Master Thesis Expose

Symbolic consumption of luxury goods: example of fashion luxury market in Russia

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ABSTRACT

TITLE: SYMBOLIC CONSUMPTION OF LUXURY GOODS: EXAMPLE OF FASHION LUXURY MARKET IN RUSSIA.

Fashion luxury goods in the scope of a particular study include clothes, shoes and accessories such as bags, belts, scarfs, socks, ties and etc.

KEYWORDS: luxury, symbolic consumption, consumer behavior, Russia.

BACKGROUND: Over the recent years Russia becomes a prime mover of the luxury goods market in the world. Traditionally majority of Russian consumers by purchasing expensive luxury fashion goods determine their identity and show the status and position in society. This is known as a symbolic consumption, the process when individuals by using status goods as symbols communicate meaning about themselves to their reference groups. However, economic development of the country, rapidly growing high-middle class consumer segment, increasing consumer sophistication and heterogeneity in the consumer market change consumption behavior toward luxury in Russia in a very short time.

PURPOSE: The primary goal of this Master Thesis is to determine the factors that currently influence Russian consumers’ intention to purchase luxury goods. The relative difference of this study is the focus on the growing high-middle and middle class consumer behavior patterns. The secondary goal of the study is to propose effective marketing communication strategies targeting Russian consumers of luxury goods.

METHOD: A quantitative approach was used in the study to evaluate the established hypotheses. The primary data was collected through an online survey.
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LIST OF ABBREVIATIONS

BRIC  Brazil, Russia, India, China
BCG   Boston Consulting Group
HENRY High Earnings, Not Rich Yet
HNWI  High Net Worth Individuals

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INTRODUCTION

During the last years the global luxury goods market has grown significantly and mainly because of the luxury growth in the emerging countries such as Brazil, Russia, India and China (Som & Ashok, 2011). Russia is one of the biggest emerging economies in the world and according to Bain& Company (2013), due to its fast economic development and openness to the foreign brands, Russia is a country which offers a huge growth potential for the luxury goods companies. Indeed, the capital of the country, city of Moscow is already ranked number fifth after Paris, Milan, London and New York in the ranking of the luxury fashion capitals of the world. Moreover, in the annual ranking of Forbes (2013), Moscow is ranked number one city of the world by the number of billionaires living in.

By its characteristics, Russian luxury market is considered to be relatively mature; however industry specialists are confident about the potential of further growth and the adoption of new brands into the market (Euromonitor, 2013). According to Euromonitor (2013), within continuously improving economic situation and income raise, the country’s middle class consumers will reconsider their expenditure structure and become a driver of the luxury consumption in the forecast period. Alla Veber, the vice president of Mercury luxury retail group, points that in Russia “there are a lot of people now, educated, that have management jobs, they have money, they have security, they know that they will always work and make this money and they would like to have beautiful things and to buy them”. According to the Federal State Statistics Service (2013), the segment of middle class population in Russia is projected to increase at 16 per cent by 2020, at which point it will represent 86 percent of the population.

Understanding the luxury consumer behavior is critical for the luxury brands who seek a long term strategy, mentions Euromonitor (2013). But beyond the demographics and the wealth, understanding the personal motives and values of these consumers are equally important.

Traditionally, Russian consumer behavior patterns can be explained by the theory of conspicuous, symbolic consumption introduced by the economist and sociologist Veblen.
Symbolic consumption is the process when individuals by using status goods as symbols communicate meaning about themselves to their reference groups (Veblen, 1899). Symbolic goods mostly are products especially sensitive to social influence and the most visible; they include luxury clothing and accessories, automobiles, stereos and furniture.

Russian consumers are well known worldwide for their love to expensive luxury goods and unlike any other luxury consumers, the Russian ones are the brightest example of the concept of conspicuous consumption and status-seeking behavior (Andreeva & Bogomolova, 2008). This fact can be explained by several reasons. Firstly, the Russian wealth has been acquired relatively not a long time ago therefore there is not such a well-established tradition of financial management among the population. The second important factor is that generation of today's successful 35 to 45 year-old businessmen grew up in the period of block demand when the free access to information and goods available in the rest of the world was prohibited. In this consumer group the exaggerated consumption and desire to show off is a natural psychological response to its current rise in its financial status and its awareness of global fashion trends. “When people become successful here, they want to show it off. It is a way to state who you are”, says Dmitry Yeremeev, CEO of Richemont Group. Essentially, Russian consumers by nature are easily influenced by public opinion, and it is therefore important for them that the product they choose is recognized by others. “In Russia we say that there is no such thing as understatement. People would prefer to live in a small flat but drive a Porsche”, adds Dmitry Yeremeev.

