Understanding China’s Love for luxury

Ewelina Krawczyk

An analysis of luxury consumption in China
Acknowledgements

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Ewelina Krawczyk

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Abstract

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Author: Ewelina Krawczyk
Supervisor: Anita Radón
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Purpose:
The purpose of this thesis has been to study, describe and analyze whether existence of traditional and modern values in the Chinese society explain the nature of growing luxury consumption in China.

Background:
Since the point when Chinese government had introduced the Open Door Policy, China had transformed from socialist country into market driven economy. Chinese population has emerged from decades of global isolation, restrictions on personal freedom and lack of consumer choice to come into the era of the world’s fastest growing economy. Millions of people began to settle urban areas in search of wealth and better living conditions. In last ten years the disposable income of Chinese urban population almost triple. The purchase power of wealthy Chinese has been reflected in growing luxury consumption. In a short time China became a second luxury market in the world, whereas further prediction show that it will be the first one in the nearest future.

Methods:
The quantitative primary and secondary research methods have been applied in the thesis to gather the data needed to drawn a relevant conclusion. A questionnaire has been conducted among Chinese population living in Europe. In addition, the McKinsey & Company survey on growing luxury consumption in China has been used as empirical evidence.

Conclusion:
The existence of traditional and modern values in the one single society can be seen as apparent contradiction. However, both modern and traditional values carry a quest for social recognition and achieving position in the society. Luxury objects became attributes and extension of the self for many Chinese who have to conform to the rules of collective system.
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1. Introduction

This chapter provides the reader with an introduction to the chosen subject. The background leads to a problem discussion and purpose of the research, which in turn leads to the research questions. This part brings up also practical delimitations and explanation of structure of the thesis.

1.1. Background

The Open Door Policy concept introduced in China in 1899 allowed multiple imperial powers entered China (Encyclopedia Britannica, 2012) and start long-lasting business cooperation. China has become the biggest factory in the world, thereby filling the pockets of the government and owners of the enterprises. In 1978 famous words of Prime Minister Deng Xiao Ping, Mao successor, “To get rich is glorious” has become another step to transform China into a fast growing economy. After decades of communism, uniformity and forced equality the urge for individualism was unleashed. Millions of people have left their villages and moved to the urban areas in search of employment and better living conditions. (Kapferer, n.d.) “When party and government officials reduced their control over the flow of commodities, they also ceded greater autonomy to everyday sociability. In granting market principles new legitimacy to coordinate economic transactions, the reformers became increasingly indifferent to how citizens used their new commercial freedoms”. (Davis, 2000, p.3) People no longer had to hide their success, but were even encouraged to strive for wealth. (Little, n.d.)

In 2011 China’s GDP reached RMB 47, 1 trillion, the second highest in the world, with year on year growth of 9, 2 % and projected 7% annual growth for the next 4 years. (Industrial Bank et the Hurun Report, 2012, p.6) Moreover, China’s rapid economic growth has led to astonishing expansion of wealthy individuals and upgrading of consumption. Between 2001 and 2011 disposable income of urban population almost triple. (Industrial Bank et the Hurun Report, 2012) According to the research conducted by Boston Consulting Group in 2011 the number of millionaire households in China is estimated to 1,11 million, nearly one-third more than a year ago, whereas number of billionaires account to 115 and is bigger than in any country outside U.S.A. (Forbes, 2011)
The luxury brands could not remain indifferent for increasing purchase power of this most populous country in the world. Chinese market started to be flooded by the luxurious European and American brands looking for potential customers in this golden land. The high-end segment gained recognition among wealthy individuals in a short time. On top of that, China is said to be the second largest luxury market in the world with an annual increase of 30% in 2010. Furthermore, the predictions show that China will become the largest consumer of luxury goods in the nearest future. (Lu, n.d.) The development of consumption is intensified due not only to an increase in individual wealth but also to a change in the value system. (Industrial Bank et the Hurun Report, 2012). This phenomenon has become an unsolved issue for many luxury brands which started to seek for new methods of approaching wealthy Chinese consumers.

1.2. Problem discussion

Numerous attempts to understand the meaning of luxury had been taken, but left all the arguments without a clear answer. Luxury itself is a complex category. It is difficult to give the exact definition of luxury. It can only be portrayed with a number of attributes which create a conglomerate of features of this unlimited class (Kapferer, Bastien, 2009). Luxury goods are for sure not essential for surviving and have always been ascribed to the elites. Strictly speaking, luxury was always there where wealth was.

Growing economic power of China has undoubtedly a relation with recent love for luxury of its citizens. However, affluence is not only the case. The reasoning of luxury consumption in China on such a big scale has more cultural and sociological base. Max Weber (1964) pointed that cultural aspect in China has been an obstacle for the modernization of the country for a very long time. Chinese cultures, religions and beliefs differ greatly from the morals which are the spiritual foundation of capitalistic societies, and that is why they could not be a driving force of Chinese development. The greatest impact on China’s economic backwardness had rules of Confucianism and Taoism, which pressured to keep the harmony within the society and despised the acquisition of goods. Another scholar Talcott Parsons (1937) developed the theory presented by Weber. He claimed that Confucian ethics had a huge contrast with the universalistic Western ethics. The collective thinking has been blocking development of China. However, Parsons (1951) was convinced that even the strictest social systems can take cultural patterns from modern Western societies, and this can be the only way of modernization for underdeveloped nations. Nevertheless, it was impossible to eradicate old traditional values from one of the oldest civilization in the world. The voices
that have seen the need of transformation come to conclusion that modernization of China can be accomplished by adaptation of foreign technologies, but with preservation of old morals at the same time (Cheng, 1989).

In a consequence, China became the fastest growing economy with the strongest collective mentality. The clash of Western and Eastern influences and political transformation are reflected in some way in the spending habits. The reason of growing luxury consumption in China is very often mistakenly interpreted. Many researches pinpoint the need of gaining prestige, status-seeking and increasing wealth as the main factors. However, such perception caused only more understatement. The conspicuousness behavior has no practical application in this case. The complexity of the problem is much more extensive. That is why evaluation and apprehension of melting pot of traditional and modern values in Chinese culture has been so significant for this research paper.

1.3. Purpose of the research

Thus, the aim of this study is to find the factors, which might explain to some extent the luxury fever in China and give understanding to the attitude towards luxury goods of Chinese urban population. The main assumption of this thesis is existence of traditional and modern values in the Chinese society. The author of this paper believes that this characteristic differentiates that market from other luxury markets and drives the way luxury is consumed. The study tries also proving that the perception of luxury and conspicuous consumption can be changed in time in the process of bigger internationalization of the country. The research focus is put primarily on psychology of luxury consumer in China and what stands behind their motivation of purchasing high-end products.

1.4. Research Questions

The overall objective of this thesis is to examine luxury consumer behavior in China. As already stated, the way luxury is consumed is different than in the Western world and has its distinct characteristics. Basing on this assumption below research questions will be further considered:

How traditional and modern values explain the nature of Chinese luxury consumption?

Is the perception of luxury being explained with the internationalization of Chinese population?
1.5. Delimitations

Due to the large size of China and large population of the country, as well as the growing disparity between urban and rural population the differences in the consumption habits are inevitable. The modernization of the urban part of the country magnifies the big gap between those two groups. Urban society is considered to have more modern lifestyle than big majority of the Chinese population which still inhabits rural part and work as farmers or in the fabrics. The Chinese, living in big cities were the first who experienced the big economic growth and the first who faced the influence of Western capitalism. Hence, they are considered to be more affluent and liable for luxury consumption than rural population. Accordingly, when analyzing luxury consumption in China the focus is put only on the urban part of the population, especially on “nouveau riche” Chinese, as they only have the opportunity and means to engage in the luxury consumption.

1.6. Structure of the thesis

This thesis consists of seven parts. The first part contains introduction, background, problem discussion, purpose of the research, research questions, delimitations and structure of the thesis. In the second part the theoretical framework is presented and in the third part the methodological approach and methods are described. In the fourth part the empirical evidence will be depicted in two parts. First one presents findings from the research conducted by McKinsey & Company consulting firm, while second part answers collected from the conducted questionnaire. The fifth part is an analysis of gathered data intertwined with the useful theory. Finally, in part six the discussion and conclusion is presented, followed by final reflections.
2. Theoretical framework

In the following chapters a theoretical discussion will be held regarding concept of luxury and its dimensions in different cultures. Particularly, the meaning of luxury in understanding of Chinese consumers will be taken under account. Thereafter the Chinese value system will be evaluated further with emphasize on the presence of traditional and modern values in the Chinese society. Eventually, the interaction of these two aspects will be studied. The research findings in this chapter are based on the literature, analysis, and primarily on the data collected in a book “Elite China. Luxury consumer behavior in China” by Pierre Xiao Lu. The value system distinction presented seems of high relevance to the purpose of the thesis and the questions it aims to respond.

