

DEMAND FOR LUXURY GOODS IN
UKRAINE, RUSSIA, KAZAKHSTAN

by

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Abstract

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COVID-19 and introduced lockdown restrictions reflected significantly on the consumption and the way of producers interact with consumers. Offline service, as a value added bonus, became unavailable due to the close of offline stores. It had motivated brands to switch their efforts in terms of attraction of new customer to online promotion. Luxury companies started to review their budgets and pay more attention to the development of social networks of their brands. They reoriented their marketing compains to online but the accent of personalized service trough the social media, especially Instagram and Youtube. They took into account the change in human's behavior patterns and spending more time at home watching videos and searching trough the Internet. The pull of actions developed by luxury goods' producers allowed them to save the quantity of goods at the same level as before COVID-19.

In this paper we attempted to measure the influence of the social media, like Instagram and Youtube, on the quantity of luxury items sold. Taking into account the growth of new COVID-19 detected cases, we would like to understand whether it generates additional influence on the engagement rate of Instagram audience, and whether it raises the quantity of views in Youtube at the official accounts of luxury brands.

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LIST OF ABBREVIATIONS

LV. Louis Vuitton

LVHM. Louis Vuitton Hennes and Mauritz

Chapter 1

INTRODUCTION

The luxury industry has now abandoned the smell of sacredness, premiumity and clusterization of the society that had described it as a point of contact and marvelous cooperation between the history, nowadays well-being and future. Historically the motherland of fashion is Italia and Milan. Its style can be characterized as the synergy of the quality of life that was not available only for the most rich and power part of the society, but also for the average classes, who had the right to own or buy some of the luxury masterpieces. In the modern world purchasing of luxury items is available to everyone who can afford to buy such thing. This change has being driven by the globalization, development of stores and butics, and strengthens during the pandemic time. As a result, more and more factors influence on the demand on luxury bags and clothes.

It couldn't have been predicted, but the key focus of attention of the consumers changed from the basic characteristics of the product to it's general idea and value of the brand, which produced the concrete item. In the previous centuries the most expensive items can be characterized only by the best quality on the market. Now the quality of luxury items because of the automotization of the production becomes worthe. The producer tries to find another ways to generate value for their premium clients and somehow argument the high prices of the product. They do it trough differnet ways of value delivery like perfect service, exclusive limited editions, company's value and mission, positive reputation among the society because of the great social impact, etc.

Moreover, a new designer regularly tries to attact attention of the consumers, swith them from the brands with the long-lasting history by suggesting some

outstanding design solution. In such a competitive world which has been created, companies reach new clients or lose old ones because of their approach, building relationship with clients, values and exclusivity.

In spite of the growth of competition on the luxury goods market, it is the profitable strategy for brands and holdings, which include high marginal production in the comparatively large amounts, which can be sold even after the expiration date of the fashion season and collections on sale. Moreover, butics even should not save it in local stores, because the development of online shopping every time redirects customers to the site of the store, especially in the case of the items which are on sale.

Additional push for buying luxury items it is the idea of generation a large amount of exclusive collaborations, limited editions and designs. It is resulted in consumers' desire to pay even more for additional exclusivity which is supported by the concept of good investment in case of resale later on.

Modern concept developed by the brands support the idea that luxury items is not ordinary thing which people use to cover their bodies. They advertise this one as the main function of mass-market, middle-segment clothes. In their case, brands prefer to translate products like a way of expression, identification of their customer, their level of income, lifestyle from the crowd. In each and every city shoes, bags, clothes and accessories have already become one of the key opportunities to demonstrate desirable status in the society.

Another important fact for producers that COVID-19 and lockdown pushed them to change their supply chains and made to review their business models. This cost reduction generated the possibility in redirection of cash flows from renting stores, haunting the staff to online promotion.

With a view to described above, the goal of this paper is to investigate the influence of social-media and customers involvement on sales in luxury

industry before, during and after full lockdown due to COVID-19 pandemic. It has shaken some of the foundational aspects of the luxury industry—and some of these changes could be permanent, like creation of new behavioral pattern for significant proportion of consumers to buy luxury goods online. This allows brands not only save their sales volumes, but also change the way of reaching the audience.

Fashion weeks and trade shows have been essential ways that brands have maintained vibrant relationships with consumers and trade partners. While during the pandemic restrictions they had switched to online format on YouTube, it is allowed to increase the loyalty of YouTube audience. As far as offline purchases had been abandoned, the brands strengthen their Instagram profiles and made the Instagram- shops one of the most key points of sales. Luxury consumers are accustomed to a high standard of service in stores. It was a challenge to the brand- managers to develop such level of a digital experience to retain the purchases at the same level.

