



## When spending hurts

**You'd think that creating a more equitable distribution of wealth would curb the urge to spend on status symbols – be they designer handbags or flat-screen TVs – as the “have-nots” try to keep up with the Joneses.” But new marketing consumer research shows that the people will pay the price to stand out, even if they can't afford it.**

Alfie is a London hair stylist. He is 25 years old, smart, and fond of expensive designer clothes. He puts himself into the low income bracket and admits his spending habits go way beyond his monthly salary. “I live in the moment, I spend rather than save and once I have splurged I wait for next month's salary to do it all over again. I like to look good and stand out especially around my peers.”



Alfie's attitude to spending and saving is indicative of the behaviour and decision making analysed in research recently published in the *Journal of Consumer Research* by INSEAD professor of marketing, **Pierre Chandon** and **Nailya Ordabayeva**, a former INSEAD PhD student and now assistant professor of Marketing at Erasmus

University in The Netherlands. Their work “Leapfrogging over the Joneses” looks at what drives consumers like Alfie, on a low income, to spend conspicuously i.e. on status enhancing bling rather than on essentials like health and education and why the option of saving money comes way down on the priority list.

For Alfie the answer is obvious; his attire makes him feel and look good. Crucial, he says, when standing in front of a mirror all day. But Chandon's research shows that much more is going on in the minds of consumers and - if understood correctly - could be critical to government policy-makers and the global marketing industry.

### Why we keep up with those Joneses

The term “keeping up with the Joneses” is well documented. The grandfather of consumer behaviour terminology, Thorstein Veblen, first used the term “conspicuous consumption” in 1899 to describe the acquisition and display of possessions for gaining social status. It is also widely acknowledged that consumers at the bottom of the social ladder spend more proportionately on ostentatious products like cars, mobile phones and designer clothes because they are not satisfied with

their lot - especially when they compare themselves with others. The theory is that if there were greater economic equality, poorer households might not spend so much on luxuries and start saving more. Hence why luxuries are taxed so highly in many countries: consumers who can afford luxury price tags can also afford luxury taxes.

But does this work? This latest research suggests that it may actually backfire. The authors carried out a series of experiments testing how equality influences different groups of people in the bottom tier of income. The participants were given a range of scenarios from going to a school reunion to smartening up their house. They were asked to decide whether to save money or spend on purchases which would improve their status by moving them into a higher tier. Potential purchases included a luxury handbag for the school reunion, flowers for their garden, the size of flat screen TVs as well as a wedding gift.

The results revealed that when equality improved and there was a real community spirit, people stopped envying what each other had and felt no need to go out spending because there was no longer a huge possession gap. However, the studies also showed that when people were made equal but were in a competitive mindset, greater equality “backfired” and in fact encouraged them to leapfrog over their neighbours and friends. They weren’t satisfied with being equal or the same. They preferred to stand out and be first; choosing to go out and buy a bigger TV and a more expensive handbag than the rest of the group. It correlates with a common observation in the UK that the smaller your sitting room the bigger your TV.

Chandon tells INSEAD Knowledge, “If you’re in a race and if you’re really far from the runners just ahead of you, it doesn’t really make any sense to run faster because you won’t be able to pass them. But if you are in a tight group like in the peloton, the pack in the Tour de France, and everyone is equal, then it really makes sense to try really hard to come first because the payoff of being first, of trying hard, will be larger.”

But how relevant are these highly-controlled studies to the real world which is still reeling from America’s splurge and subprime mortgage fiasco? Chandon states, “One of the drivers of all this spending, the reckless spending, was the desire of people to improve their social status even though they may not have had the means.”

### **Conspicuous consumption**

Yet the authors do not believe conspicuous consumption is a bad thing per se. “It can help with low self-esteem and a sense of powerlessness,” says

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co-author Nailiya Ordabayeva. Originally from Kazakhstan, she observed that when the Soviet Union broke up, her fellow countrymen spent heavily on status products despite their limited resources.

Then, of course, there is China. Travel around this vast country and all the major cities are glittering with bling as the growing middle class, and crucially those still working their way up the ladder, are buying as many new shiny labels as they can. Vogue China has more than three times the number of pages as its American edition.

After all, wherever one fits on the wealth ladder, do we not all have a desire to show off our apparent success and emulate those on the rung above us? Many of us may not care to admit it but is this desire to get ahead not just part of human nature? The marketing industry certainly thinks so and has long exploited the voice of temptation inside us all to sell us innumerable goods. Chandon’s research suggests marketers could squeeze more money out of us - especially those amongst us who are bothered by our current status and want to prove our ranking.

Ordabayeva says, “Instead of striving to achieve the standard pyramidal shape in the hierarchy, managers may be better off promoting a “pear” shape in the hierarchy, as it would encourage consumers—or indeed employees—below the large bump to improve their status through greater spending and consumption, or harder work.” So airlines that have a pyramid structure of consumers like gold, platinum and silver reward cards could opt for the pear structure with a lot of people in the same status. In theory this would lead to bigger profits because people would be willing to pay more to jump over the bump and reach the elite status.

### **Closer ties mean lower spending**

The authors also found participants were affected by social circumstances within their immediate environment. “It depends on the state of the economy. We found in times of recession, people tend to value their close family more, fitting in and social cohesion, and when times are better, people value standing out,” says Chandon.

The research is directed at government policy-makers as well as the marketing industry. Ordabayeva agrees with the social scientist Robert Putnam that promoting the sense of “we” or togetherness in society would help with other policies of easing inequality. But she warns that tax policies on reducing inequality would be much more effective if “they were carried out at the same time as implementing policies that promote

cooperation and underplay the importance of status and competition in society.” But in this era of severe cuts and job losses, most people seem too concerned about their own predicament and loss of status to have time to embrace any big society feeling. But they still want to feel good.

It’s like Alfie’s designer clothes. There are cheaper and perfectly good alternatives but, as this research has shown, the temptation to stand out from the crowd and spend draws us both to the luxuries, whether we can afford them or not.

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