when processing the decision – making the process of how to buy luxury goods. They choose to purchase luxury goods from overseas rather than from their domestic market.

However, the reason behind this rational decision is not the price difference, which is proved does not significantly impact the final decision on how to purchase the luxury goods. The purchasing channel is the one which significantly impacts the final decision. Chinese Middle - Class is still “new” to the luxury world, which is

dominated by the western luxury companies. They are considered as new entrants by the luxury companies who limited their purchasing channels in China. Therefore, they spend more money in other countries to satisfy their eager for the luxury goods. This behavior shows that the Chinese Middle - Class consumers have astonishing purchasing power and passion for luxury goods.

In addition, education level is a guarantee that the Chinese Middle - Class consumers can spend more money in overseas markets than in their domestic market. To purchase luxury goods directly from overseas markets, at least one more language is necessary. Daigou is the only way to purchase luxury goods from overseas without knowing another language since both the dealers (Daigou) and the buyers are Chinese. Therefore, the generation of Daigou may have two factors: lower price and easy to get. The price difference is proved not significant to these consumers, which indicates that Chinese Middle - Class consumers who hire dealers (Daigou) to buy luxury goods for them may be because of the convenience of it.

That's why the purchasing channel is proved significantly impacts the Chinese Middle - Class consumers' behavior. Even for the consumers who are living in these cities, many items are not available online. They have to go to the shopping mall. The traffic in these big cities is another consideration, with extra time wasting. So the convenience of purchasing plays a key role in luxury good business.

Marriage does not impact the behavior of how to purchase luxury goods either. Both single and married Chinese Middle - Class consumers purchase more luxury goods from overseas markets than from their domestic market.

The income impacts the decision regarding how to purchase luxury goods of Chinese Middle - Class as well. When income increases, they purchase more from the overseas market rather than from their domestic market.

This behavior of purchasing from overseas markets can be seen as a globalizing trend. Chinese Middle - Class, especially the females, with high income and educational level, choose to purchase their luxury goods from the international market, where more choices are available rather than from their domestic market, where the purchasing channels are limited. They cannot get these luxury goods, which they can afford, in their domestic market, because the luxury goods companies do not sell online thoroughly. In other words, luxury companies treat Chinese Middle - Class consumers as new entrants, ignoring their purchasing power and capability, thereby pushing them into overseas markets.

On the other hand, the male Chinese Middle - Class does not show the same behavior. In other words, regarding purchasing luxury goods, Chinese female Middle - Class is more rational than Chinese male Middle - Class.

In sum, Chinese Middle - Class consumers purchase luxury goods from the overseas market rather than from their domestic market not because of the price difference, but because their purchasing channels of luxury goods are limited in their domestic market. The emotional motivations of owning luxury goods do not impact the rational decision of how to purchase luxury goods. Some capitals owned by Chinese Middle - Class consumers, on the other hand, impact their decision-making, such as gender, income, and education level. In addition, these consumers are pushed out from their domestic market to overseas markets, although they have a large potential for purchasing power and eagerness for owning luxury goods. The consumption from overseas of Chinese Middle - Class is driven up by their income and guaranteed by their education level. This behavior toward the international market rather than the only one domestic market is a new trend of globalizing consumer behavior.



## **8. Limitation of the Research and Suggestion for Future Research**

There are some limitations I would like to improve in the future. First, the measurement of social capital is difficult to be decided, because it is vague. There is not an easy way one can determine which factor is a social capital and which is not. In addition, it is personal. For example, some people cherish their social network, while some others believe it is a wasting of time and energy.

The cultural capital is as the same as social capital, even though Hofstede's index was helpful. It was hard to distinguish or even separate a certain cultural capital from the others. For example, aesthetics is not impacted by the cultural capital, but also social capital, because children's aesthetics were impacted by their parents, friends and the society they live.

Future research should examine a way to distinguish these factors more clearly. Moreover, the luxury companies are changing their business strategies in China by opening their online stores, which leads to a new debate will Chinese switch back to their domestic market to purchase these luxury goods or their behavior is unchangeable. Once we saw the world, we cannot pretend we never saw it before.

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## **Appendix 1. Survey**

### **Appendix 1.1**

Thank you for your participation. This survey is anonymous. Your personal information will not be collected.

