Original Article

Cross-category indulgence: Why do some premium brands grow during recession?

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ABSTRACT Reports about luxury categories and premium brands growing during recession are multiple. This marketplace behavior, however, is counterintuitive to what traditional economics would predict. The authors propose and test a theory to explain why demand for premium brands may grow despite a contraction in the economy. They define cross-category indulgence as the strategy of moving across categories (in contrast to moving within category) to satisfy the desire to indulge while dealing with budgetary constraints. The authors test empirically for cross-category indulgence using a unique dataset that compares dining in with dining out. They find support for cross-category indulgence and rule out other possible explanations for the increase in demand for a premium brand. The authors discuss that premium brand

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managers that understand this marketplace behavior and create opportunities for their brand to be the leader in their category may alleviate a decrease in demand for their brand during tough economic times.

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During periods of economic uncertainty, the demand for premium brands and luxury goods is expected to decrease, because consumers prefer to reduce their overall expenditure (Cook, 1999). Research suggests that many consumers will switch to private labels or competing brands with lower prices when budgets are tight (Lamey *et al*, 2007). However, industry reports about premium and luxury brand sales growing during the recession are abundant. For example, *Huffington Post* (2010) reported that eight premium brands, including Apple, Polo, and Starbucks, did well during the recession that began in 2007. An article in *The Guardian* began, "Recession, what recession? While high street retailers are going the wall, the world's most luxurious brands are reporting booming sales of £2270 handbags and £900 high heel sandals" (Neate, 2013, para. 1). Recently, Kapferer (2014) commented that luxury brands are no longer "…a discreet and tiny economic sector aimed at the rich." (p. 716). Why do some luxury and premium brands prosper despite a weak economy?

In this article, we propose and empirically test an explanation for the growth in demand for premium brands during a recession. According to the theory of hedonic consumption, consumers have a desire to buy products that will provide a pleasurable experience (Hirschman and Holbrook, 1982). Given the robustness of this theory (Alba and Williams, 2013), we argue that this desire will not dissipate during tough economic periods. If the desire for hedonic consumption persists despite a weak economy, then how do consumers satisfy this desire while coping with a restricted budget? Little is known about how this hedonic behavior is affected by changes in the economy.

We propose that one strategy consumers use to satisfy the desire for hedonic consumption when faced with a budgetary constraint is cross-category indulgence. Rather than spending money on a second-tier brand in the same category, an alternative strategy is to purchase a premium brand in a different category. If this category is less expensive, the consumer will accomplish both objectives: satisfying the need for a hedonic purchase and indulging in a premium brand. Consider a consumer who desires a luxury handbag (e.g., Louis Vuitton) but cannot afford the handbag and yet continues to desire a premium brand for hedonic reasons. To achieve this goal, the consumer might choose to buy a premium brand in a more affordable category such as wallets, watches, apparel, or shoes. To purchase a premium brand in a different, more affordable category fulfills a consumer's desire for hedonic consumption despite financial constraints.

We argue that cross-category indulgence in premium brands contributes to the growing demand for premium brands in some categories despite a weak economy. To the best of our knowledge, no empirical research has been conducted to examine the counterintuitive behavior of premium brands that thrive during recession. Our research objective is to empirically investigate cross-category indulgence of premium brands, and its impact on the

overall demand for premium brands, over a business cycle that includes periods of recession.

For our empirical application, we investigated cross-category indulgence by testing for a substitution effect between dining in (i.e., a second-tier category) and dining out (i.e., a top-tier category). We collected data from Certified Angus Beef, a premium brand in the beef industry (Firebox Report, 2013) over an eleven-year period, during which the economy experienced periods of both expansion and contraction.

We find that the demand for the premium brand is not affected by the economy and continues to grow despite periods of both contraction and expansion. This finding is counterintuitive, because the sales of premium brands are expected to decrease during a recession. More importantly, we find support for cross-category indulgence, in that there was a significant positive substitution effect between dining in and dining out even after controlling for income effects. Together, these results provide support for our cross-category indulgence hypothesis. To make our results more robust, we used our unique dataset and additional public data to rule out other possible explanations for the increase in demand for a premium brand, including a rise in the number of affluent consumers, idiosyncratic firm actions, price decrease, and category growth.

From a managerial perspective, this research suggests that premium brand managers should promote the quality and leadership positions of their brands, especially during a weak economy. Because consumers' desire for hedonic consumption persists despite the economy, some consumers will use cross-category indulgence to satisfy this desire. Premium brand managers that recognize this marketplace behavior and promote their brand accordingly may experience an increase in demand for their products even during a recession. In addition, our research provides insight into how to manage a portfolio of brands. Our findings suggest that during a recession, promoting the top brand in a second-tier product line might be more effective than promoting an entry-level brand from the top-tier product line. Similarly, when deciding to enter a new market with a low per capita income, a brand manager should launch the top brand from the second-tier rather than the entry-level brand from the luxury brand or first tier.