However together with the changes on the macro-economic level of the country, there are significant changes taking place in a behavior level of its consumers. Since Russia opened its economic borders, the country has experienced a huge flow of international products into the country. Anyone visiting Moscow, Saint-Petersburg, and Yekaterinburg today would be impressed with the variety of luxury boutiques and exclusive stores. Russian researches Andreeva & Bogomolova (2008) state, that today's Russians consumers are spoiled by choice that companies are wondering how they can get the Russian consumer to choose them over other brands. Through the last 15 years, Russian consumers have turned into sophisticated and well-travelled clients, who are aware enough about the world of brands. In addition, rapid expansion of middle high class society brings to the observation a new tendency of luxury consumption in Russia (Andreeva &
Marmi, 2012). Namely, luxury consumers, especially those from the lower classes, purchase luxury products because of the special feeling it gives them, and the perceived power they feel they have in society (Moore & Birtwistle, 2005). Finally, the changes connected to the global economic crisis appear; after the crisis, the luxury consumers in Russia become more value conscious (McKinsey, 2011). In these circumstances, it becomes more and more complicated for the luxury brand companies to attract and retain customers without having a detail understanding of customers changing behavior patterns.

THEORETICAL BACKGROUND

Traditionally, luxury goods or status goods have been defined as goods for which the use or display of a particular branded product brings prestige to the owner, apart from any functional utility (Grossman & Sharpiro, 1988). Dubois and Duquesne (1993) also highlight that all luxury goods share some common characteristic features which include high price, distinctive quality and design, exclusivity, heritage and reputation. Therefore some researches define luxury goods by comparing their characteristics with characteristics of mass consumption goods. For example, luxury goods are usually distributed exclusively and after-sales services are crucial for them. At the same time mass consumption goods are mass distributed and allow personal relation with the customer only at the point of sale. While purchasing mass consumption goods consumers are influenced by functionality and price, whereas luxury consumers pay more attention to name of the brand and its reputation.

From the economists point of view luxury goods have a high income elasticity of demand, which means that with an increase of income the demand for the goods increases more than proportionally. In contrast, normal goods are goods for which the demand increases less than proportionally as income rises. Another point of view on luxury formulate Vigneron and Johnson (1999), saying that individuals create their own understanding of luxury goods according to their relationship with each other. The thing is, that some goods can be luxury for one person but an absolute necessity for the other one (Hauck & Stanforth, 2007). Moreover the concept of luxury differs from society to society,
which is even make it more difficult to agree on one universal definition of luxury goods (Kemp, 1998).

Researches Vigneron and Johnson (1999) defined the model of five main factors which influence the consumption of luxury goods. According to authors, consumers by purchasing luxury goods may believe that they gain perceived conspicuous value, unique value, social value, hedonic value or perceived quality value. Based on that, the consumer behavior can be correspondently divided into five different types (See Figure1).

Figure 1. Social and personal influences in luxury consumption

Veblen consumers by purchasing luxury goods perceive conspicuous values. They attach greater importance to price as an indicator of prestige, because their primary objective is to impress others. The snob consumers perceive the price differently, for them it demonstrates unique value of the product. Snob consumers perceive price as an indicator of exclusivity, and they try to avoid using popular brands to experiment with inner-directed consumption. Relative to snob consumers, bandwagon consumers attach less importance to price as an indicator of prestige, but they place greater emphasis on the effect they make on others while consuming prestige brands.

