

# Research on excessive consumption of luxury goods by the “Generation Z”

-- Based on behavioral economics

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## Abstract:

Given the inadequacy of research objects and theories on the problem of overconsumption of luxury goods by young people in academic circles. This paper applies the theory of behavioral economics to study the phenomenon of overbuying, the reasons, and the solutions to the consumption of luxury goods by Generation Z. Firstly, the consumption concept of young people in Generation Z is influenced by family background, education, and other factors, which leads to irrational purchasing behavior in luxury consumption. Secondly, behavioral economics theory is applied to explain the reasons for Generation Z's excessive consumption of luxury goods. It is pointed out that the group effect, psychological illusion, and instant gratification drive are the reasons for the overconsumption of luxury goods. Finally, from the perspectives of Generation Z consumers, luxury goods manufacturers, and social third parties, the following solutions are proposed: strengthening education and training to promote the formation of rational consumption concepts; luxury goods manufacturers and the government taking social responsibility to provide transparent information and a healthy market environment; guiding consumers to establish reasonable consumption concepts and cultivate hobbies; formulating reasonable consumption norms and improving financial literacy to reduce the occurrence of overconsumption, and so on. The overconsumption can be minimized by formulating reasonable consumption norms, enhancing financial literacy, etc.

**Keywords:** Generation Z, luxury goods, overconsumption, behavioral economics

## 1. Introduction

Along with the rapid development of China's economy, the market of China's luxury goods industry has seen exponential growth, with China's share of the world's luxury consumption increasing from 8% in 2018 to 25% in 2021. This trend shows that the increase in China's per capita economic level has brought about changes in consumption habits, especially huge changes in consumption habits and behavior towards luxury goods. The arrival of the Internet big data era provides consumption convenience for Generation Z, younger than 19 years old, to enter the ranks of luxury consumption earlier. According to statistics, Generation Z will comprise as much as 11% of the luxury goods-purchasing population in 2020. However, the immature consumption concept of Generation Z meets the network promotion in the era of big data, which leads to the emergence of problems such as overconsumption and obsession with luxury goods, including the psychology of comparison brought about by the consumption of luxury goods, and the aberrant value factory concepts such as wastefulness and focusing on personal enjoyment have sprouted in Generation Z. This has become a major problem in today's society. By

exploring the phenomenon of excessive purchasing of luxury goods, it is possible to gain a deeper understanding of contemporary young people's consumption psychology, values, and social identity needs to gain a better insight into the consumption trend. This study not only helps the government, enterprises, and other relevant parties to formulate more effective consumption guidance policies, standardize market rules, and provide valuable case studies for this research field; on the one hand, it also helps to further promote the development of theories of consumer psychology and behavioral economics in this field; on the other hand, it also helps to promote the establishment of a scientific concept of consumption among Generation Z, and to guide consumption behaviors with reasonable consumption decisions, thus providing consumption suggestions for the strategy of expanding domestic demand.

## 2. Literature Review

A lot of research has been done in the literature on the problem of overconsumption of young people, mainly focusing on the current situation of overconsumption of young people, their consumption behavior, and their consumption concepts. For example, Zhang Zhandong

(2016)<sup>[1]</sup> describes the phenomenon of overconsumption among young people and points out that the lack of good consumption concepts among college students is the cause of overconsumption. Although the existing literature provides useful research information for the writing of this paper, there are still the following shortcomings in terms of research objects, research questions, and research methods. Regarding research objects, most of the existing literature focuses on pan-youth groups such as college students, prosocial people, young employees, etc.. There is almost no literature on Generation Z as the research object, which is inconsistent with the general trend of increasing youthfulness of luxury consumption in the era of big data and demonstrates that academic research lags behind the reality of the performance. For example, Chenxi (2013)<sup>[2]</sup> and Zhang Qin (2019)<sup>[3]</sup> have mainly analyzed the luxury consumption of college students, young employees, and other groups. It can be seen that the existing literature has not paid enough attention to the problem of excessive consumption of luxury goods by Generation Z. As a trendsetter, Generation Z has gradually begun to control the huge social platforms on the market. Nowadays, with the widespread popularity of social media among Generation Z, when they see photos and comments of other people displaying luxury goods on social media, they will also desire to own them. In addition, social media also provides a platform for self-expression, which enables Generation Z to gain more attention and recognition by purchasing luxury goods. Therefore, it is of great value to study Generation Z as a research object in the context of the big data era. From the perspective of research problems, the existing literature mainly researches the overconsumption of young people, while there is little research on the overconsumption of luxury goods. According to the relevant data, it can be seen that the proportion of Generation Z in the consumption of luxury goods is getting higher and higher, which shows that the consumption of luxury goods by the consumer group of this age group has an obvious tendency. Research on the excessive consumption of luxury goods by Generation Z is of academic value and practical significance. From the perspective of research theory, existing studies mainly analyze the overconsumption problem from the perspectives of consumer behavior and sociological theories, and according to the author's survey, only Liu Shanzi and Wan Jia (2020)<sup>[4]</sup> examined the overconsumption problem of young people based on behavioral economics theory. Since behavioral economics has theoretical advantages for digging into the issues of consumption behavior and consumption concepts, it is of great theoretical value to study the problem of luxury consumption based on behavioral economics.