The remainder of the article is organized as follows. We begin by reviewing the consumer behavior literature to understand the differences between utilitarian and hedonic consumption, and to explain why consumers have a willingness to indulge. We then review the extant literature to determine how the business cycle affects purchasing behavior. Next, we describe our empirical approach to investigate the impact of the economy on a premium brand and to test for substitution and income effects; in the same section, we also describe the data used to test our hypotheses. We then present evidence supporting a substitution effect between dining out and dining in. We also provide evidence to rule out alternative explanations for the increase in demand for a premium brand during a recession. We conclude with managerial implications, the limitations of our research, and directions for future research.

LITERATURE REVIEW

Hedonic consumption and willingness to indulge

In the consumer behavior literature, hedonic consumption is a well-established phenomenon (Hirschman and Holbrook, 1982; see a recent literature review by Alba and Williams, 2013). Hedonic consumption is a consumer's desire to purchase

products that will provide her with a pleasurable experience. A pleasurable experience consists of the enjoyment an individual receives from the product's features and also from the consumer's experience with the product. Alba and Williams (2013) distinguish between hedonic and utilitarian products, with "hedonic products being perceived as relatively more fun, enjoyable, and pleasant, and utilitarian products being perceived as relatively more functional, necessary, and effective" (p. 3). Hedonic consumption has also been linked with symbolic consumption, which is the notion that consumers purchase hedonic goods to signal status (Belk, 1988).

Economists refer to this behavior as conspicuous consumption (Leibenstein, 1950). According to the theory of conspicuous consumption, "snobs" desire products to demonstrate exclusivity (snob effect), whereas "followers" purchase a product to secure membership in a high-status group (bandwagon effect). The conspicuous consumption literature also refers to the Veblen effect, consumers' willingness to pay a premium price for an exclusive product to convey higher status (Leibenstein, 1950). Across both the behavioral and economics literature, there is evidence that consumers have a strong desire for hedonic consumption and to signal their social status. Despite the progress in explaining the motivations for this behavior, no empirical study has investigated how this consumption behavior changes over time or how consumers respond when faced with budgetary constraints.

A related stream of behavioral research that is relevant to our study addresses the notion that consumers make tradeoffs between hedonic and utilitarian goods. Kivetz and Simonson (2002) examine how consumers spend their money on necessities and luxuries. They define indulgence as "spending on items perceived as luxuries relative to one's means" (p. 199). When faced with a choice (tradeoff) between a necessity and a luxury, consumers have a strong tendency to choose the necessity, because they have basic needs (e.g., food, health, savings) and feel guilty if they indulge. In their seminal article, Kivetz and Simonson find that consumers are willing to use precommitment as a mechanism of self-control in order to indulge. In other words, consumers employ strategies (e.g., precommit to a vacation for next year) to help overcome their resistance to indulgence, so that they can enhance the enjoyment and quality of life. In this study, we further explore the notion of indulgence but consider an additional strategy that consumers use to satisfy this desire when faced with a budgetary constraint.

Impact of the economy on consumption

During a recession, consumers seek simple brands and products but at the same time ones which promise a complete and wholesome experience (Flatters and Willmott, 2009). Moreover, consumers may even be satisfied with a 'good enough' substitute instead of the ideal product especially when the switching cost is low. Alternatively, when the cost of switching to a substitute is high, the amount of consumption is decreased to cope with the stringent economic climate (Latham and Braun, 2010). Due to the economic pressure and the need to reprioritize, the purchase of certain product categories is eliminated altogether or their definition of categories which are 'essential' versus those which are 'nonessential' might change completely (Quelch and Jocz, 2009; Kamakura and Du, 2012).

Research has also examined the differences in cyclically sensitive purchases of durables and nondurables (Cook, 1999), private label and national brands (Lamey *et al*, 2007, 2012), across a variety of household purchases (Kamakura and Du,

2012), luxury goods (Reneke *et al*, 2012), and strategies for retailers to retain consumers during a recession (Favaro *et al*, 2009). These studies suggest that during periods of economic contraction, many consumers will alter their consumption decisions such that they will consider alternative products with lower prices to satisfy their needs. The decision to buy a similar product at a lower cost enables a consumer to reduce overall expenditure during periods of economic contraction.

Consumers choose to postpone the purchase decision or reduce spending on discretionary items when faced with economic uncertainty (Cook, 1999). However, for nondurable products, choosing a less expensive alternative – for example, purchasing a private label – is a viable alternative. Indeed, Lamey *et al* (2007) found "that private-label share grows disproportionally in periods of economic contraction, and that much of this share gain persists in better times" (p. 1). Lamey *et al* (2012) found similar results after controlling for marketing instruments. Across both studies, changes in consumption decisions (i.e., purchase of private label rather than national brand product) persisted beyond the end of the contraction period. Similarly, Quelch and Jocz (2009) found that consumers do not revert to their old purchasing habits even after the recession has ended. Thus, consumers seek different consumption options when faced with a budgetary restriction. In this paper, we investigate cross-category indulgence as an alternative for consumers who desire premium brands despite economic uncertainty.