2.1. The concept of luxury

The concept of luxury is still unclear and interpreted in many different ways in different cultures. Primarily luxury is associated with an expensive and difficult to obtain for masses goods or services. Luxury is most commonly defined as “a good or service that is not considered a necessity but is considered as something that brings pleasure or happiness“. (Investor Words, n.d.) Luxury is generally regarded as an expression indicating quality, craft and comfort, whereas very often luxury mistakenly is defined in financial terms. The perception of luxury and luxury market is wrongly linked with affluence. Trying to answer what luxury is, relates both to the article and receiver of the article. It is in the eye of the beholder or creator of the good to decide whether the article can be called a luxury. In contrast, the affluence is objective, because it can be described in numbers. (Appollo Articles, 2011)

Furthermore, the difference between premium products and luxury is strictly in the social function of the luxury. “Luxury is tied to the social hierarchy. Premium goods are just better goods: they are the best in class products, after examination of their comparative performance. Luxury is elsewhere. Looking back at history, luxury was the privilege and the signal of the powerful people (gods, semi-gods, kings, nobles, aristocrats (…) Luxury was a measure of your rank, itself being inherited” (Kapferer, n.d.)

The Luxury Institute in the USA has produced two barometers of luxury in every sector to partially solve this ambiguous issue. The first called “The Luxury Customer
Experience Index (LCEI) is a measure of the satisfaction felt with a service. It is an expression of the perceived quality in all its facets, including reliability, fragility or flimsiness, ease of access, etc, but also the human aspect, the service”. The second is called “The Luxury Brand Status Index (LBSI) and is more concerned with the intangible, the prestige associated with the given brand, its dream potential and therefore the distinction conferred on the possessor. The items in the index have to do with a feeling of exclusivity and uniqueness, the feeling of having one’s social standing reinforced through the brand, the feeling of being a special person.” (Kapferer; Bastien; 2009, p.22)

This duality confirms only that luxury is really subjective construct. It is seen differently depends on the context and concerned individuals or societies. Louis Vuitton, for example is said to be the world’s most valued luxury brand. However, by some individuals is perceived as a vulgar and tacky due to the big amount of counterfeited products. On the other hand, Louis Vuitton continues to remain favorite brand of Asian consumers. (Kapferer; Bastien 2009, p.22)

With reference to the Luxury Brand Status Index it can be concluded that possession of luxury goods has to provide pleasure, give exclusivity and uniqueness feeling, and as mentioned before be out of reach for mass consumption. (Berry, 1994) The true concept of luxury is to fulfill both functional and psychological needs. Thus, luxury can have different meaning by dint of the way it will be consumed.

2.1.1. Psychology of luxury consumer

The luxury brands to maintain a true luxury image have started not only to invest in the quality of their products, but mainly focus on building a strong brand-customer relationship and create an added value around manufactured goods to meet the needs and desires of their customers. The experience and the feeling become main attributes of the luxury industry.

Kapferer and Bastien (2009, p.104) rightly pointed out that luxury consumer is not anymore the wealthiest one. They emphasized that luxury consumers divided into regular luxury purchasers and so-called "day trippers” or “excursionists”, largely buyers of accessories or extension products at accessible prices. Since the point when luxury has started to play a social function, people found a variety of reasons to reach for such products and services.

Vigneron and Johnson (2004) described five key luxury dimensions which stand for the motivation of assessing luxury goods. The first dimension is perceived conspicuousness
and refers to the individuals who are influenced by others and buy luxury in order to demonstrate their social status. The second dimension is *perceived uniqueness* which refers to the exclusivity and rarity of the product. The uniqueness and limited access appeal to those who look for improvement of their self-image and reflect their personal taste. The third dimension is *perceived extended self*, which assume that some consumers try to classify themselves in the relation to other groups. The measure here can be an evaluation of personal or other success or financial position. The next dimension is *perceived hedonism* and describes the best people who rely on their own personal opinion and buying luxury is a kind of award for them and has emotional value. The last dimension is *perceived quality* and represents consumers who perceive luxury brand with a great value and quality and superior characteristics above other brands. (Henriksen, 2009, pp.11-12)

Geert Hofstede (2007, p.16) looked at this issue from the other perspective. He believes that each human being carries a certain pattern of thinking, feeling and behavior. Patterns of thinking and behavior are developed partially by the environment in which we are living and are absorbed the most in the early childhood. Strictly speaking, the behavior of each person is determined by patterns programmed in our sub consciousness, mainly by the culture which we are descended from. Hofstede (2007) developed also five cultural dimensions, which in his theory influence behavior of people depending on what type of culture their live. Individualism is one of the dimensions presented by the scholar and looks at how much the culture accentuates the rights of individuals versus those of the groups (groups in the meaning of family, work environment etc). United States and most of the Western Europe in his mind are typical individualistic culture, whereas China, Japan, Korea are collectivist cultures with focus on a strong group mentality.

As theory indicates, the motivation of luxury consumption can rely on the culture context. The perception of luxury goods and the reasoning of purchasing such products might depend not only on the financial resources, but also on the level of familiarity and understanding of luxury in consumer’s country of origin.

**2.1.2. What does luxury mean to the Chinese?**

Last 20 years brought big changes in the distribution of wealth in the world. The Western middle class became affected by the economic crisis, rising prices and stagnancy of incomes and put on hold occasionally consumption of discretionary purchases, whereas this relation in the new emerging economies as China is moving in the opposite direction. Even if the Western population is still statistically richer, Chinese in contrast observe constant growth
of their salaries. Paradoxically, Western society has started to see themselves to be poor, while Chinese feel much more optimistic about their future. (Kapferer, Bastien, 2009, p.106) The positive economic forecasts and improvement of living conditions have begun a wave of high consumerism in China. Moreover, the luxury fever covered different social classes and reached even white-collar employees. Those days many women, especially those who work in the office, carry Louis Vuitton bag just to feel more cosmopolitan, even if it can cost them their monthly salaries. (Chevalier, Lu, 2012, p.12) Nonetheless, the pure meaning of luxury for Chinese “nouveau riche” has different connotation than for their Western friends.

Luxury has different associations in China, especially due to the inappropriate translation of the word “luxury” into Chinese. (Lu, 2008, p.19) The word “luxury” in Chinese consists of two characters ‘she chi’ which means extravagant and wasteful. Both words transfer rather negative cultural allusions. (Little, n.d.) The word extravagant has a different than for European, unconstructive meaning and indicates more the wasteful use of wealth and the over-pursuit of pleasure. (Lu, 2008, p.26) Above association is against the rules of old Chinese social morals of Confucianism, Taoism and Buddhism. These beliefs were telling that life should not have any showing off, arrogance and carelessness and should be lived in frugality, honor and humbleness. (Henriksen, 2009, p.13)

However, progressing westernization of China brought new values. Chinese citizens became more open for what is new and more liable for foreign influences. In a consequence, the perception of luxury has changed as well. In a study of Chinese elite’s attitude toward luxury goods, six attributes, which Chinese consumers sought in the luxury products, were specified: excellent quality, very high price, scarcity and uniqueness, aesthetic and emotional content, brand history and heritage and that such products are inessential and superfluous. In addition conspicuousness, display and “dream value” were taken under account in the Asian context. (Lu, 2008, p.20)

The excellent quality and durability factors are sought by China’s true luxury consumers, who appreciate beauty more than the ostentatious displays of wealth. Next, a very high price is considered as an excellence in the quality. On the other side, as Pierre Xiao Lu (2008) points out, the scarcity and uniqueness aspect is seen differently by Chinese consumers. The elite are convinced that if they can afford something, they should not be asked to wait for it, f.e.g. Hermes’s Birkin handbag. They still do not understand clearly the ambiguity between obtaining goods for money and obtaining piece of art. Pierre Xiao Lu (2008) explains further that from ancient times Chinese have shown an appreciation of fine arts and tried to integrate the aesthetic into their daily lives. Aesthetic and emotional context is
exactly connected with perceiving luxury as an art form. However, he indicates that Chinese brand have to learn how to achieve Western sophistication, whereas Western brand how to implement traditional Chinese way of living. The study shows also that Chinese consumers are extremely interested in the history and heritage of the luxury companies. They want to become familiar with the brand and build a relation and association to their personal experience. The fact that luxury products are not necessary to survive is well know also for China’s new wealthy. Yet, their function as reflection of social status of its proprietor is still highly dominant. (Lu, 2008, pp.21-23)

Conspicuous behavior is recorded in the history of Europe from the time of industrial revolution. Since that point the transformation from the low class to the new class had taken place and brought new opportunities and means for the development of consumer society. The new born “nouveau riche” were striving to be a part of higher-class. Everybody hoped to buy a piece of a great life, at the same showing your wealth became something normal. (Pomeranz, 2010, p.114) As Kapferer indicates “Since consumption has become an extension of the self (Belk, 1988), status loaded objects are essential artifacts for impression management. In addition they deliver intrinsic pleasure to the owner or user. Everyone can build his/her own prestige vis-à-vis his /her immediate social network by having the right objects, signaled by the right brands.” (Kapferer, n.d.) While such splendor calmed down in Europe, the effect of new wealth reached this time Asian countries.