Consumers' routine and habits adapt to lockdown and pandemic restrictions, changes in buying behavior has been happened. For example, it was reported by LVHM corporation and goes in line with the idea described in the report of Deloitte LLC. In their report the idea of price settings is clear, high-end and low-end luxury items are proving more resilient and the demand for them is less elastic in comparison to the items in the middle of price range [3]. People had a desire to maximize value for money by purchasing functional items. They're also seeing handbags and small leather goods selling better than ready-to-wear apparel during the crisis. Millennials have raised their spending due to inability to spend this money on travelling and other entertainment. The same works for the elderly people consumption group.

In this paper we research the dependency between quantity of sales of clothes&leather luxury sales in Ukraine, Russia, Kazakhstan and involvement of audience in Instagram, quantity of YouTube views of official brand channels and other social components. Our goal to investigate whether social-media is a key factors which have allowed to retain the sales of Louis Vuitton, Dior, Celine and Kenzo at the before-pandemic level.

LITERATURE REVIEW

Our paper is based on a cross-section studies about influence of digital marketing on art, factors that influence on sales and demand in various sub-fields of art, luxury and retail.

The behavior of the consumers is a quite tentative thing, especially during uncertainty. The pandemic and COVID-19 become a good example of such uncertainty and enxiaty in the world. Even without it it is driven by many things, economical, as one of the most important, cultural and marketing factors. Also, psychological factors, family views and level of education can be added to the list.

Taking into account factors shown above in the stable economy fashion producers try to form trends and predict customers' pattern in order to reach their old fans and engage new younger audience. As all producers in the whole world they solve the task of profit maximization by decreasing the cost of reaching new clients and retention of old persons. Trough variety channels t hey try to impact consumer's behavior by using influence marketing, social media advertisement, event marketing and perfect service in stores. The last two options became unavailable during the pandemic.

Different variables can impact how customers behave, whether they persuade you to make a purchase, buy further items, or make no purchases at all. Some affects may be short-lived, while others may be long-lasting. Now let's review closer at a few of the factors that affect customer behavior.

With less hours in the day to accommodate the abundance of social media apps, content, accounts to follow, and tailored adverts, engagement on these platforms is becoming more difficult to maintain. Users are unfollowing people and filtering their feeds to regulate relevancy, and Facebook algorithms are

getting smarter at figuring out which posts to promote "organically" so a user will spend more time on the site if you are still attempting to sell through each post and statement.

If brands don't general content on the variety of platforms, they are losing out on a significant portion of the market. Users consume content in a variety of ways. At the very least, in this paper it is considered the two main platforms, Youtube and Instagram.

Firstly, looking at demand on luxury products, we have studied the article of Ray A. and Vatan A. (2013) about the "Demand for Luxury Goods in a World of Income Disparities". It estimates international trade factors from demand side. This paper demonstrates demand for luxury goods in France. It contains a theoretical model of vertical differentiation of consumer preferences taking into account Veblen effect. It predicts that the quantity of demand for luxury goods rises with the income differentiation. In this research two socio-economic groups have been taken into account: wealthy and poor or middle segment (non-wealthy) representatives (Kasztalska and Magdalena 2017). It is common habit of Post-Soviet Union countries for wealthy people to demonstrate how rich they are and sometimes even exaggerate it. Luxury items and their logos are a good tool for doing it. An empirical confirmation of these predictions has been provided on a sample of French high-end exporters from French 8-digit CN custom data collected for 2006 at firm-product-destination level. The relationship between factors is robust to inclusion of control variables as well as to use of other measures of wealth diversification (Kasztalska and Magdalena 2017). In the paper several different specifications have been developed. In each of them the unit value elasticity of luxury goods with respect to income gap has been non- negative. Nevertheless, it remains significant influence on the sales and demand of luxury goods for exporters.

This article provides a prediction of the effect of income gap on unit values to be increasing with the level of income by adding the interaction term between income gap and income per capita of destination. It creates additional value for our research because in all of three countries (Russia, Ukraine and Kazakhstan) the gap between wealthy and non-wealthy individuals are high for all researched periods. It can be confirmed by the Gini index values provided by WorldBank Data. It emphasizes on the importance of income disparities as an important driver of demand for luxury goods.