EMPIRICAL APPROACH: SUBSTITUTION VS. INCOME EFFECT

Our empirical approach assesses how consumer expenditures on a premium brand vary with household income. When income decreases, we expect a consumer to buy less of a "normal" good and replace this purchase with an "inferior" good (Wakefield and Inman, 2003). "Luxury" and "necessary" goods are both types of normal goods, with demand for luxuries increasing more than proportionately with income, while demand for necessities increases less than proportionately with income. According to economic theory, luxury and premium brands behave similarly such that they increase more than proportionately with income. For this research, we focus on explaining the growth in premium brands over the duration of the business cycle.

One possible explanation for the increase in demand for some premium brands during a recession is related to the substitution effect. A substitute is a good or service that can be used to satisfy a similar (or same) need. Economists consider goods to be substitutes if raising the price of one good leads to an increase in sales of the other (Bucklin *et al*, 1998). Therefore, when economic conditions impose budgetary restrictions, sales of one premium brand will be substituted with another more affordable brand. However, the income effect also affects buying decisions when there are two (or more) brands. When income decreases, consumers are more likely to buy goods from essential categories rather than nonessential (Kamakura and Du, 2012). Thus, while it is clear what will happen to an inferior good, since both the income and substitution effects tend to cause an increase, economic theory cannot predict what will happen to the consumption of a premium brand, since there is a decrease (income effect), but there may be a net increase resulting from the substitution effect. However, research in consumer behavior suggests that consumers have a strong desire for hedonic consumption (Alba and Williams, 2013). In the context of consuming premium brands, we argue that the desire to consume premium brands will persist despite a weak economy.

One alternative available to consumers is cross-category indulgence. We define cross-category indulgence as the purchase of a premium brand in a different, more affordable category which fulfills a consumer's desire for hedonic consumption despite financial constraints.

DATA

To test our hypothesis, we need a complex dataset that includes data from two categories susceptible to cross-category substitution. Both categories should also compete in clearly separated price tiers. This is usually uncommon in most available datasets. Therefore, we created a unique dataset by combining data from several sources. The resulting dataset is ideal to empirically test for cross-category indulgence.

We investigate cross-category indulgence empirically in the context of dining out (i.e., consuming the premium brand away from home) and dining in (i.e., consuming the premium brand at home). According to Kamakura and Du (2008, 2012), household expenditures can be categorized into essential and nonessential goods that are highly visible or less visible. In their study, they categorize dining in as an essential and less visible consumption decision, whereas dining out is nonessential and highly visible. They argue that highly visible, nonessential categories are desired by consumers because these goods enable consumers to signal a higher status. In addition, they find that consumers will increase their purchases of essential categories (i.e., dining in) during a recession, while consumption of nonessential categories (i.e., dining out) will decrease. Consistent with Kamakura and Du's categorization of dining in and dining out, we argue that purchasing a premium brand to consume at home provides consumers an opportunity to satisfy their desire for a premium brand in a more affordable category when faced with a budgetary constraint. For this study, we test for cross-category indulgence in the context of consuming a premium brand at home rather than away from home. Refer to Figure 1 for a comparison of cross-category indulgence and other expected shifts in consumption behaviors during a recession.

We collected data from Certified Angus Beef LLC (CAB) across food services (dining out) and retail (dining in) over a six-year period, beginning in 2006. In a recent study of 1100 participants (Firebox Report, 2013), the authors provide support for consumers' perceptions of CAB as a premium brand. Specifically, the study reported 66 per cent of the participants believe that the brand is a high-quality and a premium product in grocery stores and restaurants. Moreover, 58 per cent of the participants consider their product to be the "very highest quality" brand of beef. These findings suggest that Certified Angus Beef represents a premium brand.

We augmented the CAB data using market-level prices from Urner Barry, a company that specializes in publishing market data in the poultry, egg, meat, and seafood industries. We also collected economic and financial data over the same period from reputable government sources. This unique dataset enables us to test for indulgences in cross-categories (i.e., substitution effects) and their impact on the overall demand for a premium brand over an entire business cycle.