China has a long and eventful history, but also went through wars, communism and other issues which affected enormously the development of the country. The Open Door Policy and fast industrialization brought economic growth and contributed to the inception of new social class. In Chinese-dominated societies as Hong Kong, Taiwan and Singapore the majority of people come initially from the working class and suffered poverty in their native country. The immense improvement of their financial situation and need of social recognition and respect engaged them into conspicuous consumption. The same situation can be observed in recent years in Mainland China. On top of that, dream value is a big part of Asian luxury consumption. Possessing such goods in some way help them to become a part of the lifestyle which this product represents. Buying luxury has a reference to satisfying personal and social aspirations. (Lu, 2008, pp.24-25)

2.2. In-between traditional and modern values

The basic principle of making business in the other country is adjusting the tactics to the foreign market policy. In order to understand prevailing trends, lifestyles and needs, the
deep insight into value system is the first step. It is worth to mention that China is still a socialist country and society is still controlled by the Chinese Communist Party and the central government. In 2005, Chinese government introduced the “socialist concept of honor and disgrace”, presenting a new model of merged traditional values with modern virtues. One from the eight honors and disgraces advocates “Know plain living and hard struggle; don’t indulge in luxuries and pleasures”. The luxury in China is still at some point associated with the extravagance and waste. In 2011, the Beijing government started to ban words linked to the luxury from all billboards. (Jing Daily, 2011) It has become at the same time an obstacle for many luxury brands, which core values can be sometimes interpreted in a wrong way. (Lu, 2008, pp.27-28) To find a compromise and an intelligent way of approaching Chinese market is to understand those values and work within the system.

Modern China is in the period of transition. Urban population in the country is facing now the mixture of the socialist values compiled by the central government and ideals offered by the international brands which want to sell the Western lifestyle. Pierre Xiao Lu (2008, p.37) called current Chinese value system a “melting-pot”, which combines the values of traditional Chinese culture, religions and philosophies and the influence of Western cultures, religions and standards of living. Understanding of the “melting-pot” can give explanation to the luxury consumption of Chinese elite. To develop this perspective both aspects will be discussed further in the following parts of the thesis.

2.2.1. Chinese traditional values

China is one of the oldest civilizations in the world. Its culture, religions and philosophies had been shaped up for thousands of years. The social morals had been transferred from generation to generation and had determined the sense of life for many people. China experienced four different social systems: the feudal system, the republic, the communist system and post-communist system, and all of them contributed to the social evolution of Chinese society. (Lu, 2008, p.37) Besides, spiritual life always played a significant role in their existence.

The Chinese social value system is based on Confucianism. Confucianism is a philosophical and ethical theory and a philosophical movement popularized in China, particularly since Han dynasty in XI-XII century. The basic ideas of Confucianism are humanism, harmony and cultivation of virtues and preservation of ethics. Confucius professed that social hierarchy is necessary to keep the harmony and stability and that everybody has a specific status in the society. Developing this idea further, one should oblige the status and his
relation to the other person. Confucianism imposes to live properly, obey the rules, and preserve the harmony of the group and group conformity. In consequence, it always puts the pressure on Chinese individuals who struggle to comply with others. (Gernet J., 1994, pp.85-93)

Some of the old values of Confucianism have lost their meaning due to the economic and social changes, but some of them remain and became moral pillars of Chinese society. Among the traditional values derived from Confucianism, that are still in force are: family, economy/frugality; modesty/humility; perseverance; face-saving; interdependence/collectivism and patriotism. Those virtues are strongly rooted in the mentality of Chinese and are highly influencing their consumption patterns. (Lu, 2008, p.48)

Family bonds are still identified as the main value for Chinese people. (Kardaszewicz, 2010) Historically family was regarded as the basic cell not only in the social terms, but also economically. (Zajdler, 2011, p.119) The family harmony is essential for maintaining social stability. It is appreciated to make sacrifices for the good of the family members or to support you family financially, just to get their sustenance, comfort and respect. Professional achievements and successes very often are seen as a pride and glory for whole family, not just the person who gained it. (Lu, 2008, p.49)

Secondly, collectivism has been identified as one of the fundamental principles in China. (Hofstede, 1994) Collectivism is defined as “any of several types of social organization in which the individual is seen as being subordinate to a social collectivity such as state, a nation, a race, or a social class. Collectivism may be contrasted with individualism, in which the rights and interests of the individual are emphasized” (Encyclopedia Britannica, 2012) or differently as “society in which people from birth onwards are integrated into strong cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioning loyalty” (Hofstede, 1994, p.260) Collectivism carries the idea that identity of single entities lies in all kind of relationships. Status and class is not treated as an individual achievement, but reflects the position of entire family, group etc. In China behavior of individuals should always be adjusted to the expectations of the group to keep the harmony in the social organism. The opinions of other and sense of belonging to the group became a crucial value for the Chinese society. (Lu, 2008, p.53) The hard work linked to the ability of cooperation is very often seen as an element of Chinese economic success. The strong collectivist orientation explains the diligence of the Chinese nations, where each member of the society has a duty to contribute to its good. (Zajdler, 2011, p.124)
The consumption habits in China are characterized more by the cultural collectivism than individualism (Zajdler, 2011, p.123-124). Pierre Xiao Lu (2008, p.6) notices that collectiveness and family value have a direct impact on luxury consumption. He implies that Asian luxury consumers pay more attention to the brands than to the products offered by these brands. Thereby, famous brands as Louis Vuitton, Rolex, Gucci, Dior etc will always get better recognition in the Asian countries. The collective “purchasing” explains why some of the brands and products, as for example Louis Vuitton handbag have a push effect among female office workers.

The frugality is another precious virtue cultivated in traditional Chinese culture. Frugality and simplicity were highly appreciated in everyday life and behavior, even rich people were expected to live modest and discreet and all kind of extravagance and lavishness were in a bad taste. The modesty and humility are next virtues derived from the Confucian doctrines. Modesty has a different connotation here than in Western countries. In this case modesty helps to obtain higher perspectives in life, social harmony and durability of the authorities. (Lu, 2008, p.50) Both of the aspects are principles of the business culture in China (Zajdler, 2011, p.206). Although frugality is the opposite of luxury consumption, Pierre Xiao Lu (2008, p.51) found the some of The Chinese prefer to consume luxury in a modest way using it very discreetly and keep it personal.

Perseverance is another value highly appreciated by Chinese. The relation to the luxury consumption can be read through excellent quality and durability which the luxury goods usually offer. Patriotism is also noted as one of the strongest values in the Chinese culture from the ancient times (Kardaszewicz, 2010). The state and government have always been a central point of interest for average citizen in China. Moreover, Confucianism philosophy has also a political dimension. Teaching of the rituals and cultivating them became the most effective way of ruling people and country. Participation in the rituals gives a sense of belonging to the state and satisfaction from having a specific place in the society. (Zajdler, 2011, p.181) The luxury consumption might be seen as a “ritual” for modern urban Chinese who purchase luxury to live up to the high expectations set by rapidly developing country.

Another important virtue worth to mention is a concept of saving-face. One of the basic Confucianism beliefs says that gaining and retaining respect of the others is the basic principal of decent life. One should not appear weak or look bad in the eyes of others. The concept somehow disregards individual needs, but revolves around how the individual is viewed by entourage. (Lu, 2008, p.52) On the other hand, saving-face is a mutual obligation.
No one should be disrespectful to the others or undermine the authority, especially in the business relations. The concept can be related to a large extent to the prevailing luxury fever. China for a very long time has been occupied and exploited by more powerful Western nations and ostentatious luxury shopping can be the way of showing their standing position in the society and status, so-called saving face. Saul Gitlin of Kang & Lee Advertising clarifies the argumentation “Because of China’s history of exploitation by foreign countries who colonized China or raided China for business purposes, particularly in the business sphere, Chinese do not want to be seen culturally as having been ‘had’ by Western businesspeople.” (…) “China must never go back to that inferior position during that dynastic and imperial period, when China was exploited by imperialist Western powers.” (The New York Times, 2010) Concluding, purchasing certain brands in Modern China can in some way “save face”, for example by demonstrating a good taste and class of the buyer.

2.2.2. Modern values in modern China

Since the late 1970s the new ideology has transformed China from the communist planned economy into a market-oriented economy. China’s openness to the outside world brought new advanced technologies and innovative ideas to the country, and thus fueled its rapid development. (Davis, 2000, p.1) All the changes contributed to the major improvement of life conditions, predominantly of urban population. The modern society opened their eyes to the future and implemented promptly the “new values” as modernity, success, wealth, social position, confidence and leadership. (Lu, 2008, p.55) In addition, the era of one-child policy resulted in creation of self-centric individuals.

Modernity for Chinese people is regarded as progress, science, adapting new technologies and skills, reconstructing cities and industrializing country. Within less than a decade people gained access to the mass media, new ways of communication, commercialization of the market and new types of leisure. (Davis, 2000, p.2) The cross-cultural studies showed also that modernization had the biggest impact on change in cultural beliefs. (McIntyre, 2003) Despite the fact that Chinese society has became advanced with know-how and trends, Asian modernity has still different context than Western equivalent, and traditional ideals are still highly valued. That is why, only the luxury brands who blend contemporary trends with the long-established values can achieve market leadership.

Furthermore, the need of success and achievement in Asian countries, as Pierre Xiao Lu (2008, p. 57) explains, is also different than in a Western understanding. Success is a very important objective for Chinese elite, whereas it is neither linked to the self-realization or self-
actualization. The satisfaction from achieving something comes from the respect and admiration of the members of the groups to which the person belongs. Based on Confucian beliefs success could only be achieved by the person with high competences and ethics. This one who managed to do that brings glory, life stability, prestige and honor to the entire family (Zajdler, 2011, p.186). The award for success for Chinese consumers is strictly socially directed and possessing luxury goods can be one of the ways to gain respect of the others.

