

The Influence and Mitigation of Consumer's Price Sensitivity on the Pricing of Luxury Brands & Two Case Studies

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Abstract. The current economic crisis and the worldwide Covid-19 pandemic, which is lasting about three years, have increased price sensitivity globally. A crisis-ridden external environment is a predominant explanation for this trend. However, what can be found is that previous studies have mainly relied on big data and have surveyed businesses as a whole, and thus, it has been unable to disentangle the price sensitivity in luxury brands. This report mainly uses the opinion of pioneers and collects the data from the official website of the luxury brands to figure out the current consumer's preferences and their price sensitivity so that there can be more objective opinions. What is more, the report introduces the factor, the effect of price sensitivity and the way to alleviate it. The finding indicates that demand, income level and customer loyalty would affect most and mentions such mitigations as dynamic pricing and building more loyal customers.

Keywords: Luxury brand; price sensitivity; factors; mitigation.

1. Introduction

Pricing strategy is a policy for a brand to decide how much they will charge for their service and product, and it is related to the condition of the industry and market. Pricing is vital for a luxury brand, as a luxury would have more premiums for its brand value. A successful pricing strategy is, therefore, essential for brand development [1]. Since consumers have different behavior, they would have different willingness to pay. One of the main elements that influence consumer behavior is price sensitivity, which reflects how consumers respond to the current price. The greater the marketer's understanding of how consumers respond to price, the more likely it is that they will set a proper price and generate profits for their brands. Marketers of the luxury brand should focus more on the pricing reaction to retain their loyal customers and attract more potential consumers.

Luxury brand consumers frequently change their purchase behavior, resulting in a volatility of price sensitivity. Nowadays, they tend to focus more on low-cost products, which heightened consumer price sensitivity. Additionally, during Covid-19, the demand for purchasing luxury products significantly decreased. Global luxury suffered a yearly decline of 25% to 30% during the pandemic [2]. The large decrease in demand indicates a lower purchase power. People would consider more before making a purchase and thus resulting in high price sensitivity. Moreover, the popularity of knockoff products also represents the high price sensitivity of current consumers as luxury fashion brands continue to raise the price, which stimulates resistance to pay and increases the price sensitivity. People tend to think the knockoff product could provide the same value at a lower price. This also indicates that consumers are uncertain about the luxury product while firms know more, and the condition of incomplete and asymmetric information occurs in the markets, which also leads to higher price sensitivity.

It is essential to know the impact of price sensitivity so that luxury merchants can make relevant adjustments to their pricing strategy. Price sensitivity has the impact of mediation on the effect of trust and loyalty to luxury brands [3]. Moreover, lots of factors that attribute the occurrence of price sensitivity has been founded, including consumption occasion, social context, and income, advertisement [4-6]. However, all the research focus on the factor of the whole market. Seldom has research been done to figure out the key factors, influence, and mitigation of price sensitivity in the luxury fashion industry. Therefore, this article will analyse the major reasons and the effect of price

sensitivity by using the views of predecessors and taking examples of 2 luxury brands in order to get relevant solutions to avoid the drawbacks and increase the long-term profitability of a luxury brand.

2. Current state: consumer's price sensitivity for luxury brand pricing

Price sensitivity can be characterised as the way consumers feel and are willing to pay for a product in relation to its price. Price elasticity, which can be used to measure price sensitivity, has always been reported to be negative, meaning that lower prices are accompanied by higher unit sales [7]. As was stated in the introduction, the current economic crisis and Covid-19 are to blame for the phenomenon of emphasising inexpensive goods. While choosing a brand is important, consumers are willing to switch to private labels if they are less expensive. These exhibit a relatively high price sensitivity in the context of the market.

Although a luxury product is not essential for survival, it is highly valued in a culture or society. When a person's wealth or income rises, the demand for luxury goods also rises. Usually, the percentage increase in luxury item purchases is correlated with income growth. Since luxury items are expensive due to their value, people who are wealthy tend to consume luxury goods in excess, whereas those who are less well-off would be more willing to use their money on necessities. Therefore, luxury goods are defined as conspicuous consumption, which is also classified as "Veblen goods", indicating the consumption of goods primarily or exclusively to flaunt one's status. The reason for this phenomenon is that consumers find it easiest to define the value of luxury through price rather than product quality. Nowadays, lots of luxury brands launch cheaper products, such as promoting make-up lines. As a result, luxury brands are more widely accepted by modern society due to the development of lower-priced products. However, the high price sensitivity of the luxury brand is mainly attributed to premium products instead of lower-priced products. Therefore, low-priced products of the luxury brand did not be considered in the price sensitivity of luxury brands in this article.

Furthermore, in this article, 2 brands--- Prada and Miu Miu, would be used as an example to explain the current price sensitivity and consumers' preferences.

