Does the Veblen effect exist? An analysis of its likelihood in luxury consumption and potential consequences for pricing management

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1 Introduction

The consumption of luxury products and services is a unique phenomenon, and pricing plays a special role in establishing a universe of offerings that are highly sought after and considered exclusive and valuable. Luxury pricing follows management rules that are different from fast-moving consumer goods, for example. In particular, the Veblen effect – hypothesising that higher prices prompt higher consumer demand – has fascinated academia and business practice for decades within the context of theories such as conspicuous consumption or social signalling. This article presents a new assessment demonstrating that this effect – if it exists at all – is only temporary and limited in scope as exemplified by the empirical data of the Swiss watch industry and sports car manufacturer Ferrari from 2000 to 2025. To this end, the analysis first defines the concept of luxury within the framework of an innovative semantic system. It describes the specific characteristics of luxury pricing, focusing particularly on consumer needs and their potential relevance for the assumed existence of the Veblen effect. As the analysis concludes that the effect barely exists, implying a much more complex context for luxury pricing, the article outlines specifics in luxury pricing management.

2 What is luxury?

Although luxury pricing is a key element of successful brand management, research on the topic is lacking and with regards to terms such as 'high price' or 'expensiveness' confusing (Gutsatz & Heine, 2018, p. 413). One reason for this deficit is that there is no standard definition of the term luxury (Müller & Koch, 2012; Wiedmann, 2022, p. 294). Consequently, associating brands and their offerings to words such as 'prestige', 'premium' or 'luxury' sometimes complemented by prefixes like 'hyper', 'ultra' or even 'affordable' presents a conceptional challenge to both academia and the business practice.

The semantic contest lies in the expression's two problems of relativity. Firstly, if luxury is understood as a type of consumption that goes beyond the general as necessary recognized satisfaction of needs respectively beyond the average standard of living (Marx, 1851, p. 432; Sombart, 1922, p. 71; Mühlmann, 1975, p. 69) then the notions of 'necessary' or 'average' would first need to be defined. However, different stakeholders, such as consumers, wholesalers, brands, suppliers, media, or the general public, have individual interpretations of what luxury mean for them. Secondly, luxury offerings are often characterised by terms such as 'unique', 'rare', 'seldom' or 'exclusive'. But what do these terms signify, and how can they be operationalised to provide more precise definitions that are instrumental for (pricing) management decisions?

One proposal to address this challenge, particularly from a brand management perspective, is the holistic concept of the high-end brand matrix (Müller & Koch, 2012). This model differentiates four possible brand characters: luxury, premium, prestige, and prosuming (professional consumer). In particular, a luxury brand is defined by four characteristics. Firstly, as a necessary condition, luxury consists of products or services with measurable and superlative attributes creating an offering related aura in quantifying uniqueness, exclusivity or rarity. As an axiom it postulates that luxury goods and services epitomise world records in terms of material, functioning, and other benchmarks.

Examples include the weight in carats, the number of components in a product, manufacturing hours, first watch on the moon or the age of a brand. These measurable key performance indexes provide a numerical point of reference, helping consumers to get orientation and to rank offerings while enabling brands to differentiate themselves competitively, alongside or even instead of the price criterion.

Secondly, luxury brands satisfy intrinsic as well as sometimes extrinsic consumer needs, being aspired not only on utility and investment value, but providing on a communicative level opportunity for identity evolution, experiences, social positioning and interaction. The focus of the messaging is not on the product's functional features and benefits or company background, but on a personality with aspirational traits, hopes or life circumstances with which consumers can identify. Thirdly, luxury is founded on overlaying brand, product category and high-end auras. Finally, luxury is sometimes the subject of controversial social, moral and political discourse, given its limited accessibility to wealthy individuals, its high consumption of resources in production and its association with unlawful abuse ('blood diamonds'), all of which may create a polarising aura, too. Current examples of luxury brands are Patek Philippe, Steinway & Sons, or Hermès.