The economic development in China brought also the big pressure of being rich. Although, Confucian philosophers decried desire of gaining profit, considering it as a source of social conflicts, average Chinese did not really follow this belief. The happiness was measured by the material wealth. In the days of imperial China rich families had been investing in the education of their sons and settling profitable marriages to get high social standing. (Glahn, 2000) As Pierre Xiao Lu (2008, p.58) indicates “The importance of gaining social recognition in a collective society has turned Asians into probably the most image-conscious consumers in the world. (…) earning a great deal of money and acquiring luxury goods (particularly expensive cars) are among the most important goals in life”. The huge disparity between rural and urban population in China intensified the race for wealth even more. The middle-class is the first for the pursuit of social position. Many of them to gain respect and pretend that they belong to the elites indulge themselves in the luxury consumption.

The improving socio-economic position of the dwellers has increased the self-confidence, in which China was lacking until this point. Hence, people became more willing to travel and experience other countries. The leadership value yet can be seen as a partial obstacle for the foreign luxury brands. Since the time of Mao’s rule Chinese people have been motivated to obtain a “common goal with a sense of unity”. They are pushed to try hard, overcome difficulties and enjoy the best products. (Lu, 2008, pp.59-61) Moreover, rapid economic development that allowed China to enter the international arena is progressing so fast that in a sense it gets out of control of the West. In the nearest years China might be the same important f.e.g for foreign policy of Western states, as when the cheap export from this country was for their economic policy. (Leonard, 2009) In a way belief in own abilities of Chinese may cause a desire to establish their own luxury brands.

The economic reform in China created a system in which both Western and Eastern values coexist. Some of the researchers called this effect a cultural pollution. The big influence of Western mass media and foreign capital resulted in creating new modern values in Chinese society: youth, individualism and personal freedom. The last decades gradually
strengthen the importance of personal freedom and individualism. In the apprehension of Hofstede, individualism is “the opposite of collectivism; together they form on of the dimensions of national cultures. Individualism stands for a society in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family only.” (Hofstede, 1994, p.261) Individualistic cultures are more concerned on achievements and individual success. The emphasis on “I” is really strong here. The urge for “I” mentality and personal freedom has been adapted quickly in China. Nevertheless, the strictly individualistic attitude is not seen in a bright light in the collective society. Therefore, the reflection of “me” has been mostly stated through clothing and other material objects. The success of male Chinese population is more likely demonstrated by displaying conspicuous objects. Interesting is the fact that Chinese luxury market is predominantly a male market and it might be directly related to the manifestation of social position and achievements. (Kapferer, n.d.)

The impact which implementation of modern values and increasing amounts of travels abroad, as well as bigger work and education flexibility has on Chinese value system might change the perception of the luxury in time.

2.3. Summary of theoretical framework

The theoretical framework has been described in detail to create a sound platform for further empirical studies. Also, it is meaningful to broaden the perspective and understanding of the stated problem. Having defined all the motives behind luxury consumption in China it is author’s belief that the empirical parts will be better outlined and interpreted. The theoretical background provides better explanation of the issue than author is able to accomplish within a stated deadline. Therefore, the conclusion can be made as follow.

The value system of today’s Mainland Chinese consumer has been affected by Confucianism philosophy, socialist system and Western influences. With the modernization of the country people have emerged from decades of global isolation, restrictions on personal freedom and lack of consumer choice to come into the era of the world’s fastest growing economy. (Cheskin, 2011) Hence, Chinese consumer noticed better opportunities and potential for increasing wealth. In times of search for affluence and status the luxury goods became the perfect communicator of improving living conditions. “Consequently, international luxury brands perfectly fulfilled the needs of Mainland Chinese consumers from all angles – cultural, social, and economic – attributing for a more modern, powerful, and self-confident approach to life.” (Lu, n.d.)
Two main assumptions have been made with regard to the presented theory. Firstly, that Chinese traditional value system is undergoing considerable changes due to the growing popularity of Western lifestyle. The need for personal freedom and individualism is dominant in modern Chinese society. Hence, luxury brands have to take a right approach to become successful in that market. In addition, the observation that conspicuous consumption of luxury can achieve a turning point, because of higher internationalization of the country, comes to mind spontaneously.
3. Methodological considerations

In this chapter the methodological approach will be discussed: the in-depth explanation of methodological course of action, literature and empirical data review, how methods and techniques are applied in the research, validity and reliability of the data gathered and methodological limitations.

3.1. Overall research strategy

The research strategy chosen for this Master thesis is based on the use of theoretical frameworks, as well as conducted quantitative study. However, the empirical evidence is also supported by the secondary sources. The first part of the thesis is based on relevant theories and studies of Chinese value system and consumer behavior towards luxury. In order to understand the concept of the luxury and prepare a background for further analysis of the problem works of many scholars have been used. Due to the fact that the author of the report has not been able to conduct any observations or face-to-face interviews in China personally, the chosen research methods had been guided by this objective.

The research approach had been changed due to many obstacles, whereas the primary source and inspiration for this study is an excellent research based book, “Elite China. Luxury consumer behavior in China” written by Prof. Dr. Pierre Xiao Lu, academic professor, luxury management researcher and consultant for many multinational luxury firms, such as Lacoste S.A., LVMH and PPR-Gucci. (Pierrexiaolu.com, 2012) Unfortunately, the live interview with Mr Lu could not take place because of the busy schedule. However, the information contained in his book has been extremely helpful in discovering the reasons behind the luxury consumption in China. This study refers also to other literature and research papers, but most of them included only the bare facts and numbers. Hence, to achieve assumed objective of this paper, in depth study of the “Elite China. Luxury consumer behavior in China” book was necessary. This book as one of the few touches the issue of Chinese value system and the sociological aspect influencing luxury consumption and thus it is a fundamental source for this paper.

To study consumer behavior in China the first step taken was to contact luxury brands, which are the most successful in China, to get access to the first-hand information. Once again, this objective was hard to achieve. Most luxury brands are known for their secretive
nature and lack of willingness of sharing the precious knowledge about the shopping behavior of their consumers. After receiving negative responses from the companies the author of this paper has decided to focus more on the answers gathered from actual Chinese luxury consumers. As a primary research method survey has been chosen. Prepared survey included 37 questions in which 5 of them were demographic data and was send out using the internet by different channels, such as Facebook, emails, forums for Chinese citizens, fashion bloggers, Lookbook.nu and recommendations of friends and professors from University of Boras. Unfortunately, many of the channels chosen to carry out the survey have been blocked in China and because of the lack of awareness about this fact the sufficient results could not be obtained in the stated deadline. This fact has changed the target group and led to carrying out the survey among Chinese population currently staying abroad. 15 answers have been received in total. For the same reason the author of this paper have decided to base this work also on the secondary research conducted by McKinsey & Company consulting agency which presents in detail statistics about luxury consumption in China. The results and analysis of the undertaken case study will be developed further in the 4th part of the thesis.

3.1.1. Literature studies

First of all, the author of this thesis has conducted in depth theoretical studies and gained a theoretical background to the dilemma discussed in this paper in order to identify and enable analysis of the problem’s all aspects. The literature that has been covered discusses subjects as luxury, luxury strategy, concept of luxury, psychology of luxury consumer, cultural studies, economy and most of all Chinese value system, facts about luxury consumption in China and perception of luxury. Literature about Chinese consumer behavior is mostly consulted in Pierre Xiao Lu publications since it has been challenging to find sufficient scientific information in this field. However, journal articles, research publications and statistics available online has been helpful in completing literature.

3.1.2. Quantitative primary data - survey questionnaire

The questionnaire has been prepared in order to describe and analyze the driving forces of luxury consumption in China. The structure of the questionnaire is based on 37 detailed questions, where 5 questions are considered as demographic data and rest is strictly related to the luxury consumer behavior and perception of luxury in the Chinese context. This study has been executed through in-depth analysis of responses, as well as author’s
assumptions drawn from the received answers. All respondents are of Chinese origin but currently living or studying outside of China.

3.1.3. Quantitative secondary data

Finally the whole issue has been supported by the secondary data obtained from the research conducted by the consulting agency McKinsey & Company with respect to the aim of the thesis. This has provided author of the paper in the further information about the topic and more specific data regarding luxury consumption in China. The statistics considered have been of great importance as they cover big number of population and at the same time have high level of validity and reliability.

3.2. How methods are applied in the research- quantitative study

Since the research questions in this essay are complex and broad it has been essential to gather a proper data for further analysis. It was rather unclear how the research questions would be received and how willing the respondents would be to share their knowledge. Hence, the literature study has been pursued in parallel with empirical study; it guides the thinking in the analysis part.