According to Ergun K. (2012) and his research about “Determinants of Demand for Luxury Goods: A Comparative Study among Three European Countries” customers try to replicate ordinary life emotions to purchase experience. Luxury brands pay special attention to these components of sales. The data for this paper is empirical from Romania, Spain and Turkey. The regression analysis is mostly based on them. Factors, like “feeling proud”, “establishing distinctive body image”, “being well recognized by others”, and “differentiating oneself from society” are statistically significant determinants for purchasing luxury goods. The group of promotion-focused representatives have an increased shopping frequency for purchasing luxury goods online.

The paper “The economic theory of luxury goods” by Anastazja Magdalena Kasztalska explains whether the theoretical approach to economics luxury is a reference in practice (Ray and Vatan 2013). The study method for it was in conducting interviews with the direct retail participants of economics of luxury. The income elasticity of demand is always greater than 1. In other words, the relative increase in quantity of goods sold is greater than the relative change in income growth. Practically, it demonstrates that the demand for luxury goods is sensitive to some fluctuations, which may be applied to the relationship between income per capita and quantity of sales for Louis Vuitton, Dior, Celine and Kenzo. Additionally, luxury goods are linked to Engel's law. In the

household, savings or higher income goods appear only when there is the income, which is under average, and basic needs are covered fully. It argues the existence of one new dependent variable “consumption of households per capita” in our model.

In this paper the evidence that “recognition of a particular luxury brand determines the customer's decision to purchase it” (Ray and Vatan 2013) has been shown. Potential clients are more likely to buy a luxury brand that is well-known among all audiences in spite of their level of income. They prefer brands which are some kind of benchmark in the world of premium items. These factors prove the importance of social-media promotion even at before COVID-19 restrictions. As a result, it may strengthen significantly due to the pandemic.

In 2012 Uzgoren E. and Guney T. described in their work “The snob effect in the consumption of luxury goods” that basic elements of a consumer's consumption of luxury items may be a result of snob effects. It is a theoretical study which examines various aspects of consumption. Snob effect is more complicated than Veblen because it contains both social and personal factors of influence on the quantity of items sold.

The paper “Digital complements or substitutes? A quasi-field experiment from the Royal National Theatre” by Throsby D. (2012) reports the results of a quasi-field experiment of transitioning the Royal National Theatre's live broadcasts to digital cinemas in the UK (Uzgoren and Guney 2012). This test is close to the case of transitioning Fashion Week shows from offline with publication of recorded video on YouTube to online translation on the official YouTube channels of brands. This paper investigated that live broadcasts of theatre to digital cinemas substitute for or complement audience's for classical theatre. It

implies the fact that not only theatre companies can reach significant part of the audience or clients' through digital channels, like YouTube.

Linda Hantrais in the article "Covid-19 and Digital revolution" assembles evidence from different areas of social science expertise about the impacts of Covid-19 in digitised societies and policy responses. The author concluded that, globally, the pandemic and lockdown restrictions provided a fertile ground for cybercrime, from one hand. From another, digital disinformation and influencing risked becoming normalized and formed another kind of "daily routine". It has opened conceptual empirical paradigm which allowed to divide the data in two groups. In the first sample of family's struggled to find reliable ways of supporting work and life balance for reducing stress factors influence. In the other members enjoyed the greater time for time spending online as well as offline. It demonstrates that online time spending (and online shopping through Instagram or official channels) may raise its volumes and became popular for clients during pandemic restrictions.

The official report of Deloitte, LLC "Global Powers of Luxury Goods 2021" as of November, 2021 claims that luxury goods sales of LVMH fell in 2020 by 11% totally for the whole group. Nevertheless, online sales were able to offset the effect on revenue decline caused by the partial and full lockdown in the world. Amount of sales in the category fashion and leather goods for the whole business group went down by only 3% year-on-year, mostly in the first half of the year.

Deloitte, LLC pointed out several key indicators of changing luxury e-commerce plans, such as increasing interest in partnerships with major luxury e-commerce players, growth of the demand for "special" personalized service in the luxury e-commerce and importance of younger consumers (Millennials and Gen Z).

The article “A Modern Investigation of Status Consumption” by Trevor K. Scheetz (2017) demonstrates that price-quality correlation calculated for all goods “status” and ordinary is slightly positive and statistically significant. It reflects that consumers pay attention on the quality of good in spite of how limited it is. It makes impossible for luxury producers to decrease a least slightly the quality of their service and production, and rely only on loyalty to the brand itself. As a result, closed stores, absence of offline service have raised a new question for producers “How to reach the audience in order to remain the same level of sales?”. The answer has been found in boosting promotion in social media. As we can observe from the sales data, it may be one of the key successful instrument which saves the sales at the “before- pandemic” level.