While aspirational consumers tend to imitate the buying behavior of particular reference groups to which they would like to belong (Dholakia & Talukdar, 2004), not
every luxury consumer practices symbolic consumption. Some consumers instead seek for inconspicuous benefits, such as the quality of the product (Vigneron & Johnson, 2004) or for self-directed pleasure (Tsai, 2005; Truong, 2011). Indeed, while Veblen, snob and bandwagon consumers are influenced by social values, hedonist and perfectionist consumers are influenced by personal values. Perfectionist consumers the price is primary an evidence of quality. According to Bian & Moutinho (2009), the desire for superior quality is one of the most salient attributes of luxury products. Hedonist consumers are more interested in their own thoughts and feelings. They perceive an emotional value from purchasing process rather than indicate their prestige or seek for the superior quality. Many consumers of luxury brands today may not necessarily be wealthy, but nevertheless like to spend their increasing disposable income on hedonic goods and services (Silverstein & Fiske, 2003) so self-directed motives in this case go beyond the other.

Individuals by its nature are more concerned about the impression they make on others. They pay more attention on physical appearance and fashion, and are more likely to use different strategies to gain approval from others. This phenomenon is known as a symbolic, conspicuous consumption. Namely, by using status goods as symbols, individuals communicate meaning about themselves to their reference groups (Veblen, 1899). Many consumers purchase luxury goods primarily to satisfy an appetite for symbolic meanings. An important class of symbols involves association with a prestigious group that represents excellence or distinction in an area related to one’s self-image (Wicklund & Gollwitzer, 1982). Prestige “has always been designated as constituting a basic symbol of one’s social standing or status” (Eisenstadt, 1968). Products especially sensitive to social influence as a display of wealth are the most visible, and include clothing and accessories, automobiles, stereos and furniture. According to Chadha & Husband (2006), the great step of the luxury industry is the process of how the label has gone from inside the collar or the waistband to outside, across the chest, down the side, hidden in plain sight in logos, buttons, crests, initials, etc. Today, you are not what you wear but who you wear (Twitchell, 2001), that’s why consumers are motivated by a desire to impress others with their ability to pay particularly high prices for prestigious products (Mason, 1981). Darian (1998) notices, that for example, buying luxury brands for children reflects favorably on the financial status of the parents.
Many producers of luxury goods tend to believe their customers come primarily from the upper income classes. Indeed, the managerial practices of luxury goods companies are based on this presupposition (Dubois & Duquesne, 1993). For example, their media planning gives priority to “up-market” publications (e.g. Vogue), and their shops are situated in prime locations (Place Vendome in Paris, 5th Avenue in New York, the Ginza in Tokyo, etc.). However, the overall global economic development and rapid expansion of middle high class society bring to the observation a new tendency of patron status. Namely, luxury consumers, especially those from the lower classes, use luxury products because of the special feeling it gives them, and the perceived power they feel they have in society (Moore & Birtwistle, 2005). Recent researches acknowledge that global growth in disposable incomes has enabled middle and lower-class consumers to aspire to the lifestyle of the truly wealthy and to become occasional luxury customers (Homer, 2008; Rusli, 2010; Silverstein & Fiske, 2005).