The project has mostly used quantitative methods to reach its results and conclusions. “Quantitative research uses numbers and statistical methods. It tends to be based on numerical measurements of specific aspects of phenomena; it abstracts from particular instances to seek general description or to test casual hypotheses; it seeks measurements and analyses that are easily replicable by other researchers.” (King, Keohane, & Verba, 1994, pp.3-4) Quantitative methodologies are based on measures and amounts. This type of study seeks explanations and predictions that can be generalized to other persons and places. The target of a quantitative research is a specified group or collectivity. (Murray, 2003) Theories used in quantitative research “provide a proposed explanation for the relationship among variables being tested by the investigator.” (Creswell, 2003, p.<xxiv>) The particular methods applied in a quantitative study include “identifying a sample and population, specifying the strategy of inquiry, collecting and analyzing data, presenting the results, making an interpretation, and writing the research in a manner consistent with a survey or experimental study”. (Creswell, 2003, p. <xxiv>)
3.2.1. Research methods-survey

In order to achieve the outlined aim of the study, the necessary step is selection of appropriate research methods, techniques and research tools. This is because they determine the proper conduct of the research, and thus allow obtaining answers to the stated research questions. Janusz Sztumski (2005, p.68) describes method as “system of assumptions and rules allowing for such arrangement of practical or theoretical action in order to achieve the aim to which person is consciously heading to”. In this paper method of survey has been used. Surveys are among the most popular methods used in social sciences. They are used when the researcher wants to obtain information about large population, while directing questions to the small, selected group of people (sample). However, surveys have their weak and strong sides. Primarily, they are useful in describing the features of large population and allow asking many questions about the specific topic. Among the weaknesses standardization can be distinguished at the first place. It can lead to too superficial evaluation of the complex problem and increase the possibility of forming artifacts in the study. (Apanowicz, 2003, p.110)

3.2.1. Research techniques-questionnaire

In addition to the appropriate method it is important to choose a proper research technique. As research technique we understand certain actions taken in the course of study to answer the research problem. Speaking about research techniques Sztumski (2005, p.82) has in mind “(...) a set of actions associated with different ways of preparing and carrying out social research.” So the technique is called a concrete way of collecting research material to investigate particular phenomenon. In order to gather relevant research material the author decided to apply the technique of questionnaire.

A questionnaire can be defined as “a group or sequence of questions designed to elicit information upon a subject, or sequence of subjects, from an informant”. (Stats OECD, 2012)

In market research questionnaire can have two forms: questionnaire intended for self-completion by participants or questionnaire intended to be administered by the interviewer, either face-to-face or by phone conversation. (Brace, 2008) For the purpose of this essay first option has been chosen, whereas as a tool for this study internet has been determined. As follows, this study has been conducted with a use of online questionnaire distributed by different channels, as Facebook message system, emails, Chinese forums, fashion blogs and fashion platforms as Lookbook.nu. Online questionnaires or differently “Web-based surveys
are self-administered data-collections instruments that participants complete while using the World Wide Web”. (Kovalchick, 2004, p.644)

The online questionnaire is an easy and free way of gathering information. On top of that, it enables to reach respondents from different parts of the globe. Online questionnaire is especially advantageous in case of asking more personal questions, as people are more likely to give honest answers than for example in case of face-to-face interview. Self-completion questionnaire is really convenient for the respondent as he can complete it whenever he wants. On the other hand, respondent can get tired of answering questions or find the questionnaire not relevant to him or boring. Moreover, there is no one present to help respondent to understand some questions, which possibly have not been specified as it should be and respondent in this case can disregard such questions. Partially answered questionnaire can cause a problem of missing data and dampen reliability of the study. With online questionnaire you can never be sure who really answers the questions and mostly if the person who received questionnaire will answer questions at all. Young people are recognized among the most frequent users of the internet, whereas questionnaires which are aimed also for older generation can be affected by this factor. One of the most damaging disadvantages is that survey’s questionnaires usually result in lower response rates than interview base studies. Consequently, the number of refusals can have a significant effect on the findings of the study. (Bryman, Bell, 2007, p.243)

While gathering data in the most relevant and reliable way is the basis of a good research project, two concepts of validity and reliability will be discussed as follows.

3.3. Validity

Conclusions drawn from a conducted survey are acceptable to the extent to which they are determined valid. According to Joppe (2000) “Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. (...) Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others”. Validity can be established in several ways, but in a nutshell it checks “whether or not an indicator that is devised to gauge a concept really measures that concept”. (Bryman, Bell, 2007, p.165) In accordance with this definition author of the paper tried to gather all the important information and supportive data about the subject to be able to come to the right conclusion.
3.4. Reliability

Joppe (2000) defines reliability as “The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is consider reliable”. Generally speaking, reliability shows whether other researchers could obtain the same results using the same research methodology, or if the research was repeated on another selection of data, would it result in the same outcome. Research reliability determines if the research results could be applied to a wider group than those who took part in a study and if they can be replicated with a similar results. (KnowThis, 2012) However, accomplishing high reliability very much depends on the perception of the stated problem and point of view of the researcher. In this paper, conclusions are drawn partially from the assumptions of its author, thus some ambiguities might occur.

3.5. Methodological limitations

Due to the limitations of sources, the analysis can only focus on the available resources, which means that the results may only apply to some part of Chinese population. The empirical evidence has been limited to the Chinese consumers staying currently abroad. All the data gathered about luxury consumption inside China comes from research done by consulting agencies or other scholars. The paper could gain on reliability if the survey were carried out also in China. The comparison between answers obtained from Chinese respondents staying in and outside China could be really interesting. However, it was almost impossible to approach Chinese consumers in such a short time and avoid ban on some of the programs, as Google documents survey system which has been used. The study is also limited to non-regular luxury consumers. The majority of the respondents are students and some of them have never purchased luxury product, but expressed a general opinion about the topic. The research could be much more reliable and valid in time whether all respondents were actual luxury consumers, not only aspiring consumers. Make oneself clear, general conclusion about entire Chinese population cannot be drawn and the study presents only perception of some Chinese.
4. Empirical study

In this empirical study the results from the conducted survey will be presented together with the data gathered from the research review concerning similar issue prepared by McKinsey & Company consulting firm. Both of the studies will be analyzed separately in two different parts. The reasons for investigating them simultaneously is that both of them are lacking in the significant for this paper information or adequate number of responses and only examination of both in parallel could give the author satisfactory results.

4.1. Empirical part 1

The first empirical part aims at presenting recent findings conducted by McKinsey consulting group concerning luxury consumption in China. The examination of the results collected by McKinsey group will show a comprehensive picture of Chinese luxury attitude. The research conducted in the spring of 2010 contained over 1,500 luxury consumers from 17 main Chinese cities and therefore it is a reliable source for this Master thesis. The results described in this part will be compared with the findings presented in the second part of the empirical analysis.

4.1.1. McKinsey & Company research

McKinsey & Company is a renowned global consulting firm. It is known for advising world’s leading businesses, governments and institutions. The skills and capabilities of McKinsey & Company allow them to address problems that not many can answer. The scope and scale of the company make it a highly reliable source. (McKinsey & Company, 2012) Hence, the extensive survey carried out by the agency served as an empirical evidence for the ongoing study.

The survey called “Understanding China’s growing love for luxury” has been carried out by Yuval Atsmon, Vinay Dixit, Glenn Leibowitz, and Cathy Wu on behalf of McKinsey & Company firm and aims to answer four main questions:

1. Who are China’s luxury consumers?
2. What are they looking for?
3. How do they make decisions?
4. And how do they differ from their counterparts elsewhere?
To maintain the accuracy of the study, only vital to the aim of this paper results will be analyzed.

4.1.2. Key findings in relevance to the study

Luxury market has never accomplished such a fast growth in such a short time as it has happened in China. McKinsey group suggest that by 2015 China will account for over 20% of the global luxury market share, surpassing even Japan. (McKinsey, 2011)

Figure 1

Findings show that penchant for luxury does not embrace only the wealthiest one and it has a trickle-down effect. Only at the moment upper-middle class accounts for about 12% of the market, whereas projections indicate that number can grow to 22% by 2015. Moreover, most of the luxury consumers in China are relatively young and facing luxury is a pretty new experience for them. 73% of luxury consumers are not older than 45 years old, whereas 45% are under 35. This generation has never lived through economic recession and is really optimistic about the future. More than 50% claimed that they purchase luxury goods: “to reward themselves for hard work and success”. (McKinsey, 2011, p.12) The big percentage of Chinese consumers buys luxury just for personal indulgence, but also to look for a new experience.
With opening of the borders, China opened up not only economically, but also socially. Availability of the internet exploded in the curiosity of the world and popularity of overseas travels. The exposure to the luxury has never been as strong as since that point. According to the survey Chinese consumers can name twice as much luxury brands as two years ago. Moreover, most of them are aware now that luxury goods are more expensive in Mainland China than for example in Hong Kong. In 2008, for instance, only two out of five knew that. Chinese consumer is now a savvy consumer. He knows the relationship between quality and price.
Chinese abandoned their love to counterfeited products and named internationally well-known brand and superior craftsmanship as the most important reasons to buy luxury. The study showed also that Chinese consumers are not such a conspicuous type as they are portrayed. 41% admitted that showing off the luxury is of bad taste and they prefer less showy fashion. One even mentioned that she loves Hermes scarves, but she would not wear it to work to not to be seen as attempting to outshine her boss. McKinsey projects also that rapid growth of urbanization and wealth will create new luxury hot spots and emerge in new consumers. (McKinsey, 2011)

Figure 4

The study shows a new face of Chinese luxury consumer. He is depicted as a modern, savvy and aware of his needs. However, report is missing a very important aspect. There is not sufficient to focus only on a present and do not look back into the past at all. The traditional Chinese upbringing is still rooted in the Chinese mentality. China for sure is in transition and meaning of luxury is constantly changing with each generation. Nevertheless, the specificity of Asian culture should be an unchangeable factor for consideration. On the other hand, McKinsey research pointed out a very crucial thing and confirmed at the same time earlier assumptions. Chinese luxury consumers are more open but more knowledgeable at the same time. There is less flash and more understanding in the Chinese culture. The luxury splurge is projected to grow but the face of luxury consumption can change rapidly too. This point will be discussed further basing on the responses from conducted questionnaire.
4.2. Empirical analysis part 2

The second part of the empirical analysis aims at responding stated research questions. The part is based on the answers received from conducted questionnaire. The study measures mostly answers collected from Chinese respondents currently working or studying abroad. The amount of responses is not satisfactory, yet obtained outcome resulted in a different interesting perspective than initially stated. The prepared questionnaire has been really detailed and aspired to collect as much information as possible. The extensive structure of questions allows drawing proposed conclusion even from such a small number of responses. All the implications made are only assumptions of the author of the paper and have no intentions to judge the consumption habits in China. The questions that were asked in the survey can be found in the Appendix 1.