Chapter 3

METHODOLOGY

Consider the amount of sales done monthly by 4 main brands of LVHM group in Ukraine, Russia and Kazakhstan. It is an independent variable for amount of views of Fashion Weeks in YouTube, coefficient of audience involvement for Instagram, income per capita, consumption of households per capita.

$$\begin{aligned} \text{Sales amount} = & \\ & \text{audience involment in Instagram} + q - \text{ty of Youtube views} + \\ & \text{income per capita} + \text{new COVID} - 19 \text{ cases} + \\ & I (\text{audience involment in Instagram} * \text{new COVID} - 19 \text{ cases}) + \\ & I (q - \text{ty of Youtube views} * \text{new COVID} - 19 \text{ cases}) \end{aligned} \quad (1)$$

The model will be estimated using OLS procedure in R. It has been applied to the specific area of studying based on the model proposed in the article “ The Use of Social Media and Its Impact on Shopping Behavior of Slovak and Italian Consumers during COVID-19 Pandemic “ by Taha V. , Pencarelli T., Škerháková V., Fedorko R. and Košíkova M. (2021). Their model and hypothesis developed in its’ base demonstrates panic buying has become a global phenomenon reflecting that loss of control among consumers in the era of Coronavirus lockdown.

As far as Instagram and Youtube are one of key drivers of spontaneous purchases not only for luxury goods, but also for ordinary ones, we can run the regression in attempt to estimate how growth in the quantity of subscribers, views in social networks influences sales:

$$S_{itj} = I_{it}A + Y_{it}B + N_{jt}C + T_{it}D + I(I_{it} * T_{tj})E + I(Y_{it} * T_{tj})E + \varepsilon_{itj} \quad (2)$$

Where S_{it} represents the sales of brand i at time t in country j , I_{ijt} represents the matrix of variables which include the coefficient of audience involvement in Instagram at the official account of brand i at time t . T_{jt} is an amount of new Covid-19 cases detected in country j at time t . Y_{it} is a matrix that reflects increase of the amount of views at Youtube account of brand i at time t . N_{jt} is a matrix of income per capita in country j at time t . $I(I_{it} * T_{jt})$ – the interception of new illnesses detected and engagement rate of Instagram audience in country j .

A, B, C, D, E are coefficients of impact of each variable on the amount of sales.

The indexes in the model defined in the way described below. i defines trade marks LV, Dior, Celine and Kenzo. j describes countries: Ukraine, Russia, Kazakhstan. t is a time indicator for 2018, 2019, 2020. The problem of this approach is that variables that are not included in the regression but still will affect variables on both the left- (independent) and right-hand (dependent) side of the regression. In this specific case, we might expect that the popularity of a one brand (which is unobserved) would impact both the increase in subscribers and increase in sales itself. In a such situation where missing variables affect both independent and dependent variables in a regression, the affected dependent variables are referred to as being “endogenous,” and it is well known that the resulting regression coefficients will be biased.

Usage of OLS- model has also several advantages. One of them is the ability to be used for a small sample size. It will be particularly good for estimation for one brand sales amount and factors which drive it. It provides us with the opportunity to create a combination of factors like the connection between Instagram engagement rate and quantity of new cases detected. There is an

assumption that the higher increase in new Covid-19 cases reported, the more is the engagement rate of audience in social networks, and the higher is activity.

Authorities during researched period in all three countries have strengthened lockdown restrictions. As a result, luxury stores have been closed and people spent more time at home.

Another possible approach of estimation in order to avoid bias is dividing the observation into two groups: treatment and control. Control group includes the information about the sales since January 1st, 2018 till December 1st, 2019. Treatment group contains the data about COVID 19 and post-COVID 19 period (December 1st, 2019- December 1st, 2020). This approach would not suffer from the endogeneity problem described above because the decision about which consumers' behavior is left unchanged (control group) and which are no longer allowed to pirate (treatment group) is unrelated to the dependent variable (luxury goods sales).

Hypothesis relations

Different brands have different involving of target audience. Historically the audience of LV and Dior are more active in the Instagram and more loyal to online purchases. The main reason for it that LVHM started to invest in growth of the new consumption patterns of their audience by empowering them to order online. They have started the implementation of online sales through Instagram by developing direct linking to the order page on the website in December 2017. While Celine and Kenzo have never demonstrated the big audience engagement, it hasn't created the "online" consumption pattern till the lockdown beginning.