The advantages of using single-company data are that it allows for testing theories, has higher relevance for managers as they have a behavioral basis, and, therefore, are easier to interpret, and it clarifies the "sources of market power and profitability" (Kadiyali *et al,* 2001). On the other hand, using the Structure Conduct Performance (SCP) method which allows for the

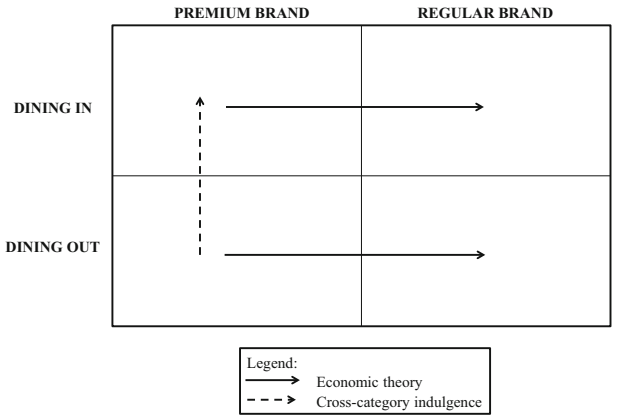

Figure 1: Shifts in consumption behaviors during a recession.

inclusion of different industries cannot capture the large as well as subtle heterogeneities of different industries. The best way to eliminate this issue is to study one industry or firm which allows for greater depth in analysis. Moreover, relationships established through SCP models are correlational given the issue of endogeneity of certain causal variables. Most importantly, in SCP models, data is an issue in that only accounting costs are available and not economic costs, which makes it difficult to estimate economic profits (Kadiyali *et al*, 2001). All of these issues are negated when using data from a single company.

Descriptive statistics

We received data for monthly sales volume in tons of beef from CAB, beginning on January 1, 2006, and ending on December 31, 2011. The mean volume of beef sold over this period was 3,259,000 tons. Certified Angus Beef LLC did not collect the channel distribution data prior to 2006. We calculated a monthly weighted average to estimate the wholesale price of beef. See Figure 2 for a graphical representation of the sales volume and the price of beef.

We adopted two widely accepted definitions of recession. First, we define a recession as two or more consecutive periods with decreasing U.S. GDP. All economic data were obtained from the U.S. Bureau of Economic Analysis, using nominal values expressed as quarter over quarter percentage increases or decreases. Second, we adopt the National Bureau of Economic Research (NBER) definition of recession, whereby a recession is "a period between a peak and a trough" (as opposed to an expansion, which is a period between a trough and peak; NBER 2010, para. 1). The NBER definition uses three measures to determine a recession, namely real GDP measured on the product and income sides, economy-wide employment, and real income. Adopting this definition of recession, we have two periods within our time frame that are considered recessions. The first recession occurred from March 2001 to October 2001 (lasting 8 months), while the second began in December 2007 and ended in May 2009 (lasting 18 months).

RESULTS: EVIDENCE OF CROSS-CATEGORY INDULGENCE

We begin our analysis by assessing the impact of economic conditions on the demand of CAB. First, we decomposed the sales volume over the observation period into trend and seasonal components (see

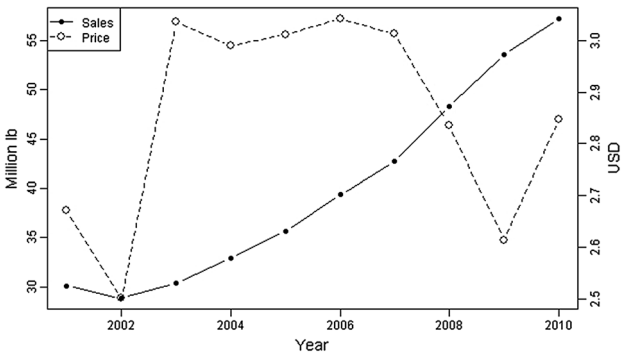

Figure 2: Average annual price and total U.S. sales of CAB.

Figure 3). The figures depict a positive trend for CAB sales. Moreover, the series shows a clear seasonal pattern. According to Namken *et al* (1994), who studied 10 years of seasonal sales of beef by cut, less expensive cuts (e.g., Brisket) showed increased demand during the months of winter. On the other hand, more expensive cuts (e.g., sirloin) increased demand during summer. The authors argue that outdoor smoking and grilling explain this pattern. Because CAB is perceived as premium beef, we also expect sales to increase during summer when outdoor eating is more prevalent. To account for variations due to temperature, we consulted with the company to determine which cities we should include in our model, as temperature varies greatly across the United States of America. We were informed to aggregate the data over the eleven-year period from New York, Boston, and Philadelphia. As such, we included the average local temperatures for these three cities in our model. The mean temperature across all three cities was 52.60 Fahrenheit (min of 21.83F and max of 77.70F).

We used a classical regression approach via generalized least squares and with the time series having a residual term that follows an autoregressive process of order one. Potential explanatory variables are a linear and a quadratic time trend, as well as the temperature to account for seasonal patterns. This results in a model of the form:

$$\text{Sales} = \alpha + \beta_1 \text{temp} + \beta_2 \text{time} + \beta_3 \text{time}^2 + \beta_4 \text{recession}. \quad (1)$$

A model with both the quadratic time term and the temperature term were supported by the model selection criteria (Bayesian information criteria) and by a likelihood ratio test (both $p < 0.01$ per - cent). We then added our two measures of recession, as described in the previous section, as independent dummy variables to the above model. This inclusion is possible in three ways: as a simple additive term, an interaction with the time trend variable, or both. We investigated all three approaches for each recession variable, and none of the extensions were supported by the Bayesian information criteria or a likelihood ratio test. The estimated parameters of the models are listed in Table 1.