4.2.1. Key findings questionnaire

The block of Google documents survey system in China resulted in the small number of answers which could only be collected from Chinese staying in Europe. Yet, it has helped to change the thinking and initial assumptions in the process of writing this research paper. Each question has its purpose in order to analyze. Some of the questions embrace issues related to the consumption of luxury but are not crucial for the aim of the thesis. They have been asked only to give the author general knowledge about the subject and help in further analysis of the stated problem. In the following empirical part results from the conducted questionnaire are presented.

The questionnaire has been answered by 15 respondents, where 11 of them were female and 12 of them were in the age gap 18-25, 2 in the age gap 26-30 and 1 in the age between 31-40. 7 of them are on a Master level, 6 have a Bachelor degree, 1 has primary school education and 1 has a Master degree obtained abroad. 10 out of 15 respondents are student, two hold managerial position, 2 works in the office and 1 stated his occupation as other than listed in the question.

Figure 5
First 9 questions has been related to the actual luxury consumption, where first 6 asked general questions as “How often do you buy luxury products?”, “What type of luxury products do you buy?”, “Preferred channels to buy luxury?”, and other 4 aimed to look at it from more behavioral perspective. According to the answers 67% of respondents shop luxury abroad and 47% suggest their choice by opinion of others. All of them clearly stated that advertisements influence their choice.

Figure 6

The quality and value of the product is the most important factor standing behind the motivation of purchasing luxury goods with 100% agreement. The second most important is to reflect good taste and fashion consciousness, followed by rewarding myself and to stand out and be fashionable. On the next position can be found to treat myself and to reflect my personality. While only 2 person associate representing social status and wealth with luxury consumption.

Figure 7
The other questions intended to find out whether the respondents travel abroad and whether travelling has changed their perception of luxury goods. 87% (13 people) said that overseas travel might have influenced the way they perceive luxury. Furthermore, 73% consider foreign luxury products of better quality than local one. 93% of surveyed confirmed that people in their surrounding buy luxury goods.

Figure 8

![Pie chart showing 87% (13 people) said that overseas travel might have influenced the way they perceive luxury.](image)

Chinese consumers remain to be influenced by members of their group even in case of luxury consumption.

Figure 9

![Pie chart showing responses to whether wearing luxury products can help gain people’s approval.](image)

Further respondents have been presented to the imaginary situation, in which they are working in the office, where most of their colleagues wear Louis Vuitton handbag to work. They were asked whether they would buy the same bag to right fit it or some totally different. 80% of them claimed that they would prefer to get something which nobody has to differentiate from others. 40% have no opinion whether wearing luxury goods can help them to gain people’s approval, whereas 33% said that it can help. Wearing branded clothes for important meeting is significant for 53% of respondents and 47% stated that wearing expensive outfit can gain the respect of their colleagues at work.
10 out of 15 respondents said that they have never bought a counterfeited product and 7 of them admitted that would be ashamed to buy fake products.

When asking about visibility of the brand logo on the product 53% said that it does not matter for them whether the logo is visible if the quality is good, whereas 47% want brand logo to be visible. According to the respondents Louis Vuitton continues to remain a favorite brand of Chinese, followed by Gucci, Dior and Chanel. The most desirable brand mentioned is Hermes. 93% of respondents attach an importance to the country of origin of the product and 73% pay attention to the communication of brand values as heritage and craft.
Last 4 questions were asked in relation to the Chinese culture and impact of luxury consumption on traditional values. When asking about effect of growing luxury fever on Chinese value-system 40% responded that they find both pluses and minuses, whereas 33% like that China is more international and open. While 60% like introducing Western brands and lifestyle to China, but they would prefer to keep their values and cultural differences as they are.

Figure 13

The majority of respondents (80%) agreed that luxury consumption in China will progress due to the fast development of the country.

Figure 14

The results of the questionnaire demonstrate a high rate of individualistic attitude towards fashion. Most of the respondents gave answers indicating the need of personal freedom and independence. Yet luxury consumer behavior is still largely based on collective values.
5. Analysis of empirical study

In this chapter an analysis of the empirical study will be presented together with the theoretical points of departure. The analysis is based on the previous choices concerning methodology and is examined in accordance with the stated problem and the purpose of the thesis. Furthermore, it aims to answer assumed research questions.

5.1. The collective thinking

While it may be true that the Chinese as their Asian friends love luxury brands, it is a high exaggeration that all of Chinese consumers show off with their wealth. As Pierre Xiao Lu (2008, pp.69-70) emphasizes in his book “Conspicuousness is not the only dimension to examine if we are to understand Chinese luxury consumers, their consumption behaviors are not simply attempts to buy class and status, as the media would often have us believe.”

The article published by “The Economist” in June 2004 has an extreme view on the issue “In China, attitudes to luxury have changed dramatically from just a few years ago, when any form of ostentation was frowned upon. Today’s Chinese, above all the young, love to flaunt their status. Claire Kent, an analyst at Morgan Stanley, says that, whereas people in the West are buying more discreetly branded luxury goods identifiable only by those “in the know”, the Chinese favor prominent logos that shout, “Look, I'm rich.”” (The Economist, 2004) It is another mistaken generalization of Chinese society which did not take into account social stratification. The studies conducted by McKinsey agency and author of the thesis proved that showing status and wealth is the least important for respondents when asking about motivation of luxury consumption. For majority wearing nice clothes is essential when having an important meeting, but for some expensive clothing is not necessarily an indicator of social approval. Considering the fact that “The Economist” article has been written eight years ago it can be assumed that Chinese showy consumption takes on a new light. Chinese market is growing in sophistication. Connoisseurship need and interest in fine wine, fine art, jewelry and antiques raised in past years. (KPMG study, 2011, p.5) The understanding of consumption is more mature. Chinese start to look for quality and craft in the products. 73% of surveyed pay attention to the communication of brand values as heritage and tradition.

The questionnaire show further that old Chinese concept of face classified into two types: mian-zi "a reputation achieved through getting on in life, through success and
ostentation” and lian "person's basic moral worth life" (China-Window, 2011) is of great importance for majority of Chinese, who gave the answer. “Face” is central in interpersonal relations among Chinese. “Lian” represents a confidence of society in the integrity and common morals. Loss of “lian” makes it impossible to function within the society. The personal achievements cannot be demonstrated ostentatiously, because the balance between “lian” and “mian-zi” could be disturbed. This relation can somehow explain why so many Chinese buy similar luxury products. They want to display prestige, but at the same time they tend to keep the integrity within the community. McKinsey research gave an example of office woman who is afraid to wear to work her Hermes scarf to not to outshine her boss. This is clear evidence that traditional concept of saving-face still leads life of many Chinese. The lady wants to save her face by not being disrespectful to her boss. At the same time she saves the face of her boss by not undermining his position. Hofstede (2007, p.68) explains this phenomenon with the concept of power distance. In the countries where power distance index is high, superior and subordinate by design consider themselves to be unequal. The hierarchy is based on the undeniable conviction of these inequalities. The superior is always an authority.

Furthermore, McKinsey study and questionnaire responses support findings discovered by Pierre Xiao Lu (2004, p.79) about dream value and brand awareness. The dream value of the luxury product has nothing in common with trying to be associated with the elites. It is the ability of rewarding yourself or fulfilling personal dreams. The sporadic luxury purchase always takes place for a particular reason. 36% of the respondents buy luxury for some special occasion. It is a gift for yourself which carries a sentimental value. The answers from questionnaire proved also that Chinese are highly influenced by advertisement and opinion of others. The strong brand awareness of the product is the most important element for some luxury consumers. (Lu, 2004, p.76) In this case brands as Louis Vuitton, named the most popular in China by respondents, which has a high recognition among Chinese, are the most admired. The brand is still more powerful than the product itself. That is why brands with low brand identity struggle to survive in the Chinese market. People are not keen to spend large sums of money for unknown. They are not willing to risk and prefer to buy tried and true product. Hofstede (2007, p.194) call this an uncertainty avoidance. Countries with strong uncertainty avoidance take all the new products in stride. Comments and recommendations of friends and family play an important role in the decisive process. Almost half of the respondents admitted in the questionnaire that possessing luxury by their
friends might affect their choice of buying luxury too. The other cultural value of trust can be ascribed to this phenomenon.