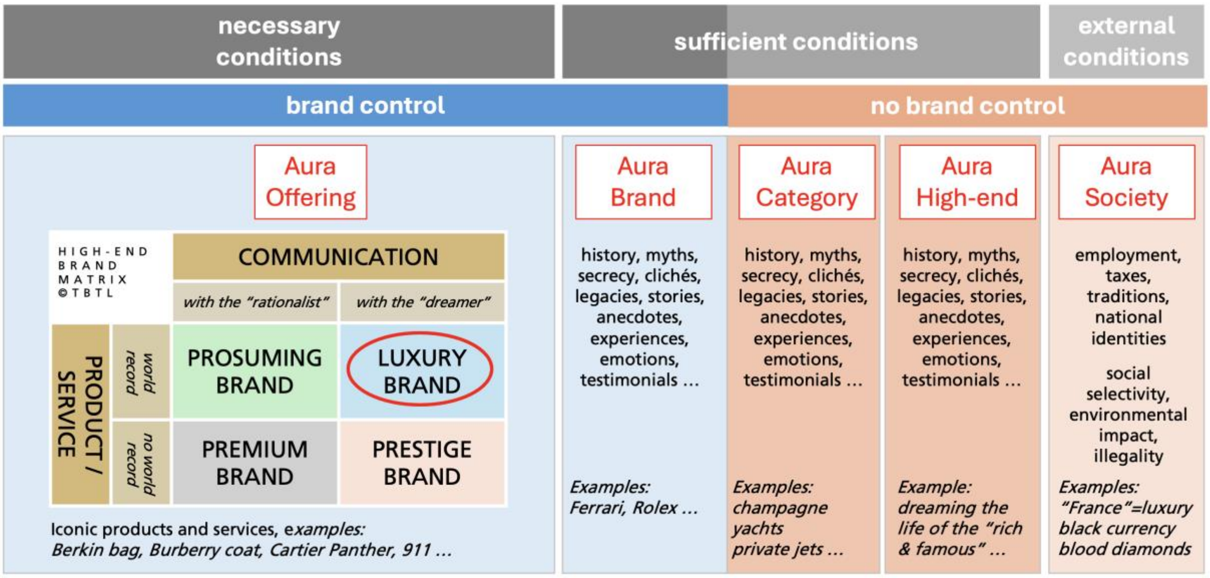

Figure 1: auras of high-end brands (author's illustration)

3 Luxury pricing: the specifics

What is the general task of pricing? This question can be answered from two perspectives: that of businesses and that of customers. For companies, pricing serves to secure revenue, profit, cash flows, growth or market share and therefore is reducing entrepreneurial risk. It is a means of differentiating competitors. Consumers acquire goods and services if they are perceiving value in them (Grosse-Oetringhaus, 2013; Kotler et al., 2007, p. 43). Prices provide an indication of such value and enable comparisons with market alternatives. Customers choose the offer that provides the greatest personal value by weighing potential gains against cost (Reinecke & Noll, 2023, p. 3). This cost can be monetary, procurement time, distribution effort, or psychological expense, while gains consist of product, service, distribution or personal values (Tomczak et al., 2017, p. 174). For consumers, pricing is therefore critical in assessing an overall offering's value to create satisfaction (Reinecke & Noll, 2023, pp. 17).

As being a unique phenomenon of consumption, luxury has got, among others, five main distinctive pricing characteristics.

(i) *High prices*

Prices for luxury offerings are higher in comparison to similar offerings (Simon, et al., 2025, p. 71). Brands justify those higher prices due to their offerings' unique functions and utility, elaborated production processes (e.g. the degree of craftmanship), special materials (gold, diamonds), innovation, quality and reliability as well as additional non-functional benefits.

(ii) Small production numbers and high cost

Production numbers for luxury offerings are small while manufacturing costs per unit are high because of labour intensive craftmanship, prestigious materials etc. (Simon, et al., 2025, p. 71). However, brands not only have to cope with often high production cost but moreover with those for communication activities amounting sometimes for more than 25% of revenues, for instance. Particularly, substantial investments into the customer luxury experiences are a challenge, too (brand boutiques, events, collector clubs, shows, give-aways etc.). Being allocated to few cost bearers only, brands need an accurate assessment of customers' potential life-time sales cycles, revenues and cost to define appropriate prices and to ensure long-term profitability.

(iii) Price reductions and global price harmonisation

High luxury prices with often high wholesale margins create the risks that along the value chain distribution partners offer and smart shoppers seek price reductions. Especially in times of economic downturns, grey markets can be flooded with discounted goods. In the digital age, luxury prices are globally transparent. In consequences, parallel markets with international flows of merchandising develop that are not brand controlled and in line with distribution strategies anymore. In consequence, price reductions can damage a brand's luxury myth and disappoint consumers who have believed in sustainable values. Yet, discounts are not only bad for image, they also hurt brands' bottom lines. Example: to compensate for profit loss, given a product gross margin of 40% and a discount of 7%, a brand would need to increase sales by 14%.

Ideally, a brand's offering is globally priced at the same level on a net basis to avoid spreads between different markets and to discourage parallel markets. Yet internationally various and dynamic parameters such as taxes and duties, currency exchange rates, commodity prices (gold, diamonds), local wholesale margin systems etc. define a complex frame to achieving the goal of constant global price harmonisation. This task is even more challenging as prices in luxury cannot be easily lowered to protect perceived brand value and profitability thus limiting options in pricing decision making in comparison to fast moving consumer goods, for instance.

(iv) Multiple stakeholders

The luxury consumption market is not limited to the traditional supply chain involving suppliers, brands, distribution partners and customers. This is its fifth pricing-specific feature. Given the socially polarising nature of luxury, which is often considered to be a form of consumption that absorbs a lot of natural resources and is only accessible to elites, it is also monitored by additional stakeholders such as governments, NGOs, the media, etc. (Müller & Müller, 2024). Luxury attracts attention, not only from consumers, but also from the general public. It can elicit negative reactions and emotions. This has implications for pricing, as brands need to foresee and absorb investments along the supply chain, especially at supplier level, in order to protect their brand image. This includes ensuring healthy working conditions for textile employees, fair salaries, schools for the children of parents who work in mines and environmental protection at production sites.

(v) Luxury consumer needs and price elasticities

Luxury goods and services provide non-functional benefits beyond offerings' basic utility. Consumers believe that their perceived value can be more important than its elementary utility (Leibenstein, 1950, Gathen & Gersch, 2008; Siems, 2009; Heine, 2018; Wiedmann, 2022).