1. Could you please point out which brands are luxury brands? (Multiple Choices)

- A. Chanel
- B. L'OREAL PARIS
- C. Burberry
- D. H&M
- E. Hugo Boss
- F. Armani
- G. Estee Lauder
- H. Hermès
- I. GAP
- J. Clinique
- K. ZARA

2. Why you purchase luxury goods? (Multiple Choices)

- A. I purchase luxury goods as an Investment.
- B. I enjoy the Quality of luxury goods.
- C. I purchase luxury goods to exhibit my wealth or Success, reward myself and make me happy.
- D. I purchase luxury goods to maintain my social network, or as gifts to my

family and friends.

3. How much you spend on luxury goods in China (RMB) in 2016?
4. How much (RMB) you spend on these luxury goods by **Daigou** in 2016?
  - A. Jewelry or watch\_\_\_\_\_yuan RMB
  - B. Bags, leather goods\_\_\_\_\_yuan RMB
  - C. Cloth, shoes\_\_\_\_\_yuan RMB
  - D. hats, scarves, gloves, and other accessories\_\_\_\_\_yuan RMB
  - E. Cosmic and perfume\_\_\_\_\_yuan RMB
5. How much (RMB) you spend on these luxury goods by **Haitao** in 2016?
  - A. Jewelry or watch\_\_\_\_\_yuan RMB
  - B. Bags, leather goods\_\_\_\_\_yuan RMB
  - C. Cloth, shoes\_\_\_\_\_yuan RMB
  - D. hats, scarves, gloves, and other accessories\_\_\_\_\_yuan RMB
  - E. Cosmic and perfume\_\_\_\_\_yuan RMB
6. How much (RMB) you spend on these luxury goods by **travelling to foreign countries** in 2016?
  - A. Jewelry or watch\_\_\_\_\_yuan RMB
  - B. Bags, leather goods\_\_\_\_\_yuan RMB
  - C. Cloth, shoes\_\_\_\_\_yuan RMB
  - D. hats, scarves, gloves, and other accessories\_\_\_\_\_yuan RMB
  - E. Cosmic and perfume\_\_\_\_\_yuan RMB

7. Could you please clarify why you choose to purchasing luxury goods from overseas markets please? \_\_\_\_\_
8. How old are you?
- A. 25-30
  - B. 30-40
9. The gender of you
- A. Male
  - B. Female
10. Are you married?
- A. yes
  - B. no
11. Your education background
- A. Undergraduate
  - B. Graduate
12. Do you have overseas educational experience?
- A. Yes
  - B. No
13. Could you please inform your monthly income?

14. Could you please inform your monthly rent or housing loan?

15. Could you please inform that do you have a local Hukou?

A. Yes

B. No



## Appendix 1.2

### 奢侈品海外购买渠道调研

感谢您的参与，这是不记名问卷，不会收集您的个人信息，请您放心填写

1. 请问您觉得以下品牌哪些是奢侈品？(多选)

- A. 香奈儿
- B. 欧莱雅
- C. 巴宝莉
- D. H&M
- E. Hugo Boss
- F. 阿玛尼
- G. 雅诗兰黛
- H. 爱马仕
- I. GAP
- J. 倩碧
- K. ZARA

2. 请问您为什么购买奢侈品**最主要**的原因是什么？(多选)