As expected, we find that temperature has a significant effect ($\beta = 11{,}114.6$, $t = 5.54$) on demand. The quadratic time term had a positive significant effect on demand ($\beta = 150.6$, $t = 23.08$). Surprisingly, all measures of a recession had

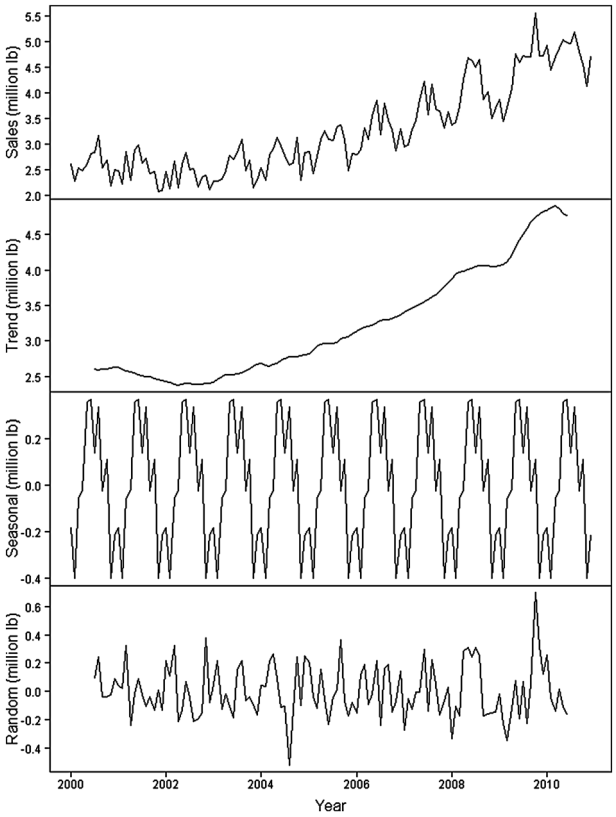

Figure 3: Decomposition of CAB sales 2000–2010.

nonsignificant coefficients. Together, these findings suggest that there is no relationship between periods of economic contraction and demand for CAB.

We further investigated the relationship between our measures of recession and sales by examining the correlation between these two variables. Over the entire period, we find that GDP and sales are highly correlated ($r = .8321$, $p < .001$). However, during economic expansion, we find a positive correlation ($r = .8345$, $p < .001$), and during periods of economic contraction we find a negative correlation ($r = -.4354$, $p = .2414$). Although economic contractions have a negative correlation with sales, the relationship is weak and not significant. Overall, our results suggest that CAB demand was not affected by the recession.

We now proceed to test our hypotheses on cross-category indulgence by assessing whether dining in is a substitute for dining out during a weak economy. To test for a substitution effect, Hays and DeLurgio (2009) suggest estimating a log-linear demand model of the form below:

$$\log Q_x = \log \alpha + \beta_1 \log P_{\text{CAB}} + \beta_2 \log P_{\text{dining out}} + \beta_3 \log Y, \quad (2)$$

where Q is the quantity of CAB sold to retail; P_{CAB} is the "own price" of CAB; $P_{\text{dining out}}$ is the price of dining out (CPI food away from home in nominal USD); Y is the disposable income (monthly after tax disposable income in nominal USD); β_1 is the price elasticity of demand for

Table 1: Parameter estimates for the models investigating the relationship between demand of cab and the economy

	Estimate	*Standard error*	*t value*	*p value*
Final Model				
Intercept	1,790,648.6	116,059.34	15.43	<0.01 %
Temperature	11,114.6	2,006.36	5.54	<0.01 %
$Time^2$	150.6	6.53	23.08	<0.01 %
Model with recession using NBER(1) definition				
Intercept	1,771,862.1	114,665.0	15.45	0.0000
Recession	795,807.4	500,655.9	1.59	0.1144
Temperature	10,986.5	2,004.2	5.48	0.0000
$Time^2$	153.0	6.6	23.08	0.0000
Recession*Time	−1,740.4	1,385.2	−1.26	0.2113
Model with recession using NBER(2) definition				
Intercept	1,778,985.1	115,311.2	15.43	0.0000
Recession	1,005,446.6	865,205.4	1.16	0.2474
Temperature	11,282.4	1,999.4	5.64	0.0000
$Time^2$	150.4	6.9	21.66	0.0000
Recession*Time	−89.1	78.7	−1.13	0.2596
Model with recession using GDP definition				
Intercept	1,804,453.5	113,361.7	15.92	0.0000
Recession	−2,052,167.3	2,390,313.9	−0.86	0.3922
Temperature	10,783.0	1,975.1	5.46	0.0000
$Time^2$	153.0	6.6	23.31	0.0000
Recession*Time	156.2	197.0	0.79	0.4293

CAB; β_2 is the cross-elasticity of demand for CAB to change in price of dining out; and β_3 is the income elasticity of demand for CAB.