Based on the above research, this paper applies the relevant theories of behavioral economics to study the consumption concepts and consumption motives of Generation Z's luxury goods, expecting to provide a useful reference for this research field. Firstly, the phenomenon of excessive consumption of luxury goods by Generation Z is explained. Secondly, the reasons for Generation Z's overconsumption of luxury goods are analyzed from the perspective of behavioral economics. Finally, based on the analysis of the reasons for the overconsumption of luxury goods by Generation Z, it proposes how to establish reasonable consumption concepts to guide the correct consumption behaviors of Generation Z in terms of luxury goods and provides policy suggestions for the consumption of luxury goods by Generation Z.

Most of the papers in the academic world expound on the problem of young people's overconsumption of luxury goods from the perspectives of consumption behavior and sociological theories. Therefore, it is difficult to respond to the profound status quo of young people's overconsumption of luxury goods based on what kind of consumption concepts and psychology, and there is a lack of strong psychological and behavioral patterns to capture the reasons for the excavation of the consumption of irrational consumption. Firstly, this paper focuses on analyzing the characteristics of the current situation of the excessive purchase of luxury goods under the consumption concept and consumption psychology of young people, Generation Z, and then, based on the above analysis of the current situation, analyzing the reasons for the behavior.

When purchasing luxury goods, the decision-making of young people in Generation Z is often influenced by their family background and educational factors, which leads to the difference in their consumption concepts from those of previous eras. From the available data, the proportion of young people in Generation Z who come from affluent families is high. They can obtain a relatively high level of financial support from their families and the level of education of their families in cultivating their thrift is not as important as in previous times when they were materially scarce. These factors make it difficult for them to form a thrifty and reasonable consumption concept when purchasing luxury goods, believing that their family conditions are sufficient to give them the financial support to purchase luxury goods. Therefore, under this kind of consumption concept, they have no reason to plan the reasonableness of the consumption of the money paid for the purchase of luxury goods just because it is from the labor income of their parents and falls into the irrational consumption behavior of buying as long as they like.

From 2020 onwards, as Generation Z steps into the

ranks of adults and gradually has a certain amount of consumption power, this group's interest in luxury goods will also become stronger and stronger. According to Bain & Company, Generation Z consumers will be the main contributors to the luxury industry's growth in 2022. With the current trend, the share of Generation Z among luxury consumers is expected to continue to increase. In terms of the types of luxury goods consumed, luxury branded bags and accessories make up a large portion of luxury goods purchased by Generation Z. Generation Z consumers have been purchasing luxury goods (cosmetics, apparel, etc.) since they were 15 years old four to five years earlier than in the Post 90s. This suggests that Generation Z's consumption of luxury goods is more likely to fall into the external dress objects to show their spending power and the external recognition of themselves and others. As the desire to buy luxury goods increases, the world luxury goods market has grown by 22% year-on-year, with China's market growing by 25%. This figure shows that Chinese consumers are becoming the "main force" of luxury consumption, and one of the biggest contributors to this is Generation Z consumers. It is obvious that as the proportion of luxury consumption of Generation Z increases, establishing reasonable consumption concepts and building rational consumption behavior is particularly important.

According to the survey, 25% of Generation Z consumers ranked Michael Kors as their favorite bag brand, followed by fashion luxury giant Louis Vuitton. Louis Vuitton's parent company, LVMH, has also seized this opportunity to begin favoring design concepts and inspirations from the trendsetters of Generation Z. As a 165-year-old luxury brand, Louis Vuitton has retained some of the brand's culture while changing the direction of most of its ready-to-wear and luggage designs to the street culture favored by teenagers. This includes hiring Virgil Abloh, the original hipster, as Louis Vuitton's designer for the Spring/Summer 2022 show, which utilized dolls as its theme.