The consumers' evaluation of such values is based on six basic needs of which four are of intrinsic and two also of extrinsic nature: functional, economic, experiential, identitarian. While luxury shares the customer's need for functionality with industrial or fast-moving consumer goods, the other three are specific. All four needs contribute to a consumer's perceived value of an offering and therefore are relevant for pricing decisions.

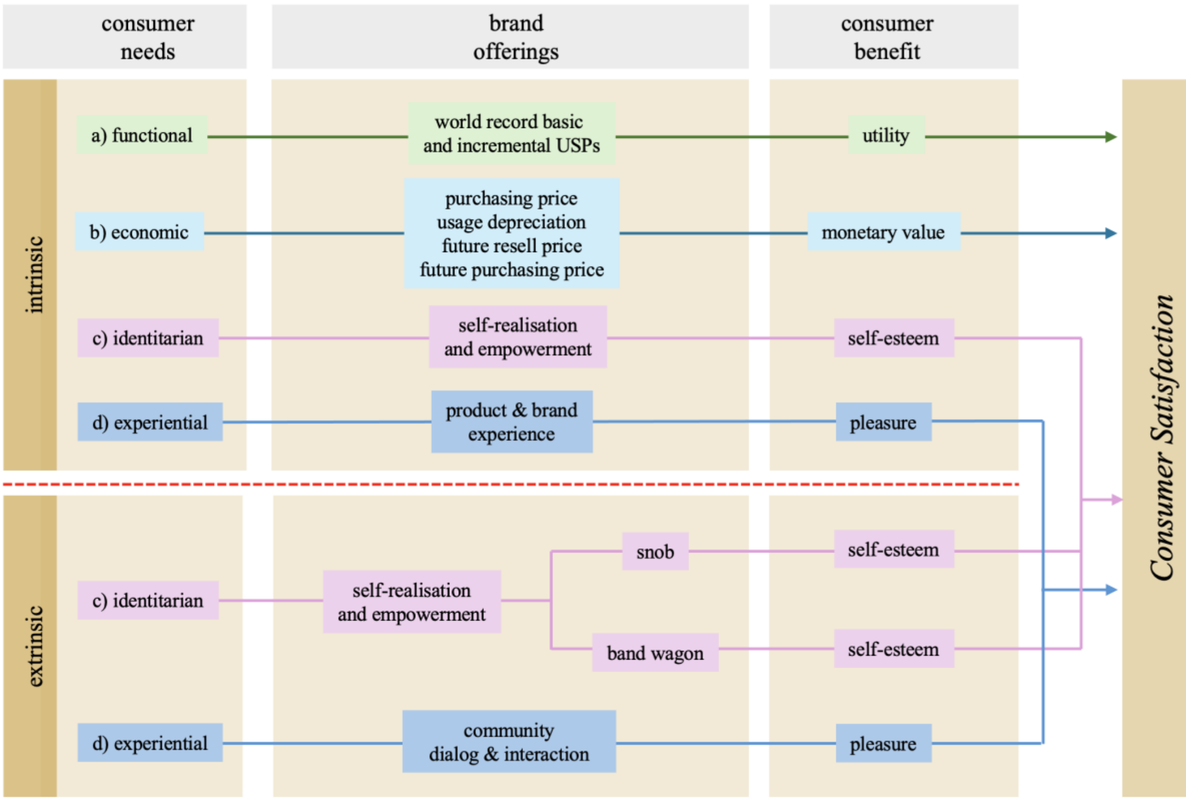

Figure 2: categories of needs of luxury consumers (author's illustration)

a) Functional needs

A luxury product or service is supposed to solve a consumer's problem: telling time (watches), transporting human beings (yachts, cars, planes) and keeping them warm (clothes and shoes) etc. Carrying measurable world records, in comparison to offerings from premium or prestige brands, they do so in a superior, innovative and thus unique way justifying pricing mark-ups.

b) Economic needs

Consumers purchase luxury goods based on complex monetary considerations. They expect exceptional product quality to ensure a particularly long service life and thus lower depreciation over time resulting in a later date for a repeat purchase. Furthermore, the acquisition of luxury goods can be speculative in nature. One aspect is the hot hand fallacy phenomenon. Customers buy today because they assume that the price of a product will rise in the future (Johnson, Tellis, & Macinnis, 2005). As in luxury already expensive offerings tend to get even more expensive consumers wish to anticipate potential savings in bringing forward a purchase. A second speculative motive is founded on potentially high resale values of a formerly acquired Ferrari, Rolex Daytona, or Birkin bag. Their second-hand market price may even be much higher than current official ones therefore promising profits and attractive returns on investments.

c) Identitarian needs

Luxury offerings are purchased not only for functional or economic reasons. They also provide identity which can be of intrinsic and extrinsic nature. They are an expression of self-realisation and empowerment. Consumers acquire luxury products to reassure themselves to be knowledgeable, beautiful, rich, cultivated, powerful etc. Also, as an extrinsic need, luxury products can provide identity vis-à-vis a consumer's personal environment to provide social orientation and positioning. Veblen formulated the theory of conspicuous consumption indicating that consumers buy luxury goods to achieve higher social status (Veblen, 1899). Leibenstein built on Veblen's work on social signalling in analysing two seemingly opposing effects (Leibenstein, 1950). The first one is the 'bandwagon effect'. Through their purchases consumers indicate their belonging to a particular social cohort. The second effect describes the opposite phenomenon. The acquisition of luxury goods and services signifies that its buyer represents elite independence ('snob effect"). In both cases, however, consumers aspire luxury products that position them as socially superior. As luxury products and services therefore offer more than just utility and economic value, buyers are ready to pay a mark-up. Research on conspicuous consumption is elaborated (Dubois, et al., 2001; Vigneron & Johnson, 2004; Tsai, 2005; Han, et al., 2010; Hwang, et al., 2014; Kapferer & Laurent, 2016; Parguel, et al., 2016; Fraccaro, et al., 2021; Kapferer & Valette-Florence, 2021) and is also explained by theories such as congruence theory, value-belief-norm, or the self-concept theory.

