



# Gilded Gates: The Role of Scarcity and Exclusivity in the Luxury Market

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## Introduction

Luxury brands defy traditional economics—demand rises with price, not falls. This study explores how scarcity (limited access) and exclusivity (select social belonging) work together to shape consumer behavior in luxury markets. Scarcity drives urgency and impulse purchases, while exclusivity builds long-term brand prestige. Understanding this balance is key to decoding how luxury brands turn perception into profit.

## Research Question

How do scarcity and exclusivity cues interact to shape both short-term revenue and long-term brand value in luxury markets?

## Methodology

- **Data Collection:**
  - Panel data from major luxury brands (e.g., Hermès, Chanel, LVMH, Brunello Cucinelli)
  - Time period: Multi-year financial and strategic indicators
- **Key Variables:**
  - Dependent: Revenue (log), Brand Value (log)
  - Independent:
    - Scarcity indicators: Hero product ratio, waitlist presence, online availability
    - Exclusivity indicators: VIP spend threshold, number of stores
- **Empirical Models Used:**
  - Fixed Effects (FE) & Random Effects (RE) Models
  - Hausman Test for model selection
  - FGLS (Feasible Generalized Least Squares) to address heteroskedasticity
- **Statistical Tools:**
  - Regression diagnostics (VIF, Breusch-Pagan, Wooldridge test)
  - Visual analysis: Correlation heat maps, scatter plots, and trend lines

## Conceptual Framework

### Scarcity & Exclusivity as Value Drivers:

- Scarcity increases perceived value by creating urgency.
- Exclusivity enhances brand prestige by aligning with social identity theory.

### Key Economic Theories Applied:

- **Law of Demand & Supply:** Typically, higher prices lower demand—but not for luxury.
- **Veblen Effect:** Luxury demand rises with price due to status signaling.
- **Utility Maximization (Expanded):**
  - Consumers derive utility not just from product function, but also exclusivity (E) and scarcity (S).
  - Utility function:

$$U = f(X) + \frac{\alpha}{N} + \frac{\beta}{Q} + \gamma \left( \frac{\alpha}{N} \times \frac{\beta}{Q} \right)$$