Luxury items are becoming more a necessity. As Coco Chanel said: “Luxury is the necessity that begins where necessity ends”. As discretionary income increases, and as the prevailing media culture promotes immediate self-indulgence and gratification, it may be the case that the wish to seek status and recognition, whether to impress others or to impress oneself, becomes more important than the ability to do so (Dubois & Duquesne, 1993).
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<td>Consumer behavior patterns in Russian luxury market</td>
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<td>*Russian luxury consumption differs from that of Western societies; not deeply specified; *Two groups of consumers: real connoisseurs (value of quality, exclusiveness) and status lookers (show off in the society) Limitations: lack of broader exploration, further relation on factors as loyalty or country of origin.</td>
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<td>Fashion and demonstrative behavior in Russia</td>
<td>Andreeva A., Marmi E.</td>
<td>Brand Management 02 (63), 2012</td>
<td>*No culture of luxury consumption in Russia, adaptation to the Western lifestyle; *Segmentation on upper and uppermiddle class consumers with their consumer behavior differentiation *The purchase of goods, the price of which corresponds to the quality</td>
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<td>Contributing clarity by examining brand luxury in the fashion market</td>
<td>Miller, K. W., &amp; Mills, M. K.</td>
<td>Journal of Business Research, 65(10), 1471–1479, 2012</td>
<td>*Brand innovation, which includes uniqueness, creativeness, originality, expressiveness and imagination, seems to affect brand luxury; *Brand leadership has a reasonably strong direct effect on brand luxury assessments; *Path in the Brand Luxury Model is innovation→leadership→brand luxury→user-imagery fit→value→willingness to pay a premium;</td>
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<td>The Marketing of Luxury Goods</td>
<td>Vickers, J. S., &amp; Renand, F.</td>
<td>The Marketing Review, No. 3, 459-478, 2003</td>
<td>*Luxury goods can be differentiated from normal or 'non' luxury goods by the extent to which they exhibit a distinctive mix of dimensions: functionalism, experientialism and symbolic interactionism; *The symbols displayed by luxury products have a major influence on the choice of one product compared to another;</td>
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**Luxury consumption behavior**
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<td>A review and a conceptual framework of prestige-seeking consumer behavior</td>
<td>Vigneron, F., Johnson, L.</td>
<td>Academy of Marketing Science Review, Vol. 1, 1999</td>
<td>*‘Hedonic’ (positive emotions) and ‘perfectionist’ (quality &amp; design) luxury purchase motivations; *Prestige values: conspicuous, unique, social, emotional, quality;</td>
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<td>Status brands: examining the effects of non-product-related brand associations on status and conspicuous consumption</td>
<td>O’Cass, A. &amp; Frost, H.</td>
<td>Journal of Product and Brand Management, Vol. 11, No. 2, 2002</td>
<td>*Consumers evaluate a brand’s image in terms of its symbolic meaning; *By symbols individuals communicate meaning about themselves to their reference groups, desire of status;</td>
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<td>Luxury consumption factors</td>
<td>Husic, M., &amp; Cicic, M.</td>
<td>Journal of Fashion Marketing and Management, 13(2), 231–245, 2009</td>
<td>*Consumers perceive quality as a brand determinant; **”Snob effect”: consumers buy the expensive products to distinguish themselves; *Rare products indicate prestige and respect; * Sub categories: “old aristocracy” and “new money”;</td>
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<td>To be or not to be? - a study of Luxury Consumption</td>
<td>Benita Patel</td>
<td>The Swedish School of Textiles, Report No. 2010.13.10, 2010</td>
<td>*Consumers of luxury brands perceive the service they receive as an added value, highly appreciate it; *Young consumers tend to mix luxury fashion with fast fashion, whereas older once are stick only to luxury;</td>
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| **Brand and country-of-origin effect on consumers’ decision to purchase luxury products** | Godey, B., Pederzoli, D., Aiello, G., Donvito, R., Chan, P., Oh, H., … Weitz, B | Journal of Business Research, 65(10), 1461–1470, 2012 | *Intercultural analysis of brand effect and Coo effect on the luxury purchasing decision (China, France, Italy, Russia, Japan and the USA)  
*Criteria governing the decision to purchase luxury goods worldwide: design, brand, guarantee;  
*Russian consumers attach more specific significance to design and Coo; |
|---|---|---|---|
| **Intrinsic motivations, self-esteem, and luxury goods consumption** | Truong, Y., & McColl, R | Journal of Retailing and Consumer Services, 18(6), 555–561, 2011 | *The findings confirm that intrinsically motivated consumers of luxury goods tend to look at the actual quality of the product and its ability to provide self-directed pleasure;  
*The relationship between self-esteem and self-directed pleasure proves to be very salient; an individual can maintain or boost self-esteem by purchasing luxury goods; |

*Luxury in emerging countries*
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<td>*By 2015 BRIC countries will have 36 per cent of the global luxury market; *Challenges in BRIC countries: education and knowledge about luxury; the size and population of countries; distribution (not many exclusively luxury destinations can be found); *Consumer expectations are very varied in BRIC countries: in Russia consumers expect luxury products to have a balance between tradition, modesty and wealth; Russians like to show off that they can spend a huge amount of money for a valuable product; *Russia has wealth, knowledge and experience in luxury, potential for consumption is in Moscow and St. Petersburg;</td>
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<th>Luxury in emerging countries</th>
<th>Stéphane Truchi</th>
<th>IfopLive Journal (19), 2010</th>
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<td>*In Russia luxury is motivated by pleasure and the quest for social distinction; *Country-specific aspects: ability to mirror symbols of pleasure and sensuality inherent to the Russian spirit; to integrate local elements in the communication of international brands;</td>
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PROBLEM STATEMENT

The reason why people spend a considerably high amount of money for luxury goods has already been investigated. However, most of the studies on luxury consumption focus on the context of Western countries, while in-depth studies on the motivation and luxury perception in emerging countries such as Russia are still not that common (Kaufmann et al., 2012).