Chinese are characterized by strong relationship to the logo of the brand. 47% of surveyed by the author of the thesis said, that they prefer luxury goods to be visible, whereas for 53% logo of the brand does not have to be visible on the product if the quality is good. Kapferer and Bastien (2009, p.109) say that logo is a “semiotic version of etiquette”. The way it is manifested depends on the individual ethic. Article published by Forbes (2010) says that Chinese are still opposed discreet luxury. It further implicates that the most popular items among Chinese shoppers are those ones who have a prominent logo. Nevertheless, the explanation can lie both in the lack of complete understanding of function of luxury, as well as strong position of logo-driven brands, as Louis Vuitton or Gucci.

Belk (1988) suggests that possessions reflect the identity of the possessor of the goods, at the same time possessions contribute to the image of the owner. The possessions carry a meaning invested in them by possessor. In the Chinese context wearing luxury goods give an added value to their possessor. The questionnaire indicates that majority of Chinese is ashamed to buy counterfeited goods, whereas Chinese market is flooded by fake Louis Vuitton handbags or other designers’ products. In other words, it is not about a fear of being accused of wearing counterfeited clothing and pretending to belong to the elites, but it is more a threat of losing social respect, which is of high significance in the Chinese culture.

5.2. The new generation shaped by Western influences

The Western influences have been undoubtedly a cause of increasing need of individualism and personal freedom. In fact, West with its lack of strict restrictions, liberty and opportunities is seen as more attractive than home country by many young Chinese. (Lu, 2004, p.86) This encouraged them to travel or study abroad to gain autonomy and life experience. Many of Chinese consumers associate certain countries with particular product, as for example Switzerland with watches and France with fashion, perfumes and cosmetics. (KPMG report, 2011) The strong association with European brand is proved by 73% of respondents, who consider them better than domestic one. Moreover, 93% of questionnaire’s respondents admitted that they attach an importance to the product’s country of origin.

Solomon et el (2006, p.208) portray individualism in Western societies with the emphasis on the unique nature of the self. Each individual in this approach is separated from the group and has its own unique features. The self in Eastern culture is characterized in turn as “an interdependent self where one’s identity is largely defined by the relationship one has
with others” In China the individualistic attitude is demonstrated more in financial independence and freedom of clothing. In the collectivist society clothes became somehow a way of showing liberty and reflecting personality. 73% of questionnaire’s respondents claimed that they buy luxury to manifest their good taste and fashion consciousness. On top of that, 55% admitted that they do that to stand out and be fashionable. Purchasing luxury as Belk (1988) suggests can be an extension of the self for many Chinese who are still under pressure of matching to the rest of the society.

Geert Hofstede (2007, p.121) implicates that in the majority of modern states there are only two subcultures: rural and urban. For both of the types modernization is connected with the increase of individualism. The statement tallies with answers on the question, in which Chinese “emigrants” where asked whether they would buy Louis Vuitton bag, if everybody else in their work place had it. Surprisingly, the 80% of them prefer to wear something which nobody in their work environment has. It can be assumed that respondents might be influenced by the Western tendency towards self-creation and personal autonomy.

Luxury market in China as McKinsey study says is a young market. Most of the customers are less than 45 years old, still eager to find a new experience. Luxury is somehow a way of discovering new world and certain standard of life. Young Chinese above all educate themselves. They read fashion magazines, blogs, attend fashion shows and become aware of the difference between price and quality. They are very savvy consumers now. Their knowledge is far bigger than in time when access to the outside world was forbidden. The internet became a primary source of collecting information about luxury. (KPMG report, 2011) McKinsey firm pointed out in their research that most of the Chinese increase their knowledge about luxury products mainly on the internet. Moreover, 47% of questionnaire respondents also claimed that they search for luxury brands on the internet at least once per month, whereas 27% do it even more than once a week.

Many of urban Chinese have an overseas experience, whether in studies, work or just vacations. Lu (2008, p.82) explains that experience of luxury consumption abroad has a profound influence on lifestyle and consumption choices. Western brands are now more accepted in the domestic market. This too was revealed in the response to a question on whether travelling abroad has changed the perception of luxury goods. 87% confided that indeed it has. At the end questionnaire respondents were asked if they are pro or against introducing Western brands and lifestyle to the Chinese culture. 60% of them are happy that China became more international and open to foreign influences, but they would prefer to keep their values and differences as they are. This interesting point can be supported by
“Onion diagram” of cultural manifestations (Appendix 2) created by Geert Hofstede. Hofstede (2007, p.25) reasoned that technology and its products do not cause any fundamental revolutions in the society. The cultural changes take place the fastest in the outer layer called “practices”. Practices are the most visible from the outside part of the culture. New practices can be learned throughout life, but the changes in the inner cultural values layer occur slowly. It means that even large internationalization of young Chinese cannot change their value system, which has been adapted in the early childhood. The basic principles in the particular society show a unique stability despite of ongoing changes, especially in the collective communities.

The Society for Personality Research from Taiwan (2008) developed a bicultural self theory which applies to the Chinese society. Chinese social orientation is derived from “traditional conceptualization of the self, whereas the individual orientation is brought in with modern Western influences.” The bicultural self model has been found to explain basic psychological processes as motivation, cognition and emotion. Referring to the answers collected from the questionnaire and survey conducted by McKinsey & Company both self systems should be taken under consideration to represent modern Chinese self. There is sound evidence presented in this thesis “that social orientation coexists with individual orientation” in case of luxury consumer behavior.
6. Conclusion

In this chapter findings from the analysis will be discussed and summarized.

The purpose of this thesis was to study, describe and analyze the luxury consumption in China. The author was hoping to find out whether traditional and modern values can explain the nature of luxury consumption in China. It was her intention to examine Chinese value system and cultural differences in order to understand the motivation behind luxury fever. In addition, the research has been focused also on clarifying whether the perception of luxury goods can be explained with the internationalization of Chinese population and Western influences.

The research questions that had been asked were:

How traditional and modern values explain the nature of Chinese luxury consumption?

Is the perception of luxury being explained with the internationalization of Chinese population?

The scale on which luxury is consumed in China has been increasing at an alarming rate. However, luxury consumption is not just a need of buying new items but have more complex explanation in the Chinese context. The results of this research proved that purchasing luxury by Chinese carries a social and cultural function.

In order to understand the nature of Chinese luxury consumption the remarks made by Hofstede can play a central role. Hofstede (2007) claims that modernization of the country increases a need of individualism. A core assumption of this paper says that the economic development of China has an immense influence on consumer behavior and affects the values which were present in the society from the ancient times. China’s economic development pressures its citizens to fight for wealth, success and achievements. The strong influence of Western ideals and brands awaken the need of personal freedom and individualism. The need of social recognition has been bought by material objects. Luxury sold more modern, powerful, and self-confident approach to life (Lu, n.d.). The luxury goods have become the
way of gaining freedom and self-expression in the collective society. The realization of the self has been strongly emphasized for the Chinese who have an overseas experience, both in study or work.

However, Western influences cannot alone explain the luxury obsession in China. Despite the fast modernization of the country, the traditional values derived mostly from the Confucianism philosophy still exist in the life of Chinese and are applied when it comes to the luxury consumption. Collectivism still plays a main role and guides the way luxury is consumed. Chinese seek for a self-expression but within a collective context. The conformity to the group is crucial for many Chinese that is why they prefer to buy trust and check products. They even very often buy the same products to keep the integrity within the community and save face. Chinese still feel oblige to live up to the expectations of their group and engaging in the luxury consumption can help them to gain respect of the others, so called saving face. By purchasing luxury they quest for recognition, but at the same time expose it in a humble way to not to be disrespectful to the other members of in-groups. Showing prestige is important especially in the business sphere. The material objects can in some way demonstrate that China and Chinese citizens are not anymore possessed by superior countries.

The existence of traditional and modern values in the one single society can be seen as apparent contradiction. The melting pot is undeniably difficult to understand. The primary and secondary sources gathered in this research paper have shown that both of them are not a contradiction but cooperate with each other. Both modern and traditional values carry a quest for social recognition and achieving position in the society. Luxury objects became attributes and extension of the self for many Chinese who have to live within the system.

The findings of this thesis made the author to think whether the perception of luxury might be changed in time. It was difficult to understand if the need of individual fulfillment can be stronger than traditional upbringing. To a certain extent theory created by Geert Hofstede (2007) brings an explanation for this ambiguous issue. The “Cultural onion diagram” illustrates that all what was meant by Western influences or internationalization in this paper, called as practices by Hofstede, has no bigger impact on the value system which was programmed in the mind of young Chinese. The practices are always the most visible outside the culture. The core values derived from the particular culture were and will always be guiding subconsciously our choices, even those connected with consumption. The only way to understand the bicultural nature of luxury consumption in China is to let all “the different elements “melting together” into a harmonious whole with a common culture.” (About.com, 2012)
7. Final reflections

In this final section author’s own reflections on the thesis process will be presented. The used sources will be reviewed to show author understanding of the thesis reliability. To conclude suggestions for further research will be given.

7.1. Reflections on the thesis

The topic of this thesis has been chosen due to the author’s interest in the Chinese society, luxury and consumer behavior with the purpose of giving more knowledge and familiarity with luxury consumption in China. Hence, the research gave the author better understanding of Chinese cultural differences and psychology of Asian consumer.