In addition to Louis Vuitton, other luxury conglomerates have begun adjusting their branding strategies to target Generation Z consumers. For example, Nike, a sports brand, has also entered the youth luxury market through co-branding, which has made up a large portion of the luxury hipster shoe market. One of Nike's most expensive AJ1 sneakers co-branded with Dior can fetch nearly 100,000 dollars on the secondary market. Along with the above business changes for Generation Z, on one side is Generation Z's vigorous pursuit of rare designs, and on the other side is the many problems brought about by the phenomenon of overconsumption. The price of most luxury goods is as much as a hundred times the cost, and the rest of the price is all brand premium. Buying this kind

of goods in large quantities is an irrational consumption behavior, and it also shows the lack of rational consumption concepts of luxury goods consumption among Generation Z consumers.

### **3. Analysis of the Reasons for Overconsumption of Luxury Goods by Generation Z Based on Behavioral Economics**

The problem of overconsumption of luxury goods by Generation Z has become a common social phenomenon. However, there are not many studies on the overconsumption of luxury goods that Generation Z is keen on, and most of the research perspectives are explained by the classic theories of sociology and economics. The above theories make it difficult to study excessive, irrational behavior, and the principle of behavioral economics can better elaborate the irrational behavior caused by irrational thinking and concepts.

Since behavioral economics is a pioneering theory for studying people's psychology and behavioral patterns in decision-making, the use of this theory to reveal the causes of excessive consumption of luxury goods by Generation Z can be analyzed from the perspectives of Generation Z consumers and manufacturers.

First of all, from the perspective of the consumer group of Generation Z, the reason leading to the overconsumption of luxury goods by Generation Z is due to the existence of group effects. In the era of big data and new media, Generation Z is more easily influenced by social media and peers and is eager to show their social status and identity. They tend to get caught up in the promotional marketing of celebrities or social media stars and netizens, associating luxury with success, fashion, and happiness. This consumption concept and demand for pursuing identity and reflecting their social value prompts Generation Z to buy luxury goods regardless of the cost, even if they know they may not be able to afford them. It creates a group effect that leads to more irrational consumption and overconsumption behaviors.

Secondly, from the point of view of the consumption psychology of the irrational consumers of the Generation Z consumer group, it is also because of the existence of psychological illusions that make them happily repeat this overconsumption behavior. Compared with other generations, Generation Z is in a society with a more advanced material civilization and is more susceptible to the influence of the "pleasure trap" and "conformity bias"<sup>[4]</sup>. The "pleasure trap" refers to the short-lived pleasure people get from buying luxury goods, but this pleasure is often short-lived and superficial and does not

bring lasting satisfaction. Conformity bias refers to the fact that people are easily influenced by the perceptions and opinions of those around them while ignoring their real needs and financial situation. Under this irrational perception, Generation Z will enhance their satisfaction and fulfillment by purchasing luxury goods, but this satisfaction has two sides. On the one hand, it is only temporary because, along with the upgrading and development of luxury goods, the pursuit of new luxury goods once again puts Generation Z into the “pleasure trap” of “I want to buy to be happy.” On the other hand, with the parallel of the “pleasure trap” and “obedience bias,” Generation Z tends to ignore their financial status and make excessive consumption decisions, which will bring long-term financial pressure.

In addition, Generation Z overconsumption of luxury goods is also because of instant gratification. Behavioral economics suggests that when making decisions driven by instant gratification, people tend to pay more attention to immediate benefits and ignore long-term consequences. Gen Z young people need to satisfy their self-expression needs, reward themselves, or get rid of their negative emotions by consuming luxury goods. Still, when doing so, they do not consider the continuous pressure on their money and the potential decrease in savings, and thus overconsumption is the result.

On the other hand, from the point of view of the business, planning, and sales strategies of luxury goods manufacturers. The pricing strategy of luxury goods manufacturers for commodities completely differs from the traditional marginal cost pricing theory. It usually adopts the high-price pricing strategy to enhance the consumer’s recognition of the quality and scarcity of that high-priced product to show the classiness of that commodity. It can be found that luxury goods manufacturers fully use the theoretical model of behavioral economics to emphasize the role of psychological effects in luxury goods pricing. High pricing reflects the quality of luxury goods and triggers a perception that “expensive is good,” which enhances the product’s attractiveness. Consumers feel a sense of satisfaction and social recognition when they buy expensive luxury goods, and this psychological effect further promotes the continued use of high-pricing strategies.

Judging from luxury goods manufacturers’ brand management and sales strategies, most of them emphasize the power of branding. They are committed to establishing and strengthening the recognition of their brands in society. Then, through celebrity endorsement, limited edition, and other marketing means, they not only give their products uniqueness but also establish a sense of social status in the minds of consumers. The theory

of “group effect” in behavioral economics explains consumers’ motivation to buy luxury goods because consumers express their identity and status by buying luxury goods to achieve the psychological expectation of integrating into a specific social group. Therefore, luxury goods manufacturers use the theory of “group effect” to grasp the expected value of consumers’ purchasing of this consumer product, to promote the key role of branding and social recognition in the luxury goods market, and to provide an effect field for consumers to over-purchase luxury goods.