Although Russia’s economic development will continue to create opportunities for global luxury brands, cultural differences, changings in economic and social environment, increasing consumer sophistication and heterogeneity in the consumer market present challenges for those companies. It has to be acknowledged, that the purchase of luxury goods by Russian consumers may be motivated by factors different from those in the traditional luxury markets of Western countries. Thus the marketing strategies of luxury goods companies have to be adapted as well for the Russian environment as well.

The reason to investigate the Russian consumer behavior is necessitated also by the changing social processes which occurred in Russia in recent years. The subject of this study is interesting due to the simply a paradox development of a luxury marketplace in spite of a still ongoing national and global economic crisis.

Thereby the primary goal of this research is to determine the factors that currently influence on Russian consumers’ intention to purchase luxury goods. The relative difference of this study is the focus on the growing high-middle and middle class consumer behavior patterns, while the majority of research activities in the Russian luxury market are based on the analysis of media or on qualitative interviews with experts and representatives of the upper class consumer segment.

The secondary goal of the study is to propose marketing communication strategies targeting Russian consumers of luxury goods. In this way, the research purpose and practical value of this study is to help luxury global brands, already operating in Russia or just entering the market, to target the right individuals, to deliver carefully company’s messages and to build stronger, long-term relationships with its customers.
It is obvious that today the Russian luxury market has become vital for most luxury goods producers. The local luxury market has grown in size and has become much more professional. It has already developed its own structure and rules and is a promising and fast-growing market. However the main problem of it is remaining to be the lack of transparency (Cascianini, 2013). There are no official statistics about this market, only estimates. It is also sometimes difficult to identify and to have easy access to its real target group, since its income still often remains semi-official, for this reason the attempt to give a comprehensive overview of the Russian luxury goods market, to discover its most pressing issues and trends as well as to evaluate the relevant target group can be valuable for all luxury market players.

RESEARCH QUESTIONS

The objective of this study prompts a number of research questions as follows.

- What consumers’ perceptions of fashion luxury goods affect purchasing decision in Russia?
- What consumers’ perception of fashion luxury goods affects more purchasing decision of Russian consumers?
- What are the motives for Russian consumers to buy fashion luxury goods?
- What are the Russian consumer’s attitudes toward fashion luxury goods?
- What are the characteristics of consumer behavior toward fashion luxury goods in Russia?
HYPOTHESES

Based on the literature review and in conformity with the research questions, the following hypotheses were generated.

1) **What consumers’ perceptions of fashion luxury goods affect purchasing decision in Russia?**

   *Hyp1.a:* Consumers’ perceptions of quality affect purchasing decision toward luxury in Russia.
   *Hyp1.b:* Consumers’ perceptions of design affect purchasing decision toward luxury in Russia.
   *Hyp1.c:* Consumers’ perceptions of brand reputation affect purchasing decision toward luxury in Russia.

2) **What consumers’ perception of fashion luxury goods affects more purchasing decision of Russian consumers?**

   *Hyp2.a:* Consumers’ perception of quality affects more purchasing decision towards luxury than consumers’ perception of design.
   *Hyp2.b:* Consumers’ perception of quality affects more purchasing decision towards luxury than consumers’ perception of brand reputation.
   *Hyp2.c:* Consumers’ perception of design affects more purchasing decision towards luxury than consumers’ perception of brand reputation.

3) **What are the motives for Russian consumers to buy fashion luxury goods?**

   *Hyp3.a:* There is a positive relation between status demonstration and purchase of luxury fashion goods in Russia.
   *Hyp3.b:* There is a positive relation between expression of uniqueness and purchase of luxury fashion goods in Russia.
   *Hyp3.c:* There is a positive relation between pleasure and purchase of luxury fashion goods in Russia.
There is a positive relation between rewarding oneself and purchase of luxury fashion goods in Russia.

4) What are the characteristics of consumer behavior toward fashion luxury goods in Russia?