The model incorporates price elasticity of demand, income elasticity of demand, and cross-elasticity of demand. Price elasticity for CAB is the percentage change in quantity demanded, given a percentage change in the "own price" of CAB. Cross-price elasticity measures how sensitive demand for a commodity is to changes in the price of a substitute. The regression model was transformed using first differences to account for omitted variables, which does not change the interpretation of the coefficients.

$$\Delta \log Q_x = \log \alpha + \beta_1 \Delta \log P_{\text{CAB}} + \beta_2 \Delta \log P_{\text{dining out}} + \beta_3 \Delta \log Y. \quad (3)$$

We find that price elasticity of demand for CAB is −.05, which has the expected negative sign indicating an inverse relationship between price and quantity demanded. However, the resulting coefficient was not statistically significant. The cross-elasticity of demand for CAB in response to a percentage change in the price of dining out is 2.02. The positive sign indicates that retail CAB and dining out are substitute goods. This result is significant at the 1 per cent level. The income elasticity value is 1.19, which indicates that CAB is a normal good because it has a positive income elasticity. According to economic theory, since the value is greater than 1, we consider CAB to be a luxury good. This result is significant at the 5 per cent level. Overall, we find support for our hypotheses, suggesting that consumers indulge in one category (dining in) to satisfy their desire to consume a premium brand during periods of economic contraction. Table 2 provides a summary of the parameter estimates.

RULING OUT ALTERNATIVE EXPLANATIONS

In this section, we explore other possible explanations for the increase in demand for a premium brand during a recession. These

Table 2: Results

Quantity of CAB demanded	*Coefficient*	*Std. err.*	*t*	$p > \|t\|$
Own price of CAB	−.0475	.1578	−.30	.764
Price of a dining out	2.0225	.6243	3.24	.002
Disposable income	1.1889	.5713	2.08	.042
Constant	−4.0453	3.132	−1.29	.202
Number of obs	60			
F(3,56)	70.28			
Prob > *F*	.0000			
R^2	.7487			
Root MSE	.0885			

alternatives are a rise in the number of wealthy individuals, idiosyncratic actions of the firm, a decrease in price, and category growth.

A rise in the number of wealthy individuals

We consider the possibility that the increase in demand for CAB over our sample period results from a rise in the number of wealthy people. In other words, an increase in the number of affluent consumers would also suggest that there are more individuals consuming premium beef. To rule out this explanation, we use U.S. Census Bureau Survey of Income and Program Participation panel data of household median net worth. Household median net worth is defined as the sum of the market value of assets owned by every member of the household minus liabilities owed by household members. All net wealth values were converted to constant 2010 USD using the Bureau of Labor Statistics' Consumer Price Index. Table 5 reveals that during our sample period (2000–2010), U.S. median household net wealth decreased 27 per cent. However, to remove the impact of the housing crisis that occurred during our sample period, we also looked at the median household net wealth, excluding home equity. We find that there was a 7 per cent decrease in U.S. median household net wealth (excluding home equity) during our sample period, which suggests that our results were not driven by an overall increase in wealth. Moreover, the percentage of US population whose net worth was higher than $1 million dropped from 2006 and 2007 (when it was 15.3 and 15.7 per cent, respectively) to 11.3 per cent in 2008 (Spectrum Group, 2015). Refer to Tables 3 and 4 for a summary of the U.S. Median Household Net Wealth.

Finally, with the aggregate-level data available, we cannot determine who specifically is buying CAB. But since beef is a widespread staple, it seems safe to expect that consumers of CAB are those who value quality the most combined with those with the highest disposable income. Since during recession no spike in wealthy consumers was observed, the increase in sales cannot be explained by changes in this segment.

Idiosyncratic actions of the firm

Research suggests that firms that actively engage in marketing activities during a recession will perform better than companies that decrease their marketing and advertising spend (Srinivasan *et al,* 2005; Tellis and Tellis, 2009). Despite these findings, it is not uncommon in the consumer packaged goods industry for national brand managers to reduce the number of promotions and amount of advertising

Table 3: U.S. median household net wealth

Year	*Median net wealth*	*Median net wealth (excluding home equity)*	*CPI deflator*	*Median net wealth in 2010 USD*	*Median net wealth (excluding home equity) in 2010 USD*
2000	$73,874	$13,186	1.27	$93,820	$16,746
2005	$106,585	$17,287	1.12	$119,375	$19,361
2010	$68,828	$15,546	1	$68,828	$15,546

Table 4: Percentage of US population with net worth exceeding $1 million (excluding primary residence)

Year	*Percentage of populations*
2000	13.3
2001	9.6
2002	9.1
2003	10.5
2004	13.1
2005	14
2006	15.3
2007	15.7
2008	11.3
2009	12.7
2010	13.5

budget during periods of contraction. However, research has found these marketing decisions to be suboptimal, because consumers might consider private labels as they actively search for ways to reduce their overall expenditures (Lamey *et al*, 2012). Furthermore, "Cyclical behavior in national brand advertising contributes to the long-term private label growth" (p. 13). Lamey *et al*'s (2012) research suggests that national brand managers can respond to the threat of private labels during a recession by launching innovations that are difficult to imitate, and by increasing their marketing budget.

