

Luxury's Treadmill: Unveiling the Ratchet Effect in Luxury Consumption

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Abstract

Despite the plethora of research on the ratchet effect in economics, very little evidence exists investigating this effect in a marketing context, specifically vis-a-vis luxury consumption. In this research we aim to address this gap in literature by exploring how the ratchet effect can directly impact individuals' luxury consumption. We posit that once luxury consumption becomes ingrained in consumers' lives, changing that behavior becomes highly challenging. Further, as consumers emulate the consumption behavior of others, we also propose that relative income will moderate this effect. Results highlight the persistence of luxury consumption among consumers. More specifically, our study shows that consumers who are in the habit of buying luxury products will continue their patronage of traditional luxury retailers even when they are facing financial problems. This is more apparent in the second hand market where relative income also plays a role in demonstrating the ratchet effect.

Keywords: Ratchet Effect, Luxury Consumption, Habit Formation

Track: Consumer Behavior