Hyp4.a: Russian consumers purchase expensive luxury fashion goods impulsively.

Hyp4.b: Russian consumers purchase luxury fashion goods in order to get respect of a particular social group they belong to.

Hyp4.c: Russian consumers prefer to purchase luxury fashion goods of Western brands.

Hyp4.d: Russian consumers have a low brand loyalty toward luxury goods.

METHODOLOGY

There are two different empirical research approaches: qualitative and quantitative, which can be used in order to address the particular research problem. The decision which one of those two implement depends on purpose of study. The present thesis is focusing on test of the hypotheses therefore the quantitative research approach is more favorable for it.

The main means of collecting quantitative primary data in marketing research are questionnaires. There are different techniques to conduct a survey questionnaire such as face-to-face or telephone interviews and mail or electronic surveys. There are a number of considerations which led to the use of online survey for the present study. Primary, the use of online survey reduces research costs and provides the rapid data collection. Moreover, with the use of internet the respondents’ base is potentially higher as the geographical coverage is bigger. It is especially the case of the Russian Federation with its vast geographical territory. The other advantage is that respondents can complete the online questionnaire at any time in the way they prefer to do so. As it is a distant method of data collection, the respondents might feel more comfortable to remain incognito and raise the level of honesty, especially when it goes for the “income” questions. Apart from the
advantages of the online questionnaire there are some factors which have to be considered. There might be a problem of low response rate or poor representativeness of the sample. In order to overcome those problems the sample method has to be well-thought.

Sampling selection in a study has to correspond to the objectives of research and consider practical issues. The objective of this study has focus on growing high-middle class consumer behavior toward luxury fashion goods in Russia; therefore the target population is individuals with relatively medium-high incomes. Even though the “income” variable is importance for the luxury study, the consumers who have even less income, but purchase luxury items from time to time are considered as the respondents as well. In this circumstances, the factor as frequency or fact of purchase luxury fashion goods has a prime importance.

The sample frame for the present study was initially built from a database provided by Alumni Association of Graduate School of Management, St. Petersburg State University and Alumni Association of Moscow Higher School of Economics. Both universities are well-known in Russia for the quality of business education and reputation of its graduates. Moreover, the questionnaire was distributed among the citizens of the cities Perm and Yekaterinburg, who has relatively medium-high incomes and have agreed to participate in online research.

The use of appropriate sample size is one of the most powerful factors to achieve estimates that are sufficiently precise and reliable (Flynn et. al., 1990). It is considered, that the larger the sample is the lower is the sampling error. In total, it is supposed to select around 130 observations for the present research.

The questionnaire will be first developed in English, and then translated into Russian. The translation of questionnaire will be proved by Russian-English speakers and will be pre-tested before on a sample of five to ten respondents. Pre-test is planned before the conduction of the main research in order to eliminate misunderstandings and incorrect questions. The questions will be formed based on literature review and include multi-choice, attitudinal scaled questions and a small number of open-ended questions.
The primary data collected from the online questionnaire will be entered into SPSS software for the analysis. Appropriate statistical techniques will be then selected, taking into consideration the research objectives and data characteristics.

**MANAGERIAL IMPLICATIONS**

Understanding consumer behavior regarding luxury goods is essential for number of business activities, ranging from product development and branding strategies to communications management. Producers, retailers and designers in the luxury goods industry need to understand consumers of these goods in order to benefit from the market growth trend. This necessitates proactive investigation of the purchase behavior of target consumers in Russia to produce findings with significant implications for foreign luxury global companies operating in Russian luxury market or willing to enter it.

**OUTLINE OF THE THESIS**

The present research paper has a following structure. In the first chapter, introduction to the chosen subject is provided, followed by problem statement discussion and formulation of research questions. In the second chapter the main theoretical concepts of luxury consumption are covered. This chapter also provides an overview of the global luxury market in general and Russian consumption of luxury in particular. Based on selected theories and literature review the hypotheses of the research are established. In the following chapter the primary data methodology is identified, including the explanation of the research design, data collection method, sampling method and the design of online questionnaire. The fourth chapter covers the process of data analysis. Finally, conclusions, managerial implications, research limitations and suggestions for further research are provided.
## PLAN OF WORK

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