To understand how Certified Angus Beef managed its marketing activities during the most recent recession, we conducted several interviews with CAB senior executives. Personal contacts were used in order to get in touch with these executives. During the meeting, the objective and regulations about the interview were established and agreed upon and semi-structured interviews were conducted in keeping with guidelines by Thomas (1993). The main focus of the interview was to gain information about procedures and events with respect to the investments and changes in activities, thus adopting a neopositivist approach in the interview process (Alvesson, 2003).

We were informed that the company did not invest additional dollars into the salesforce or into marketing activities (e.g., public relations or R&D). Rather, the company was conscious of the impact of the economy on sales, and as a result the salesforce might have been more aggressive with their accounts and been innovative with their marketing spend. But overall the company remained consistent in their marketing expenditures during both periods of economic contraction and expansion. No significant investments in marketing occurred during the observation period. Thus, we can rule out idiosyncratic actions of the firm to explain the increase in demand for beef during a recession.

Decrease in price

The relationship between price and demand is well established. We expect demand to increase if the price of a good decreases. In our context, we do not observe a decrease in price during the observation period. On the contrary, we observe a positive increasing trend over the eleven-year period, with only two exceptions (see Figure 2). In 2005, there was a $.09 decrease, while in 2008 there was a drop in price of $.11, but the price

returned to its high of $1.64 by 2010. Despite the increasing trend in the price of beef, the demand for CAB beef continued to rise. Thus, price does not explain the increase in demand for CAB during our observation period.

This finding is not surprising, because consumers are more price inelastic for hedonic than for utilitarian goods (Wakefield and Inman, 2003). According to the consumer behavior literature, consumers have strong expectations about the usefulness of utilitarian products for a given price. However, consumers making hedonic purchases are less sensitive about the price of a product when the objective of the purchase is a pleasurable experience. Our results are consistent with the notion that CAB is a premium brand and consumers purchase the product for hedonic reasons.

Category growth

Another possible explanation for the increase in demand for CAB is category growth. If people are eating more red meat, then we would expect demand for CAB to increase proportionately. However, according to an article published in the Public Health Nutrition Journal, red meat consumption has decreased over the last few decades (Daniel *et al,* 2011). In addition, the U.S. Department of Agriculture (USDA, 2012) has forecast a continuation of this decreasing trend. Several reasons have been put forth to explicate this downward trend. On the supply side, the availability of red meat in the marketplace has reduced due to growth of cattle exports and higher feed costs. On the demand side, consumers' awareness and knowledge of diet and health concerns have shifted their preferences toward eating less red meat and consuming other, leaner proteins. As shown in Figure 4, consumers are replacing red meat with poultry, and the overall effect is a decrease in demand for red meat. These factors combined have had a significant impact on red meat consumption over the last several decades. Finally, we refer to the Food Supply (Disappearance) Data from the U.S. Department of Agriculture Economic Research Service as a proxy for actual meat consumption (see Daniel *et al*, 2011). Figure 4 reveals that although there is an overall increase in the national level of per capita consumption of red meat and poultry from 1970 through 2010, the proportion of red meat decreases while the proportion of poultry increases. During our sample period, we can also confirm that the annual per capita red meat consumption has decreased from 120.8 lb to only 108.7 lb. Therefore, we conclude that category growth does not explain why we observe an increase in demand for CAB over the eleven-year period.

Summary

To increase the robustness of our findings, we investigated alternative explanations for the increase in demand for a premium brand despite a weak economy. We found that this marketplace behavior cannot be explained by a rise in the number of affluent individuals, idiosyncratic actions of the firm, a decrease in price, or category growth. Thus, our finding that consumers substitute dining out with dining in provides a reasonable explanation for the increase in overall demand for CAB, a premium brand in its category, despite a weak economy.

DISCUSSION

In this section, we begin by providing insight into the managerial implications of our research, followed by the limitations of the current study and directions for future research.

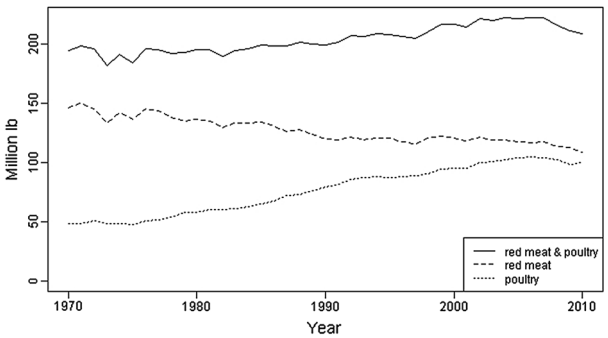

Figure 4: Annual per capita red meat and poultry consumption in the U.S.