Part of Leibenstein's theory is the Veblen effect which was not invented by Veblen himself but named after him. It focuses on price elasticities and assumes that the higher the price for a luxury offering, the greater the conspicuous signalling value which results in higher demand. The Veblen effect thus depicts a positive elasticity-of-demand (Leibenstein, 1950, p. 189).

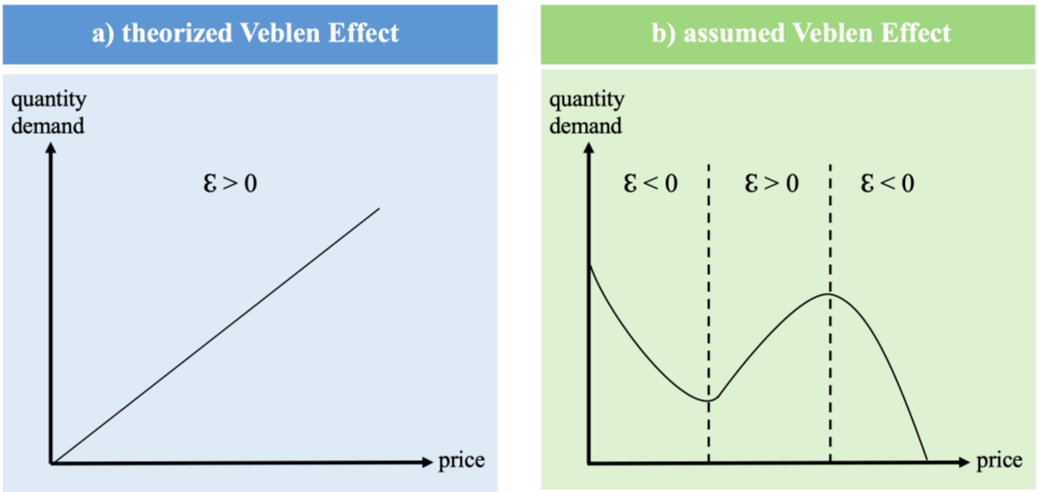

Figure 3: price-demand function (Leibenstein, 1950, p. 204; Dahm, 2020, p. 23), Ɛ = price elasticity of demand

Although the concept describes an aspect of conspicuous consumption, too, it is slightly different than the idea of bandwagon or snob effects as it formulates the consumers' goal of social ranking through monetary value instead of belonging. Consumption becomes a signal of personal financial means and purchasing power. The assumed Veblen effect is fascinating as it contradicts the generally expected negative correlation between price and demand but intuitively fits the notion of luxury being a unusual expression of consumption. It has been the topic of intensive discussions in academia and business practice (Dahm, 2020, pp. 22).

Despite its popularity, however, the effect's existence has not yet been convincingly proven. The reasons are threefold.

Firstly, the effect does not suggest that the price itself triggers higher demand, but it is merely an indicator of a concrete incremental value proposition which is social signalling. Consumers do not want to pay high prices just to be overcharged (Bagwell & Bernheim, 1996, p. 350). Of all four marketing mix instruments price is only a value capturer but not creator (Reinecke & Noll, 2023, p. 1) – and in luxury marketing, prices are no exception.

Secondly, Leibenstein developed a model which at least theoretically suggests the existence of infinite prices and therefore infinite gain in social signalling power and consequently infinite demand. These cannot, of course, be found in reality. Any perceived value and demand curve eventually flattens out if prices become too high or is negatively exposed to external events such as wars, pandemics etc..

This can be demonstrated using the example of numbers of Swiss watch exports from 2000 to 2025. Exports for watches with an export price above 3.000CHF grew on annual average by +5,5%. At the same time, average export prices for the same category increased by +1,9%.

year	export volume '000	avg. export unit price CHF	year	export volume '000	avg. export unit price CHF	year	export volume '000	avg. export unit price CHF
2000	488	6.461	2009	894	8.189	2018	1.576	8.365
2001	541	6.793	2010	1.161	7.833	2019	1.667	8.506
2002	564	6.980	2011	1.396	7.947	2020	1.340	8.477
2003	532	6.998	2012	1.579	8.292	2021	1.788	8.699
2004	580	7.184	2013	1.598	8.424	2022	1.999	8.996
2005	731	7.139	2014	1.643	8.421	2023	2.091	9.417
2006	908	7.067	2015	1.574	8.517	2024	2.006	9.921
2007	1.080	7.492	2016	1.438	8.246	2025	1.871	10.442
2008	1.219	7.822	2017	1.460	8.399			

Table 1: Swiss watch exports of the category of +3.000CHF export unit price (author's illustration, source: Swiss Watch Federation)

Exports of timepieces with an annual average unit export value of over CHF 3,000 (MSRP approx. CHF 7,500) correlated strongly with the volume of watches exported during the period under review (r=0,910 with p=0,000; two-sided significance level α = 0,05).