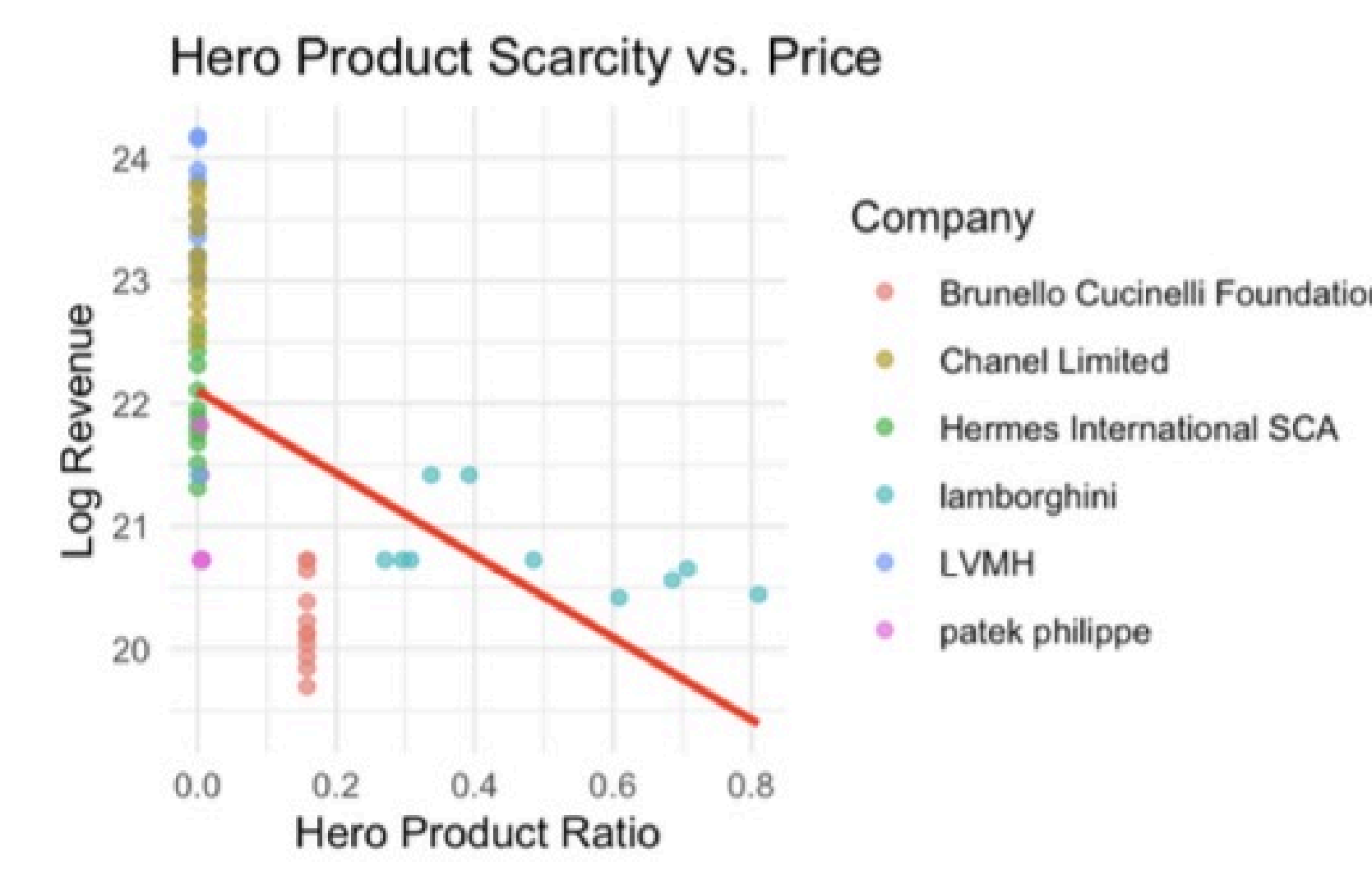
where N = number of owners (exclusivity), and Q = product quantity (scarcity).  $\alpha$  = the prestige factor associated with the exclusivity of the product.  $\beta$  = the consumer's preference for rarity, tied to scarcity.  $\gamma$  = the interaction effect between exclusivity and scarcity.

### Behavioral Economics Theories:

- **Signaling Theory:** Consumers use luxury goods to communicate wealth/status.
- **Social Identity Theory:** Consumers align purchases with aspirational group identities.

## Results Summary

- Brands that restrict product availability (e.g., Hermès Birkin, Chanel Classic Flap) enjoy higher consumer urgency, translating into immediate sales spikes.



- High minimum spend thresholds for VIP status are positively correlated with brand value, reinforcing prestige and loyalty over time.
- Brands that use wait lists show higher and more consistent brand value.
- Theoretical utility function confirms that combined scarcity and exclusivity effects compound to amplify perceived value.

### Minimum Spend Required for VIP Status is a significant predictor of brand value.

➤ High-spend thresholds filter access and reinforce brand aspiration, leading to **higher perceived prestige and long-term loyalty**.

### Store count showed an inverse relationship with brand value in some models.

- Fewer locations may serve as a **geographic exclusivity** barrier, reinforcing rarity by limiting physical accessibility



## Regression Results

- **Revenue Model:** Scarcity cues—hero product ratio and lack of online selling—are positively and significantly linked to higher revenue.
- **Brand Value Model:** Exclusivity indicators—VIP spend threshold and limited store count—show strong positive effects in the Fixed Effects model.

## Conclusion

Scarcity monetizes desire. Exclusivity immortalizes it.

- Scarcity is a short-term lever—deploy it with precision, not saturation.
- Exclusivity is a brand equity engine—embed it into pricing, access, and community design.
- For true luxury dominance, the key lies in strategically integrating both.

## References

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