- A. 投资原因：奢侈品可以升值
- B. 享受奢侈品的质量
- C. 奢侈品可以展示我的财富或者成功，自我奖励/让我开心

D. 社交需要的礼物，送亲朋好友的礼物

3. 请问您 2016 年在 **中国（大陆）** 本土购买奢侈品的消费额是多少（人民币）？

4. 请问您 2016 年通过 **海淘** 从境外（包括港澳台地区）购买的奢侈品的种类及花费是多少（人民币）？

A. 化妆品香水护肤品\_\_\_\_\_元

B. 珠宝手表\_\_\_\_\_元

C. 箱包皮具\_\_\_\_\_元

D. 成衣/鞋\_\_\_\_\_元

E. 配饰配件（比如丝巾、墨镜、帽子、小挂饰）\_\_\_\_\_元

5. 请问您 2016 年通过 **代购** 从境外（包括港澳台地区）购买的奢侈品的种类及花费是多少（人民币）？

A. 化妆品香水护肤品\_\_\_\_\_元

B. 珠宝手表\_\_\_\_\_元

C. 箱包皮具\_\_\_\_\_元

D. 成衣/鞋\_\_\_\_\_元

E. 配饰配件（比如丝巾、墨镜、帽子、小挂饰）\_\_\_\_\_元

6. 请问您 2016 年 **在境外旅行中** 从境外（包括港澳台地区）购买的奢侈品的种类及花费是多少（人民币）？

- A. 化妆品香水护肤品\_\_\_\_\_元
- B. 珠宝手表\_\_\_\_\_元
- C. 箱包皮具\_\_\_\_\_元
- D. 成衣/鞋\_\_\_\_\_元
- E. 配饰配件（比如丝巾、墨镜、帽子、小挂饰）\_\_\_\_\_元

7. 请问您选择从海外购买奢侈品的原因是什么? \_\_\_\_\_

8. 请问您的出生年份

- A. 1970-1979
- B. 1980-1989
- C. 1990-1999

9. 请问您的性别

- A. 男
- B. 女

10. 请问您的婚姻状况

- A. 已婚
- B. 未婚

11. 请问您的学历

A. 大学专科或本科

B. 研究生及以上

12. 请问您是否有海外留学经历

A. 是

B. 否

13. 请问您的月薪是多少？

14. 请问您个人或家庭每月的房贷是多少？

15. 请问您是否有本市户口？

A. 是

## Appendix 2. Test Result

### Appendix 2.1 Frequency Statistics summary

Descriptive Statistics					
	N	Minimum	Maximum	Sum	Mean
buy_domestic	231	0	200000	1059900	4588.31
buy_overseas	231	200	885000	8244450	35690.26
buy_total	231	200	935000	9304350	40278.57
Cr	231	.02	1.00	202.50	.8766
Cd	231	-70000	835000	7184550	31101.95
Pm	231	0	1	162	.70
H	231	0	1	64	.28
G	231	0	1	61	.26
M	231	0	1	175	.76
I	231	5000	21000	2422500	10487.01
Ph	231	0	37000	850530	3681.95
Ele	231	0	1	41	.18
Elo	231	0	1	23	.10
P	231	.5792	.8122	166.3422	.720096
Pc	231	0	1	126	.55
travel	231	0	1	126	.55
haitao	231	0	1	144	.62
daigou	231	0	1	89	.39
cosmetics	231	0	1	133	.58
suitcase	231	0	1	146	.63
jewelry	231	0	1	69	.30
cloth	231	0	1	86	.37
accessories	231	0	1	62	.27
Valid N (listwise)	231				

## Appendix 2.2 Frequency of Oversea and Domestic Consumption

Cr				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.02	1	.4	.4
	.03	2	.9	1.3
	.05	2	.9	2.2
	.06	1	.4	2.6
	.07	1	.4	3.0
	.09	1	.4	3.5
	.14	1	.4	3.9
	.19	1	.4	4.3
	.20	1	.4	4.8
	.23	1	.4	5.2
	.27	1	.4	5.6
	.33	2	.9	6.5
	.34	1	.4	6.9
	.39	1	.4	7.4
	.43	1	.4	7.8
	.44	4	1.7	9.5
	.47	2	.9	10.4
	.50	4	1.7	12.1
	.52	2	.9	13.0
	.57	2	.9	13.9
	.58	1	.4	14.3
	.61	1	.4	14.7
	.66	1	.4	15.2
	.67	2	.9	16.0
	.72	1	.4	16.5
	.73	1	.4	16.9
	.75	4	1.7	18.6
	.78	1	.4	19.0
	.82	2	.9	19.9
	.84	2	.9	20.8
	.85	2	.9	21.6
	.86	1	.4	22.1

.87	2	.9	.9	22.9
.88	1	.4	.4	23.4
.89	1	.4	.4	23.8
.90	1	.4	.4	24.2
.91	2	.9	.9	25.1
.92	1	.4	.4	25.5
.93	5	2.2	2.2	27.7
.94	4	1.7	1.7	29.4
.95	4	1.7	1.7	31.2
.96	4	1.7	1.7	32.9
.97	2	.9	.9	33.8
.98	3	1.3	1.3	35.1
.99	1	.4	.4	35.5
1.00	149	64.5	64.5	100.0
Total	231	100.0	100.0	