Managerial implications

Our research has several implications for management. First, our findings for cross-category indulgence provide support for a new approach to managing a portfolio of brands. During a recession, conventional wisdom suggests that a brand manager should promote the entry-level product, because consumers are faced with budgetary restraints and therefore have less disposable income to allocate toward buying a premium brand. However, our research suggests that brand managers may consider promoting the top brand in their second-tier (i.e., less expensive) product line, because consumers have a strong desire to continue indulging in hedonic experiences despite economic conditions. We argue that the top brand in the second-tier product line provides consumers with a consumption experience that satisfies their desire for a hedonic experience that is still affordable. Consider Toyota Motor Corporation and the problem of deciding which vehicle to promote during a weak economy. We propose that the manufacturer would benefit from promoting the top car in their Toyota product line (i.e., Avalon) rather than allocating resources to promote an entry-level Lexus. Our research suggests that this approach to managing a portfolio of brands would be more effective during periods of economic contraction.

A second implication for brand managers is the notion of aspirational luxury products. Research suggests that brands should continue to invest in marketing activities (e.g., advertising, R&D) during a recession, to reduce the impact of the economy on sales (Lamey *et al*, 2012). Our research is consistent with this research stream and also extends it by emphasizing the importance of premium brands to invest in their brands during a weak economy. We argue that a consumer's desire for hedonic consumption persists despite economic conditions, and one strategy to satisfy a need to indulge is to search for an affordable luxury. Therefore, premium brands benefit from marketing campaigns that emphasize the quality of their products and reinforce the leadership position of the brand. Indeed, William L. McComb, chief executive of Liz Claiborne, recognized this trend and repositioned his core brands (Juicy Couture, Lucky Jeans, and Kate Spade) "into channels for fully-priced aspirational luxury products" (Meléndez 2011, Past Performance section). To accomplish this repositioning, McComb adjusted the prices upward, made changes to the retail stores and marketing, targeted a new segment, and strengthened the company's online capabilities. A year after the changes were implemented, he reported a 74 per cent revenue growth for comparable sales in the direct-to-consumer channel.

A third implication of our research relates to international marketing and deciding what brands to use to enter new markets. Do we launch an entry-level product from our luxury line or a top product in a second-tier product line? In this article, we investigated the case of a unique market under different economic situations. But our research can be extrapolated to markets with different levels of purchasing power. The same intuition will apply, as consumers with lower income levels would still have the need for a "slice of luxury." Our research suggests that when companies are deciding to launch a brand in a country with low per capita income, the top product in the second-tier product line will perform better than an entry-level product from the luxury brand product line.

Finally, from a channel management perspective, our research offers insight into the benefits of having several channels to reach the end consumer. In the case of our empirical application in the food industry, our results clearly indicate that selling a premium brand not only to food services (e.g., restaurants) but also direct-to-consumer via the retail channel enables a consumer to continue to indulge in the premium brand when faced with a budgetary constraint. But as different channels may offer different levels of service, managers should use these differences to manage the potential of providing consumers with that extra indulgency using channel partners. "Do it yourself" brands can be successful in tough times. Conversely, adding extra service could give the indulgency touch to otherwise regular products.

Limitations and directions for future research

This research has several limitations. First, our findings are limited to the food industry, and as a result they may not generalize to other categories. However, we believe that cross-category indulgence is a complex marketplace behavior, which makes finding appropriate data very difficult. The uniqueness of our dataset enables us to empirically test for the presence of this behavior in a real-world scenario. The second limitation of our research is the use of aggregate data rather than individual-level data. Having data at the individual level may offer more insights into cross-category indulgence and substitutions. Our research would benefit from a second sequence of recession periods to further support our findings. Finally, our research is limited to the notion that consuming a premium brand satisfies a consumer's desire for a hedonic experience. However, hedonism within the context of food consumption could also be influenced by a consumer's preferences for nutrition, health, and sustainability.[1] Future research on hedonic experiences would benefit from a study that investigates these issues and how they impact consumption patterns over time.

To conclude, our research objective was to shed light on the increasing demand for a premium brand despite a weak economy. Using the theory of substitution, we empirically test for the substitution of a premium brand (dining out) with indulgence in a premium brand in a different category (dining in). We argue that this substitution pattern can be partially explained by cross-category indulgence—a strategy that enables consumers to satisfy their desire to indulge in hedonic consumption despite economic conditions. We also rule out alternative explanations for this marketplace behavior, such as a rise in the number of affluent individuals, idiosyncratic actions of the firm, a decrease in price, or category growth.

NOTE

1 We thank one of our anonymous reviewers for this suggestion.

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