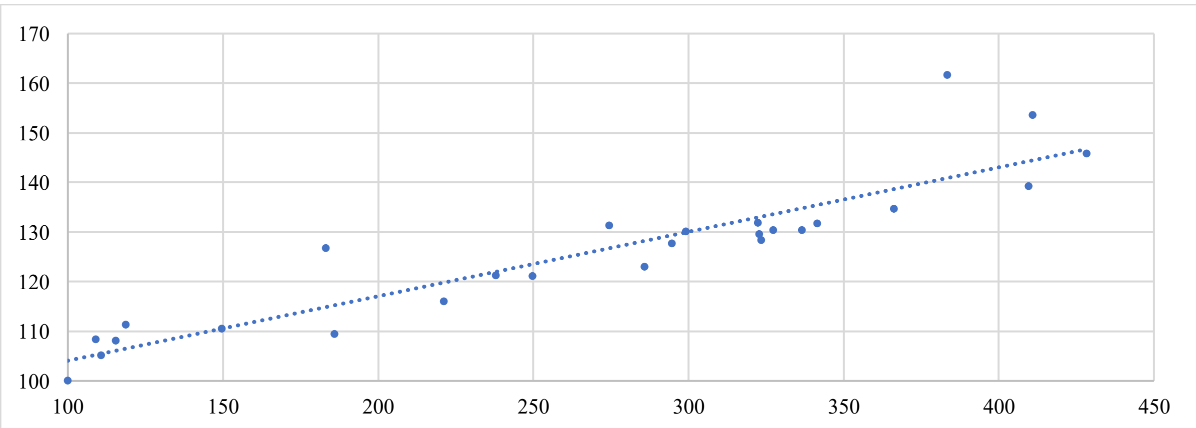

Table 2: The correlation between indexed annual Swiss watch exports in volume and annual average export unit prices above 3.000CHF from 2000 to 2025 (author's illustration, source: Swiss Watch Federation)

However, this was not constantly the case. Whilst export prices remained unchanged when the dot-com bubble burst in 2003, export volumes fell by -5.7%. During the Lehman crisis in 2009, exports plummeted by -26.7% (with a simultaneous export price increase of 4.6%). Declines in exports were also recorded during the global economic crisis from 2015 to 2017 and during the Covid pandemic against the background of during those periods rising per unit export prices. And for the years 2024 and 2025, price elasticities were negative.

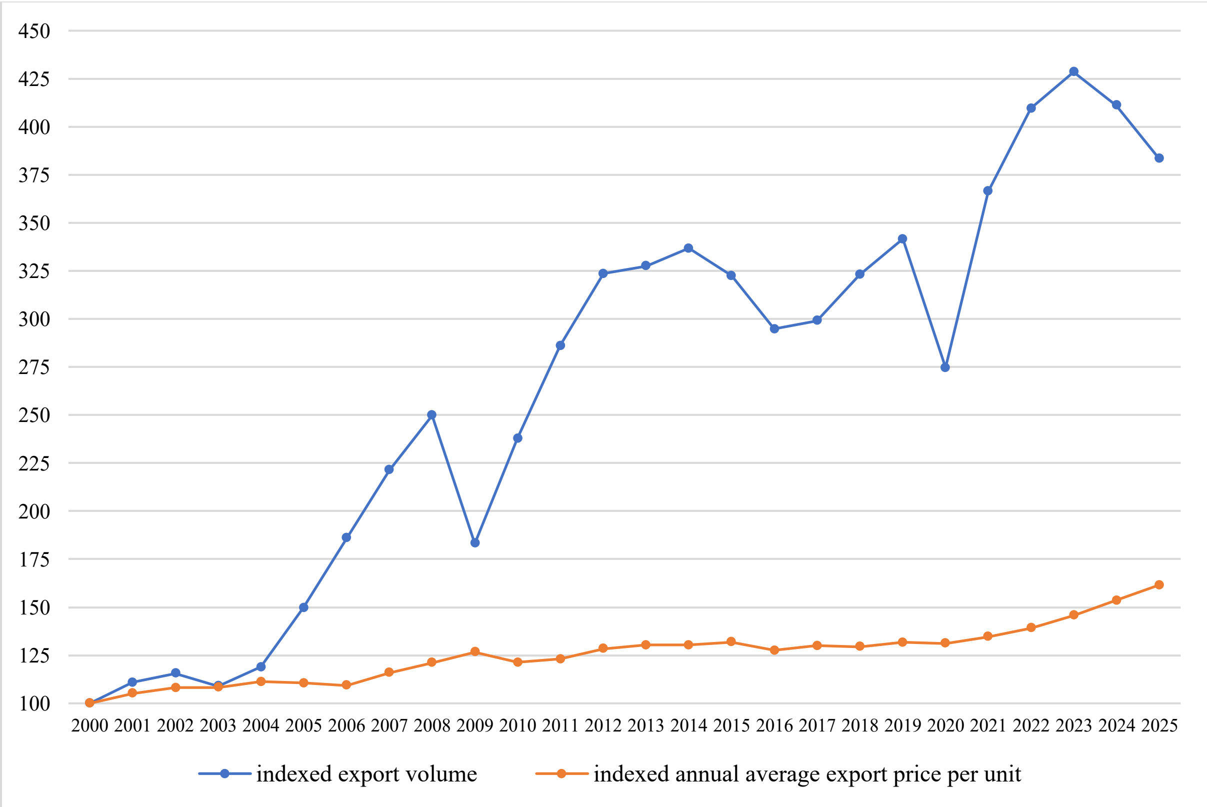

Table 3: Indexed Swiss watch exports in volume of the category of +3.000CHF export unit price and annual average export prices (author's illustration, source: Swiss Watch Federation)