Prada, an Italian luxury fashion brand, was founded in 1913 and specialises in leather handbags, travel accessories, shoes, ready-to-wear and fashion accessories. Miu Miu is also an Italian fashion brand that is a fully-owned subsidiary of Prada. The name "Miu Miu" pays homage to the childhood moniker Miuccia's family gave her. Miu Miu is the most unrestrained portrayal of Miuccia Prada's creativity, according to the Prada Group. According to Table 1, the price of Miu Miu's product would be lower than Prada's, which is mainly because of the different target markets. Prada typically chooses more well-known international ambassadors, whereas Miu Miu has a history of selecting young girls and women. Miu Miu was founded to establish a more modern, fun, vibrant, and reasonably priced clothing and accessory line than the Prada line itself. Therefore, the price of Miu Miu would be relatively lower for their younger target.

Table 1. The Average Price of Prada and Miu Miu Products (\$) [8]

Products	Prada	Miu Miu
handbag	10,000	3,100
shoes	1250	980
Mini-dress	2090	1180

However, according to figure 1, Prada and Miu Miu in 2021 clearly indicate that Prada is doing better than Miu Miu in terms of sales, which also shows that Prada is less price sensitive than Miu Miu. This is firstly due to the higher reputation of Prada. Chernatony 2010 stated that people tend to pay more for a reputational brand since they believe that it would bring more value. Secondly, it is because of the higher income level of Prada's consumers than Miu Miu. Since the consumers of Prada have more money in hand, they would be willing to pay more for the luxury brand, while the

consumers of Miu Miu are mainly the youngest, which means they have less disposable income and may spare less money on them.

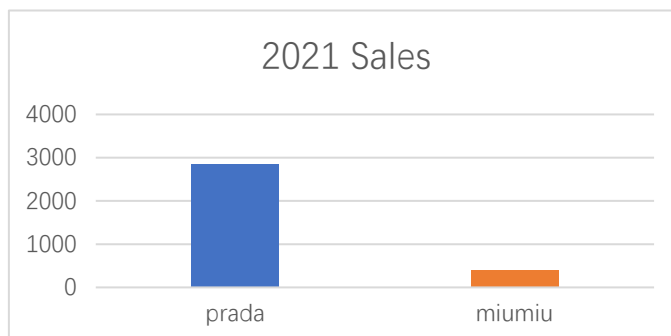


Fig. 1 2021 Sales of Prada and Miu Miu (in million euros) [9]

The economic crisis and COVID-19 have increased consumers' price sensitivity overall, but luxury brands' target customers are wealthy and have little impact on the environment, so their price sensitivity is relatively low.

3. Factors that affect price sensitivity

It is crucial for business owners to manage tasks like choosing products and setting prices. However, the most difficult part is balancing the price range so that consumers can afford to buy from the brand while also generating the anticipated profit. To effectively set prices that work for the brand and customers, the factors of price sensitivity should be aware.

Firstly, the demand for the product would have an impact on pricing sensitivity. The definition of demand is the degree of customers who need or want this product. The demand would be changeable due to the condition. The more demand a person has for the product, the more price they would be willing to pay, therefore resulting in lower price sensitivity. During COVID-19, the demand for global decreased largely. People spare less money on the purchase, which results in high pricing sensitivity. Moreover, if the increase in the price is higher than the demand, consumers may consider other brands, which would lead to higher price sensitivity.

Secondly, different income levels would lead to different pricing sensitivity for luxury goods pricing. For the rich, they would have a low-price sensitivity for luxury pricing. Luxury goods are an exception to the normal supply and demand curve. Luxury goods are thought to exhibit positive income elasticity of demand. This means that the sales of luxury products would increase if the price of luxury products increases. This is due to the fact that some consumers who have high levels of income may not care too much about the price if they have the opportunity to purchase a flashy, coveted luxury item. The price elasticity would be greater for those who are not sufficiently wealthy. They are more in need of necessities, whereas wealthy people would always buy necessities regardless of their income or wealth. This is because luxury goods are the opposite of necessities. Rich people would therefore be more tolerant of the rising cost of luxury goods.

Additionally, brand-loyal customers are less price sensitive than the majority of shoppers. Consumers who genuinely comprehend the value of a brand and choose this brand without hesitation are considered loyal buyers. Typically, loyal customers are more willing to pay than other consumers. According to Ramirez and Goldsmith, devoted customers are crucial for the growth of the luxury brand because they would start a beneficial cycle [10]. When devoted customers buy the goods of the brand, sales will rise, providing more funding for the brand to improve and upload its current goods and services. This increases the customers' satisfaction and loyalty scores, which encourages and motivates them to make additional purchases and restart the beneficial cycle.