In addition, the marketing strategies of luxury goods manufacturers often emphasize the uniqueness and limited edition of their products. Most of such marketing strategy behaviors strengthen the scarcity effect of products by launching limited editions and seasonal styles to stimulate consumers’ desire to buy. Based on the theory of “psychological account effect” in behavioral economics, consumers usually tend to regard the purchase of luxury goods as a kind of special expenditure, which is included in an independent “psychological account”<sup>[5]</sup>, coupled with the marketing strategy of luxury goods manufacturers. Under the combined effect of the two, consumers take it as a logical and natural purchasing decision to spend on the account they already need to spend on, which leads to a further decrease in the degree of rationality in using the “psychological account.” Under the domination of limited rationality, they are in a trajectory of coincidence with the marketing strategies of luxury goods manufacturers, which aggravates the overconsumption behaviors.

#### **4. Suggestions for Constructing Rational Consumption of Luxury Goods of Generation Z**

Through the above analysis, there is a concrete understanding of the current situation and reasons for the overconsumption of luxury goods by Generation Z. Based on this; this paper proposes the following solutions to solve the problem of overconsumption of luxury goods by Generation Z from the perspectives of Generation Z consumers themselves, luxury goods manufacturers and the third party of the society.

Firstly, education should be utilized to cultivate the awareness of rational consumption among Generation Z consumers. For example, the government, schools, and social organizations can cooperate to carry out relevant training and publicity activities to educate Generation Z consumers about money management, consumption concepts, and financial knowledge. This is to let them understand the relationship between price and value, raise their awareness of luxury consumption, avoid

blindly following the trend of purchasing, and encourage consumers to make more rational shopping decisions. At the same time, it is suggested that consumers put the above education into each purchase action, re-examine whether the consumption concept at this moment is rational or not, whether it belongs to the necessity of purchase, etc., and for the purchase decision after rational thinking when making payment, remind themselves once again whether the payment is ranked in the psychological account of their coping, and at the same time, remind themselves to choose the appropriate payment method to make the payment.

Secondly, it calls on luxury goods manufacturers and governmental organizations to fulfill their social responsibilities and build a consumer trust mechanism. Encourage the luxury goods industry to provide more product information and publicize product disclosure information to ensure that consumers can accurately understand the origin, materials, manufacturing process of goods, etc., and provide Generation Z consumers with information source channels for rational purchases. Relevant government agencies should regulate the tempting false propaganda and fraudulent behavior of manufacturers to provide a healthy market environment for Generation Z consumers, which, on the one hand, can enhance consumers' trust in the market and, on the other hand, can reduce the risk of impulsive purchasing caused by tempting propaganda.

In addition, consumers are guided to establish reasonable consumption concepts to reduce their excessive purchasing behavior. Luxury goods are often associated with the emotional needs of individuals, but over-reliance on luxury goods to satisfy emotional needs may lead to recurring over-buying behavior. It is suggested that the government and the social machine provide more opportunities for young people to cultivate their interests and hobbies, such as creating more activities to participate in society, etc. so that young people can enhance their social identity through social practice activities to reduce their over-buying behavior of luxury goods.

Furthermore, it is also necessary to formulate reasonable consumption norms. The government can work with industry associations to formulate stricter procedures for consumption limits. For example, restricting minors from purchasing certain high-priced luxury goods or requiring their guardians' consent when purchasing them, etc., to avoid causing unnecessary financial pressure and spending

impulses.

Finally, improving the financial literacy of Generation Z consumers is also an important part of the equation. Government departments, schools, families, etc., can help Generation Z consumers better understand the knowledge of loans, interest, and long-term financial planning. This will help them analyze their purchasing decisions rationally and avoid over-borrowing and spending. Through the education mentioned above, Generation Z consumers can establish reasonable spending habits, develop the habit of recording their income and expenditure, organize their mental accounts regularly, and reduce the use of credit cards, chanting borrowing, and other excessive spending behaviors caused by payment segregation. Since luxury goods manufacturers often adopt high pricing strategies, creating the psychological perception of high prices can motivate consumers to recognize the quality of their products and their social status. This is a good use of the "anchoring effect" in behavioral economics, which uses high prices as a starting point to influence consumers' perception of the value of goods. Therefore, it is suggested that luxury goods manufacturers should use eye-catching reminders to inform consumers of the high price of the goods when they buy high-priced goods and make reasonable purchases on the premise of considering their purchasing ability for loans and installment purchases to stimulate the rational purchasing concepts of consumers.

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