A similar pattern exists if sportscar manufacturer Ferrari is taken as another example. There is a strong correlation between average price per car sold and the number of delivered automobiles (r=0,865; p=0,000). But alike the case of Swiss watch exports, the correlation is softened by impacting factors such as wars, economic crises etc.

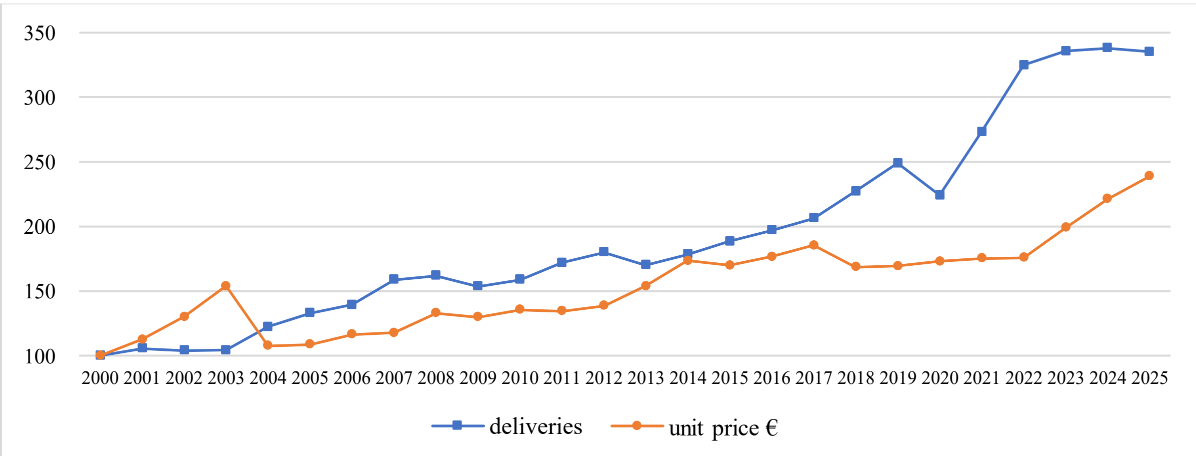

Table 4: Indexed Ferrari car deliveries and average price per automobile sold (author's illustration, source: Fiat and Ferrari annual reports)

Hence, even if the Veblen effect would exist then likely only temporarily. Indeed, in studies the effect has only been proven using a proxy, and the causal relationship between price and demand has yet to be scrutinised empirically (Dahm, 2020, p. 25).

Which is difficult. Because the third argument to question the existence of the Veblen effect concerns methodological challenges: its impact can hardly be extracted (Campbell, 1995). Value perception of a luxury offering does not depend on price and identity gained alone. Other consumer benefits such as improved product utility, economic value or brand experience are relevant, too. So are influencing competitors' activities (new products, price changes etc.) in shaping consumer product or service assessments. Neither in the limited world of laboratory experiments, nor in real business practice it is possible to single out under 'ceteris paribus' conditions the singular impact of a price increase of an identical product on the consumer perceived identarian gain. Indeed, the full range of spill and carry-over effects of all marketing mix and competitors' activities as well as other impacting factors cannot be isolated to prove that the effect exists and if it does to find out to what degree. However, market research methods such as conjoint analysis can nevertheless help brands to find out approximatively if and to what extent consumers are willing to pay more for an offering in gaining perceived value of intrinsic or extrinsic identity.

d) Experiential needs:

The fourth customer need is for experience. Brand events, enriching exchanges in collector clubs, or the enjoyment of using a product that is special create the particular aura of luxury that consumers strive for offering fun, entertainment, dialogue etc. Providing luxury experience for customers is an important investment for a brand. Consumers may even be willing to pay more to attend a brand event than they would for the product itself.

4 Luxury pricing management

The existence of the Veblen effect would have simplified luxury pricing. Higher pricing would have resulted in higher demand. Yet, as the phenomenon does not or only temporarily occur other elements need to be considered to define and implement an offering's value.

The unique and multifaceted framework of luxury pricing management is characterised by high prices, generally small production numbers, elevated costs, limited scope for reducing prices, complex luxury consumer needs and multiple stakeholders. To succeed, a holistic approach is required that integrates exhaustive market research and analysis, pricing goals, strategies, and professional implementation. This approach consists of four stages.