**Cd**

	Frequency	Percent	Valid Percent	Cumulative Percent
-70000	1	.4	.4	.4
-19500	1	.4	.4	.9
-19000	1	.4	.4	1.3
-15000	1	.4	.4	1.7
-14500	1	.4	.4	2.2
-13000	1	.4	.4	2.6
-10000	2	.9	.9	3.5
-9500	2	.9	.9	4.3
-9000	1	.4	.4	4.8
-7000	1	.4	.4	5.2
-6800	1	.4	.4	5.6
-5000	2	.9	.9	6.5
-4200	1	.4	.4	6.9
-3700	1	.4	.4	7.4
-3300	1	.4	.4	7.8
-2800	1	.4	.4	8.2
-2000	1	.4	.4	8.7
-1000	2	.9	.9	9.5

-500	2	.9	.9	10.4
0	4	1.7	1.7	12.1
200	1	.4	.4	12.6
300	2	.9	.9	13.4
500	2	.9	.9	14.3
1000	6	2.6	2.6	16.9
1500	3	1.3	1.3	18.2
1800	1	.4	.4	18.6
2000	8	3.5	3.5	22.1
2300	1	.4	.4	22.5
2800	1	.4	.4	22.9
3000	6	2.6	2.6	25.5
4000	7	3.0	3.0	28.6
5000	9	3.9	3.9	32.5
5500	2	.9	.9	33.3
6000	10	4.3	4.3	37.7
7000	4	1.7	1.7	39.4
7500	1	.4	.4	39.8
7970	1	.4	.4	40.3
8000	2	.9	.9	41.1
8200	1	.4	.4	41.6
9000	2	.9	.9	42.4
10000	19	8.2	8.2	50.6
10500	1	.4	.4	51.1
11000	1	.4	.4	51.5
11100	1	.4	.4	51.9
12000	3	1.3	1.3	53.2
13000	2	.9	.9	54.1
13120	1	.4	.4	54.5
13300	1	.4	.4	55.0
14000	2	.9	.9	55.8
15000	4	1.7	1.7	57.6
16000	5	2.2	2.2	59.7
16200	1	.4	.4	60.2
16500	1	.4	.4	60.6
17000	2	.9	.9	61.5
18000	1	.4	.4	61.9
20000	12	5.2	5.2	67.1



21000	2	.9	.9	68.0
22000	1	.4	.4	68.4
23500	1	.4	.4	68.8
25000	1	.4	.4	69.3
28600	1	.4	.4	69.7
29000	2	.9	.9	70.6
30000	13	5.6	5.6	76.2
32000	1	.4	.4	76.6
32300	1	.4	.4	77.1
32600	1	.4	.4	77.5
33000	1	.4	.4	77.9
33100	1	.4	.4	78.4
33500	1	.4	.4	78.8
35000	2	.9	.9	79.7
36000	3	1.3	1.3	81.0
37860	1	.4	.4	81.4
40000	1	.4	.4	81.8
40600	2	.9	.9	82.7
43500	1	.4	.4	83.1
43800	1	.4	.4	83.5
45400	1	.4	.4	84.0
48000	1	.4	.4	84.4
50000	7	3.0	3.0	87.4
54000	1	.4	.4	87.9
55000	1	.4	.4	88.3
60000	4	1.7	1.7	90.0
64000	1	.4	.4	90.5
65000	1	.4	.4	90.9
71500	1	.4	.4	91.3
72000	1	.4	.4	91.8
81020	1	.4	.4	92.2
84800	1	.4	.4	92.6
100000	2	.9	.9	93.5
112280	1	.4	.4	93.9
135000	1	.4	.4	94.4
149200	1	.4	.4	94.8
154000	1	.4	.4	95.2
160000	1	.4	.4	95.7

165000	1	.4	.4	96.1
173200	1	.4	.4	96.5
178700	1	.4	.4	97.0
202000	1	.4	.4	97.4
206000	1	.4	.4	97.8
227000	1	.4	.4	98.3
286300	1	.4	.4	98.7
290000	1	.4	.4	99.1
425400	1	.4	.4	99.6
835000	1	.4	.4	100.0
Total	231	100.0	100.0	