4. Advantages and Disadvantages of Price Sensitivity

With the focus on price, the sensitivity of the price could change. The brand value and quality would be willingly compromised by consumers with a strong sense of price. They place more emphasis on cost than on quality and value. While consumers with low price sensitivity would be more concerned with brand quality and have less of an impact on price. Due to their willingness to pay more for high-value and high-quality products, customers who have low price sensitivity help businesses increase sales. Customers who want premium goods tend to be less price sensitive than those who are looking for bargains. However, high price sensitivity would cause consumers to think more carefully before making a purchase, which would slow down the sales of luxury goods and result in decreasing sales. Since luxury product is known for their premium value, low price sensitivity is more beneficial than high price sensitivity.

Moreover, a lower price sensitivity also represents more tolerance for brand pricing. This provides more room for the brands to adjust their price and bring more profit afterward. Also, low pricing sensitivity provides more possibilities for the brand to have innovation. Brands could promote the more delicate product without considering the price would scare their customers since they are low price sensitivity. This would provide more vitality and motivate the development of the brand, so that attract more customers.

5. Mitigation for high price sensitivity

Consumers with high price sensitivity are more likely to reject a product or service if the price suddenly increases compared to comparable alternatives. Therefore, it is important to have mitigation to avoid decreasing sales due to high price sensitivity.

Firstly, the luxury brand could use dynamic pricing as a mitigation strategy for high price sensitivity. Dynamic pricing, which means automatically (on the spot) adjusts prices as customers or sales representatives add and remove product options during the configuration process [11]. The luxury brand could sell products at different prices based on current market conditions. Luxury purchasers noticed earlier this year that luxury brand has all raised their prices due to inflation. With brands like Louis Vuitton, Dior, Versace and Chanel multiplying their prices for luxury goods, making that indulging purchase may need to happen sooner before prices potentially go up once again. During the pandemic, international travel was prohibited, social gatherings and eating out were outlawed, and there were fewer opportunities to be motivated to spend money. The general level of economic confidence also dropped, which resulted in high global price sensitivity. The luxury brand could adjust or delay the time of raising the price to motivate the purchase under this high demand and high price sensitivity.

Secondly, luxury brands need to build more loyal customers. Loyalty has been defined as a consumer's propensity to consistently engage in a particular brand's product purchases over time, and it is not enough to have a satisfied customer; there has to be an extremely satisfied customer [12]. This is due to the fact that high satisfaction determines customer loyalty. The only method for creating a lasting competitive advantage is through customer loyalty [13]. The loyal customer would have a brand preference and focus on purchasing whatever the price change; on the contrary, non-loyal consumers often change their brands because of their desire for diversity or pursuit of promotion incentives. In customer relationship management, loyal customers are crucial. Devoted customers may buy and try the company's other products more frequently and refer new clients to the business. One of the ways to increase loyalty is to increase brand involvement. More brand involvement would also decrease price sensitivity. According to the Academy of Marketing Science 2006, customers would be less price sensitive if they had more involvement. They may be involved in a variety of decisions, including those regarding advertisements, products, and purchasing methods. Customers who are highly involved means that they spend more time and attention on the brand, and because of this, they are more likely to be devoted followers of the company. Yoo and Park used "Bueeberry.com" to have a well-constructed customisation program [14]. Customers could use their imagination to

create and then buy their own products spontaneously by choosing the material and style. According to the study's findings, brand involvement raises perceived value across the board, including hedonic value, utilitarian value, self-expression value, social value, uniqueness value, and value for creative achievement. Therefore, high involvement would increase customers' perceived value, thus increasing loyalty scores and motivating the customer to pay whatever the price is.

6. Conclusion

Overall, the global price sensitivity is high due to the big environment---Covid 19 and the economic crisis. There is no doubt that it also affects the price sensitivity of luxury brands. The luxury brand has been defined as "Veblen goods", representing a symbol of showing people's own status. Also, in this article, low-priced products such as the cosmetic line of the luxury brand have not been considered in price sensitivity since the premium products are the main source of pricing sensitivity for the luxury brand. Moreover, two examples, Prada and Miu Miu, have been taken to test the preference and conditions of current consumers. The results have shown that the price of Prada is relatively higher than the price of Miu Miu, and consumers of Prada tend to be less price sensitivity than Miu Miu. This is mainly due to the target customers of Prada having a higher income level than Miu Miu, which also leads to one of the important factors of price sensitivity. Despite this, such elements as demand and customers' loyalty also play a significant role in price sensitivity. The lower income level, higher demand and less loyalty would result in high price sensitivity and vice versa. As a merchant, marketers would prefer customers lower price sensitivity, which indicates more tolerance for pricing, and the brand would have more space to have improvement. Therefore, it is important to have mitigation for relatively higher price sensitivity. Firstly, dynamic pricing could be used. Having price adjustments regularly to meet current demand would largely mitigate high price sensitivity. Secondly, build more loyal customers by increasing customer's involvement, which increases their perceived value and motivates more purchases.

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