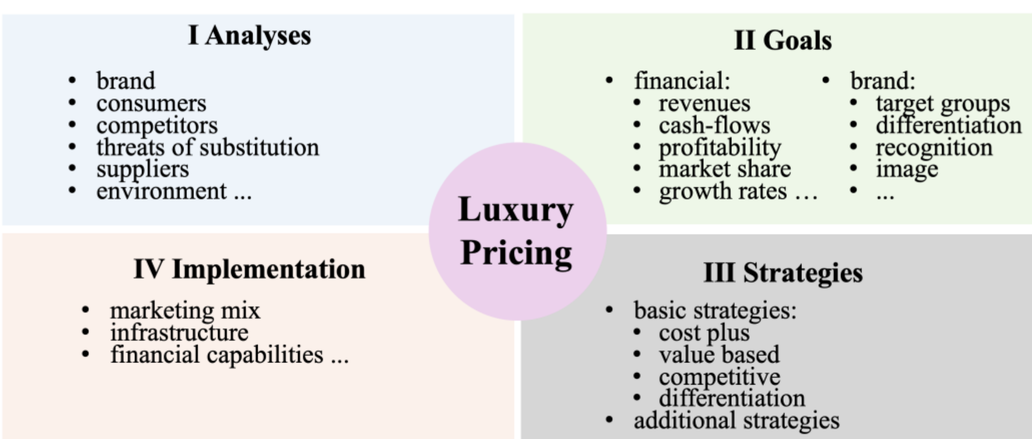

Figure 4: the luxury pricing management (author's illustration)

The first one focuses on analysis. It is generally important to understand the overall driving forces in order to assess a brand's competitiveness, attractiveness and profit potential. This involves considering consumers, existing or potential competitors, suppliers and the threat of substitution (Porter, 2008). The analysis also lays the groundwork for scenario planning and luxury pricing decisions. It also reflects wider environmental, social and governance topics (ESG) and other potential influencing factors, such as future global macroeconomic growth rates (Müller & Müller, 2024; Müller & Bleeker, 2025).

In a second stage, brands set their luxury pricing goals which define brand and financial key-performance indicators. Based on thorough research, clear visions, precisely defined target groups, and relevant as well as attractive positioning, in a holistic and integrated approach, brands then outline luxury pricing strategies. Table 4 describes four basic pricing strategies whereas table 2 presents those that are more luxury related. Some strategies are correlated and are used in combination in business practice. As one of the goals of luxury pricing is to maintain or increase perceived consumer values through stable or rising prices, price-quantity, skimming, dynamic or penetration strategies are not suitable as these focus on aggressive pricing approaches that are more applicable to high-volume businesses.

Basic Luxury Pricing Strategies		
pricing strategy	**advantages**	**disadvantages**
Cost plus pricing • the selling price of a product is determined by adding a specific fixed percentage or multiple (a 'mark-up') to the product's unit cost • pricing is primarily based on data from cost accounting	• definition of a desired return-on-investment • basic data is easily obtainable • is often perceived as fair by customers	• detail knowledge of cost is needed • neglects customer needs and competition • leads to suboptimal prices that are either too low and sacrifice margin or too high and destroy sales opportunities
Value-based pricing • price setting according to estimated or perceived value and customers' willingness to pay for it • pricing is primarily based on information about the value created for the customer. • alignment of prices and values	• enables the optimal exploitation of customers' willingness to pay • takes into account the competitive situation and financial consequences • competitive differentiation	• to understand the consumers' values, elaborated market research is needed • communicating and quantifying value • maintaining margins • maintaining quality, reliability and consistency • implementation can lead to additional costs • internal resistance • customers may perceive certain aspects as unfair
Competitive pricing • pricing is primarily based on information about competing offers and prices	• basic data relatively easy to obtain • notes the price activities of competitors	• neglects customer needs • for bespoke goods, there is no information about market or competitor prices
Price differentiation • different prices for different customer segments (assumption of same offering)	• higher sales and better margins • less risk of overstocks	• needs clearly separated customer segments • risk of diluting brand image

Table 5: Direct luxury pricing strategies (authors' illustration); sources: Shapiro, 2003; Hinterhuber, 2008; Michel & Pfäffli, 2009; Siems, 2009; Armstrong, et al., 2014; Garrison Jr. & Towse, 2017, Diller, et al., 2021; Reinecke & Noll, 2023; Simon, et al., 2025

There is a broad consensus among practitioners and researchers that value-based pricing often yields higher profits than cost- or competition-based pricing (Kühn & Pfäffli, 2007). Customers evaluate products and services differently, attributing different levels of utility to them, which results in a differentiated willingness to pay, in contrast to cost- or competition-based pricing.

In addition to basic pricing strategies, brands may also define more luxury-related ones as table 5 illustrates:

Additional Luxury Pricing Strategies		
luxury pricing strategy	**advantages**	**disadvantages**
Exclusivity pricing • creating exclusivity and thus higher willingness to pay • product limitations, waiting lists or expected customer sales history	• building higher perceived value • higher prices • can be combined with pre-payment obligations	• customer may consider exclusivity pricing as unfair • potentially higher cost
Decoy pricing • offering a very expensive product to make other purchase options seem more reasonably (e.g. limitations, master series)	• helpful for the creation of pyramids of offerings • attracting target groups with less means • indirect strategy for price reductions	• risk of diluting brand image if pyramid of offerings gets too far stretched
Bundling • combining products or services into a package • generally directed at distribution partners who need to buy slow movers to get top selling offerings	• reducing overstock • avoidance of discounts for slow movers	• risk of fuelling grey markets with slow movers • opposition of distribution partners • loss of image
Auctions • sale of goods at auction houses or internet platforms	• indicates long service life of product • gain of image if products fetch high prices • image transfer of auction houses e.g. Sotheby's	• generally, applied to sales of vintage products only • risk of loss of image if auction prices are low

Table 6: Indirect luxury pricing strategies (author's illustration)

In the fourth stage of luxury pricing management, brands can choose from a variety of options to implement their pricing goals and strategies. These options should be employed in a coherent and integrated manner to enhance the brand message without creating contradicting signals. The areas of action concern above all the marketing mix, infrastructural context, and financial capabilities of a brand.