### Appendix 2.3 Frequency Statistics of Purchasing Motivation regarding Luxury goods (Pm)

**Pm**

	Frequenc y	Percent	Valid Percent	Cumulative Percent
0	69	29.9	29.9	29.9
Valid 1	162	70.1	70.1	100.0
Total	231	100.0	100.0	

#### Appendix 2.4 Frequency Statistics of Hukou status (H)

**H**

	Frequency	Percent	Valid Percent	Cumulative Percent
0	167	72.3	72.3	72.3
Valid 1	64	27.7	27.7	100.0
Total	231	100.0	100.0	

#### Appendix 2.5 Frequency Statistics of Gender (G)

**G**

	Frequency	Percent	Valid Percent	Cumulative Percent
0	170	73.6	73.6	73.6
Valid 1	61	26.4	26.4	100.0
Total	231	100.0	100.0	

#### Appendix 2.6 Frequency Statistics of Marital Status (M)

**M**

	Frequency	Percent	Valid Percent	Cumulative Percent
0	56	24.2	24.2	24.2
Valid 1	175	75.8	75.8	100.0
Total	231	100.0	100.0	

### Appendix 2.7 Frequency Statistics of Education Level (Ele)

Ele				
	Frequency	Percent	Valid Percent	Cumulative Percent
0	190	82.3	82.3	82.3
Valid 1	41	17.7	17.7	100.0
Total	231	100.0	100.0	

### Appendix 2.8 Frequency Statistics of education location (Elo)

#### Elo

	Frequency	Percent	Valid Percent	Cumulative Percent
0	208	90.0	90.0	90.0
Valid 1	23	10.0	10.0	100.0
Total	231	100.0	100.0	

### Appendix 2.9 Frequency Statistics of purchasing Channel (Pc)

#### Pc

	Frequency	Percent	Valid Percent	Cumulative Percent

0	105	45.5	45.5	45.5
Valid 1	126	54.5	54.5	100.0
Total	231	100.0	100.0	

### Appendix 2.10 Frequency Statistics of luxury goods' categories

#### cosmetics

	Frequency	Percent	Valid Percent	Cumulative Percent
0	98	42.4	42.4	42.4
Valid 1	133	57.6	57.6	100.0
Total	231	100.0	100.0	

#### suitcase

	Frequency	Percent	Valid Percent	Cumulative Percent
0	85	36.8	36.8	36.8
Valid 1	146	63.2	63.2	100.0
Total	231	100.0	100.0	

#### jewelry

	Frequency	Percent	Valid Percent	Cumulative Percent
0	162	70.1	70.1	70.1
Valid 1	69	29.9	29.9	100.0
Total	231	100.0	100.0	

#### cloth

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	145	62.8	62.8	62.8

	1	86	37.2	37.2	100.0
	Total	231	100.0	100.0	

**accessories**

	Frequency	Percent	Valid Percent	Cumulative Percent
0	169	73.2	73.2	73.2
Valid 1	62	26.8	26.8	100.0
Total	231	100.0	100.0	

## Appendix 3. Test Result

### Appendix 3.1 Regression 1.0 (Original)

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.528 <sup>a</sup>	.278	.246	65347.297	.278	8.490	10	220	.000	1.864

a. Predictors: (Constant), Pc, Pm, G, Elo, H, I, M, P, Ph, Ele

b. Dependent Variable: Cd

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	362554401416.126	10	36255440141.613	8.490	.000 <sup>b</sup>
Residual	939459241407.251	220	4270269279.124		
Total	1302013642823.377	230			

a. Dependent Variable: Cd

b. Predictors: (Constant), Pc, Pm, G, Elo, H, I, M, P, Ph, Ele

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-110470.817	42577.100		-2.595	.010
	Pm	15052.416	10155.108	.092	1.482	.140
	H	-7029.163	10205.373	-.042	-.689	.492