The stated purpose of the research has been fulfilled, since enough evidence to prove that existence of traditional and modern values in the Chinese society has a primary influence on their spending habits, have been gathered. It was very interesting to experience travel through Chinese history, religions, beliefs and customs. The author has gained a large understanding of Chinese value system and how the impact of Western influences might perturb traditional beliefs. Therefore, it was much easier to realize why so many researchers failed to explain the reason of the huge popularity of luxury among Chinese. The results found can be true in the majority for Mainland Chinese, as study is supported by secondary quantitative research. The author strongly believes that the answers might be different if they were answered by older age group who are regular luxury consumers. The author changed his view on conspicuousness of the luxury consumption in China in the process of gathering useful theoretical and practical materials.

7.2. Critique of investigation

Although, the theoretical framework consumed a big amount of time to be finished, it could be further developed with other relevant theories and examples. However, this is a time-related issue. In addition, during entire process of writing the author of the paper stayed abroad where resources have been really limited. The sources used are academically renowned and include very good theories related to the study. All of them contributed in different ways to the final content of the theoretical framework. Unfortunately, not many of them could clearly explain the relation between Chinese value system and luxury...
consumption. Hence, the book written by Pierre Xiao Lu has been used so often. The thesis could gain on reliability if more literature from a similar field has been citied. Yet, it was almost impossible to get any of such from the public libraries.

The respondents have been searched through different channels in order to achieve the greatest number of responses; therefore the author had no direct influence who will answer the questionnaire. Since the time for the study was limited the intended number of answers could not be reached. If the author had had more time, perhaps some other way of reaching Chinese luxury consumers could have been found. However, it is not sure how willing the respondents would be to answer the questionnaire. The questionnaire could be also constructed in a different manner to strictly relate the questions to the stated problem without asking general questions. On the other hand, detailed questionnaire built a sound background for further research.

7.3. Suggestions for future research

Proposal for further studies could be to extend the number of respondents and carry out the same questionnaire both with Mainland Chinese and those who currently study or work in Europe, to see if there are any significant differences in attitudes towards luxury. One could make a case study on a certain group of Chinese luxury consumers in order to receive concrete inside view. An additional suggestion is to select respondents who are regular luxury consumer in order to get a clearer picture of their motivation. The study could also be carried out among two different age groups to investigate whether traditional or modern values have bigger influence on their spending habits. The in-depth interview with Chinese from two different generations could also be an excellent tool to examine what meaning consuming luxury has for them. For example whether it fulfills their social need or has other dimension.
8. References

List of references that have been used presented in alphabetical order.


McIntyre B.T., Zhang W., 2003. *Western mass media exposure and Chinese cultural values: The case of Hong Kong*; Hong Kong: School of Journalism and Communication. The Chinese University of Hong Kong.


Appendixes

Appendix 1: Questionnaire

An analysis of luxury consumption in China

Data

Sex *  ☐ male  ☐ female

Age *  ☐ 18-25  ☐ 26-30  ☐ 31-40  ☐ 41 and more

Place of living *  ☐ Hong Kong  ☐ Beijing region  ☐ Shanghai region  ☐ Guangzhou region  ☐ Chengdu region  ☐ other

Education *  ☐ secondary school level  ☐ Bachelor/ Engineering degree  ☐ Master degree  ☐ Master degree obtained outside of China  ☐ other

Occupation *  ☐ office work  ☐ blue collar worker  ☐ managerial position  ☐ own business  ☐ fashion  ☐ student  ☐ other

Luxury consumption & perception of luxury

1. How would you define luxury?

2. How often do you buy luxury products?

☐ Each month  ☐ Once in a quarter  ☐ Several times per year  ☐ One in couple of years  ☐ I do not buy (go to the question 11)

3. What type of luxury product do you buy/ would buy the most often?

☐ Clothes from prêt-a-porter collections  ☐ Haute-couture for special occasion

☐ Jewelry and watches  ☐ Accessories like handbags, belts, gloves, scarves etc

☐ Perfumes, cosmetics

4. Preferred channel to buy luxury?

☐ Brand store  ☐ Concept store/ retail store with mix of luxury products  ☐ Online
5. To what extent are you interested in purchasing luxury goods on the internet?

- [ ] I am very interested; it makes whole purchase process more convenient
- [ ] I buy only products which I have tested before within a lower price range, as cosmetics, perfumes
- [ ] I do from time to time
- [ ] I do not buy luxury online. I think it takes away all the feeling which shopping in the luxury store gives

6. Do/ would you appreciate the personalized service and exclusivity feeling when shopping in the luxury stores?

- [ ] Yes  
- [ ] No

7. Where do you usually shop when buying upscale goods?

- [ ] Abroad  
- [ ] Inside China

8. Do you suggest your choice by opinion of others?

- [ ] Yes  
- [ ] No

9. Do advertisements and commercials influence your choice?

- [ ] Yes  
- [ ] No

10. What is behind your motivation of luxury consumption? Multiple choice, tick the boxes with answers the closest to your motivation

- [ ] to reward myself  
- [ ] to treat myself, pamper myself  
- [ ] I buy it for some important occasion
- [ ] to enjoy the high life  
- [ ] to represent social status and wealth  
- [ ] to reflect good taste and fashion consciousness
- [ ] to enjoy the ownership of luxury goods  
- [ ] to get the feeling of exclusivity
- [ ] quality and value of the product  
- [ ] to stand out and be fashionable  
- [ ] to reflect my personality
11. Do you read fashion magazines/blogs/watch fashion shows? Are you up-to-date with fashion trends?

- Yes, on a daily basis
- I check once-twice per week
- I check, but very seldom
- No, I am not interested in fashion/Do not have time for that

12. How often do you search for luxury brands on the internet?

- More than once a week
- Once every two weeks
- Once per month
- Less than once per half a year
- I do not search

13. How many times per year are you travelling abroad?

- I have never been abroad
- Once to three times per year
- Four to six times per year
- More than six times per year
- Every once in a while

14. Do you think travelling abroad has changed your perception of luxury goods?

- Yes
- No

15. Do you consider foreign luxury products of better quality than local one?

- Yes
- No

16. Do people in your surrounding buy luxury goods?

- Yes
- No

17. Do you think that wearing expensive and fashionable outfit can make you feel more respectable in your work environment?

- Yes
- No
- I do not know

18. Would you start to buy luxury products if most of the people in your surrounding do that?

- Yes, I would probably buy something like this too
- No, it doesn’t have any influence on my shopping behavior
- I do not know
19. Imagine situation that you are working in the office where most of your colleagues wear Louis Vuitton bag to work. Would you buy it also to right fit it or would you think about something else to differentiate?

- Yes, I would buy similar bag. I want to feel part of a group and do not want to stand out too much
- No, I would prefer something which nobody in my work environment has

20. Do you think that wearing/possessing luxury goods can help you to gain other people’s approval?

- Yes
- No
- I do not know

21. Are wearing luxury branded clothes is significant for you when having and important meeting to make an impression on other person?

- Yes
- No
- I do not know

22. Have you ever bought counterfeited (for example fake, look alike Louis Vuitton bag instead of original one) luxury goods just to possess a luxury product?

- Yes, many times
- Yes, once or twice
- No, I have never done it

23. Does it have any difference for you to buy original luxury product or the same counterfeited one?

- Yes, I would be ashamed to buy such products
- Counterfeited products give away all the feeling which luxury shopping gives
- No, I do not notice any difference if the product look exactly the same

24. Do you think that logo of the brand should be visible on the product?

- Yes, I prefer luxury goods to be visible for others
- No, it makes no matter for me if the quality is good and I know the brand

25. Which luxury brand/-s in your eyes is the most popular in China?

26. Which luxury brand is the most desirable (people dream about having goods from this brands the most, even if they cannot afford it) in your eyes in China?

27. Do you pay attention to communication of values as heritage, tradition, craftsmanship by the brand when buying luxury products?

- Yes
- No
28. Do you attach an importance to the product’s country of origin, f.eg. clothes made in Italy or France has a better value for you?

☐ Yes  ☐ No

29. Which concept of "face" in Chinese culture is more important for you?

☐ Mian-zi "a reputation achieved through getting on in life, through success and ostentation"

☐ Lian- "person's basic moral worth life"

☐ Both are equally important for me

30. How do you perceive effect of growing luxury fever in China on Chinese value- system?

☐ I do not like it, it has debilitating impact on our culture

☐ I like it as China is more international and open for West now

☐ I find both pluses and minuses of this

31. Are you against or pro introducing the Western brands and lifestyle to the Chinese culture?

☐ Yes, I really like China becoming more international and westernized

☐ No, I am not happy about that

☐ I like that we are more open, but I would prefer to keep our values and cultural differences as they are

32. Do you think that luxury consumption in China will progress due to the fast development of the country?

☐ Yes  ☐ No  ☐ I do not know
Appendix 2: Hofstede’s “Cultural onion diagram”

>SYMBOLS – words, gestures, pictures, objects, which have a particular value and are recognizable only by the members of the culture e.g. language, style of dressing, flag, status symbols etc

>HEROES – fictitious or real characters that present certain characteristics appreciated the most in the culture and at the same time they constitute a kind of behavior patterns

>RITUALS – common actions which are perceived as necessary in the culture, as for example respect to the elderly; customs, religious ceremonies etc

>VALUES – are defined as disposition to making specific choice e.g. between good or bad, they are trained and learned in the early childhood

>PRACTICES – the things, skills, experiences which we gain throughout life