Within the marketing mix, the most important ones are products and communications as they construct 'ex definitione' the offerings' very luxury character.

(i) marketing mix: product

Luxury implies the creation of products and services with measurable world record offerings and therefore carrying potentially high monetary benefits also. The cautious introduction of limited series and master lines can support the notion of price justifying exclusivity.

Also, the artificial underproduction is possible (on a prestige branding level Rolex' Daytona is an example). Luxury pricing aims to maintain a high brand image. Ideally, therefore, price reductions should be avoided.

(ii) marketing mix communications

The task of communications is to provide consumer identity being enriched with benefits of various brand experiences. It is crucial that the quality and content of communications justify the set prices. Events, customer gifts, brand boutiques or the competence and friendliness of sales representatives at the point of sale all need to add and secure the required brand value. If these experiences are attractive enough, they can even be charged to customers (e.g. watch brand Panerai). To enhance the brand's exclusivity - and thus to give reason to high prices - customers can be placed on a waiting list for product delivery. From a tactical perspective, luxury prices should be rounded up to whole numbers to avoid the idea of discounts (Parguel et al., 2022).

(iii) marketing mix: price

In the luxury sector, prices should at least be stable (Simon et al., 2025). To achieve this, brands can implement specific luxury pricing strategies. However, there may be situations in which price reductions are needed due to changes in market conditions, overstocking, competitor activity, and so on. One way to address this challenge is price differentiation, which involves identifying distinct customer segments to which the same product or service can be offered at different prices. As this strategy can be risky in transparent markets with well-informed consumers who expect price stability, other options are available. The introduction of less impressive novelties, for example, can justify lower prices. Launching new, less expensive products and services enables the company to adapt to market circumstances. Nevertheless, management must carefully analyse the risk of downgrading too much, which could disappoint former customers who believe in the brand's constant values.

(iv) marketing mix: distribution

Price stability depends on the selection of distribution channels. In luxury, retailing permits the control of prices and flows of merchandising meaning brands own boutiques and e-commerce shops. Players such as Hermès and Richard Mille do not use external distribution partners at all. Retailing lowers risks of over-distribution, discounting, parallel markets; it allows the absorption of wholesale margins and the acquisition of valuable customer data that will be instrumental to optimise pricing decisions. If brands cooperate with wholesalers, it is important to select the right partners and to define sustainable distribution margins. This is a challenge for international brands that need to strive for global price harmonisation in the context of a highly dynamic frame of import duties, currency exchange rates, different local margin structures etc.

(v) infrastructural context

At an organisational level, there are many parameters to consider when implementing luxury pricing such as market research capabilities, meaningful cost-accounting systems or international tax expertise to get transfer pricing decisions right. One important factor is the brand's culture of luxury pricing. It is especially crucial for sales representatives to communicate brand and product values and to defend prices at wholesale and consumer levels. Pricing discipline is needed in order to avoid discounts that could damage the brand image and profitability. However, as sales managers are often remunerated based on success bonuses related to volume instead of realised gross margins, for instance, organisations put pressure on their pricing systems.

A second important organisational aspect of luxury pricing is having flexible production processes to react to economic fluctuations and avoid overproduction. Finally, luxury pricing requires tools for price monitoring, detailed cost accounting and controlling.

(vi) financial capabilities

A key to successful luxury price management is to make realistic sales forecasts and budgets that defend brand values, and to have sufficient funding for constant investment in those brand values. To achieve profit margins of over 30%, successful luxury brands reinvest more than 20% of their revenues in branding activities every year. This should also apply for times of crisis when marketing budgets are often a preferred focus points of cost cutting measures. This is counterproductive, as luxury brands are built on efforts to create customer identities through advertising, PR, experiences, etc., and therefore sets off a negative spiral of reduced brand exposure, which will lead to lower sales. Indeed, during business downturns in particular, brands may even need additional funding, for example for a buy-back merchandising initiatives, or the willingness to endure lower profits due to the physical destruction of excess stock.

5 Future research

Although luxury has been a topic of interest in academic business research for decades, the crucial question of what luxury is has not yet been answered convincingly. Any further research on luxury-related topics such as pricing, consumer behaviour and product development can only be vague if the underlying meta-definition is unclear.

When it comes to luxury pricing, many questions merit further investigation. How are perceived luxury brand and offering values being built by different, intercorrelated factors such as communication, product, customer experiences, competitor activities etc.? Which pricing methods are used in business practice? How successful are they? How will changing consumer behaviour, social media or demographics impact luxury pricing in the future? How can organisations adapt to better defend luxury pricing and profits, for example regarding sales remuneration schemes? How will the cost of ESG affect luxury pricing?

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