G	16358.464	9875.939	.096	1.656	.099
M	11755.163	10726.527	.067	1.096	.274
I	4.156	.940	.300	4.420	.000
Ph	-1.193	.868	-.096	-1.374	.171
Ele	50756.490	14625.126	.258	3.470	.001
Elo	-6050.034	18093.088	-.024	-.334	.738
P	82199.264	59648.339	.089	1.378	.170
Pc	23736.681	9678.960	.157	2.452	.015

a. Dependent Variable: Cd

### Appendix 3.2 Regression 1.1 (Removed Elo-Education Location)

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.527 <sup>a</sup>	.278	.249	65215.852	.278	9.459	9	221	.000	1.866

a. Predictors: (Constant), Pc, Pm, G, H, Ele, I, M, P, Ph

b. Dependent Variable: Cd

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	362076932011.973	9	40230770223.553	9.459	.000 <sup>b</sup>



Residual	939936710811.40 5	221	4253107288.739		
Total	1302013642823.3 77	230			

a. Dependent Variable: Cd

b. Predictors: (Constant), Pc, Pm, G, H, Ele, I, M, P, Ph

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-111185.622	42437.867		-2.620	.009
Pm	15107.294	10133.358	.092	1.491	.137
H	-7148.921	10178.571	-.043	-.702	.483
G	16513.395	9845.221	.097	1.677	.095
M	11741.589	10704.874	.067	1.097	.274
I	4.178	.936	.302	4.463	.000
Ph	-1.191	.866	-.096	-1.375	.171
Ele	47864.065	11769.137	.244	4.067	.000
P	82736.133	59506.787	.090	1.390	.166
Pc	23680.588	9658.040	.157	2.452	.015

a. Dependent Variable: Cd

### Appendix 3.3 Regression 1.2 (Removed the Elo And H)

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.526 <sup>a</sup>	.276	.250	65141.383	.276	10.604	8	222	.000	1.868

a. Predictors: (Constant), Pc, Pm, G, Ele, I, M, P, Ph

b. Dependent Variable: Cd

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	359978892341.597	8	44997361542.700	10.604	.000 <sup>b</sup>
Residual	942034750481.780	222	4243399776.945		
Total	1302013642823.377	230			

a. Dependent Variable: Cd

b. Predictors: (Constant), Pc, Pm, G, Ele, I, M, P, Ph

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-108154.029	42169.581		-2.565	.011
Pm	14411.604	10073.315	.088	1.431	.154
G	16067.374	9813.500	.094	1.637	.103
M	12818.422	10582.413	.073	1.211	.227
I	4.145	.934	.300	4.438	.000
Ph	-1.101	.856	-.088	-1.287	.199
Ele	48806.026	11679.120	.248	4.179	.000
P	75095.668	58437.192	.082	1.285	.200
Pc	23917.502	9641.126	.159	2.481	.014

a. Dependent Variable: Cd

### Appendix 3.4 Regression 1.3 (Removed the Elo, H And M)

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.521 <sup>a</sup>	.272	.249	65209.590	.272	11.884	7	223	.000	1.844

a. Predictors: (Constant), Pc, Pm, G, Ele, I, P, Ph

b. Dependent Variable: Cd

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	353752827312.713	7	50536118187.530	11.884	.000 <sup>b</sup>
Residual	948260815510.664	223	4252290652.514		
Total	1302013642823.377	230			

a. Dependent Variable: Cd

b. Predictors: (Constant), Pc, Pm, G, Ele, I, P, Ph

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-101706.068	41876.050		-2.429	.016
	Pm	13615.289	10062.365	.083	1.353	.177
	G	15842.095	9822.011	.093	1.613	.108
	I	4.207	.933	.304	4.507	.000
	Ph	-1.019	.854	-.082	-1.193	.234
	Ele	50083.041	11643.619	.255	4.301	.000
	P	76927.782	58478.781	.084	1.315	.190

Pc	26445.067	9422.461	.175	2.807	.005
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a. Dependent Variable: Cd

### Appendix 3.5 A Summary Table of F-value

Regression Independent Variables	1.0	1.1	1.2
Pm	.140	.137	.154
H	.492	.483*	
G	.099	.095	.103
M	.274	.274	.227*
I	.000	.000	.000
Ph	.171	.171	.199
Ele	.001	.000	.000
Elo	.738*		
P	.170	.166	.200
Pc	.015	.015	.014