Online communication through social media is one of the most used and useful tools for product promotion. It also one of the most efficient way to build the relationship with the direct consumers. Especially during the lockdown period this method remained as the only possible one.

At March 21st, 2018 Meta has developed a new feature in the Instagram which is called Instagram Shopping on the territory of Russia, Ukraine, Kazakhstan. It simplifies for users the transition from the view of the good to the direct order through official Instagram page. It allows customers to click on the link for a product that directs them to the specific page on a retailer's website.

Even before the implementation of it, Instagram became one of the top "impulse purchased" platform. Since March 21, 2018 it has driving sales easier for buyers then before.

Hypothesis 1 (H1): The monthly growth of new Covid-19 cases detected in each country provides the increase of Instagram engagement rate of the audience. People starts to spend more time at home in self-isolation and use Instagram for news and entertainment. As a result, the quantity of luxury goods sold is impacted more by this social media due to the development of the pandemic.

According to the result of Statista survey¹ during a March 2020, among social network users in the United States, 64 percent of respondents stated that if confined to their homes during the coronavirus, they would use YouTube more during that period. A lot of regions in the United States obliged residents to stay at home during the global coronavirus pandemic at least at the beginning and it is resulted in switching to alternative time spending at home, watching Youtube video, serials, etc.. The same behavioral pattern may be observed for user of Youtube and subscribers of interested for us Youtube channel in Ukraine, Russia, Kazakhstan.

Also, in this paper we want to estimate how new COVID-19 detected cases influence on social media and humans' interest to it. It can be called interaction

¹ <https://www.statista.com/statistics/1106313/youtube-usage-increase-due-to-coronavirus-home-usa/>

factors. The main idea behind it is that during the first waves of lockdown and growth of illnesses around people became more and more scared. As a result, they spent more time at home searching for new videos at Youtube and new content in Instagram. It shifts people to replace the social entertainment to digital, for some people it includes shopping, spending time watching Youtube, Instagram. Potentially it may add additional influence on how big the influence of social media on sales can be since the beginning of the lockdown.

Hypothesis 2 (H2) : The monthly growth of new Covid-19 cases detected in each country provides the increase of Youtube views at official channels of brands which are included to the research. People start to spend more time at home in self-isolation and use Youtube for watching video, entertainment more than before the isolation and restrictions implemented by authorities.

As a result, the quantity of luxury goods sold is impacted more by this social media due to the development of the pandemic. The independent variable related to Covid-19 cases may provide additional influence on other independent variable which describes quantity of Youtube views, and strengthens influence of the last one on sale of luxury items.

Again, our model is developed taking into account the interaction term between new COVID-19 cases detected and quantity of Youtube views. Increases of quantity of illnesses detected reflected on the restrictions introduced by Governments of countries which we are investigated. It motivates people to entertain themselves in the different way sitting at home. Youtube is well-known social media which allows people to spend more time with constant involvement. Luxury brands tried to use it for their benefits, and introduced online format of Fashion Weeks in the category of “Long-Lasting Videos” and short overviews of their collection for several minutes.

People, who became obliged to sit at home, received a choice what kind of content from these producers they would like to watch. It would raise their acknowledgement in new fashion trends, which may remind them of their habits of doing luxury shopping before pandemic.

Chapter 4

DATA

Table 1 represents descriptive statistics for the independent variable. It contains the total monthly quantity of sales (not divided by SKUs) in the category Fashion & Leather Goods for four brands of the Group LVMH (Louis Vuitton, Dior, Celine, Kenzo). The time period represented in the research starts from January 1st, 2018 and covers December 1st, 2020. After cleaning the data set I received 432 unique observations.

In the table there is descriptive statistics for all sales in general and also diversification by brand, and by regional criteria. The difference in the total amount of sales between Kenzo and other three brands can be explained by its positioning. Kenzo aims for a luxury positioning while selling reasonably priced products, near the high street and luxury department stores from the portfolio of LVMH. This brands overall has cheaper prices by 10-25 % in this segment and try to look more “affordable” alternative since 2018.

COVID-19 didn't change the amount of units' sold in each of the observed countries. The demand remains the same mainly due to the income gap in the society and the fact that richer people weren't influenced by pandemic crisis so much. Psychological motives of purchase such kind of goods often determine the desires of a person to demonstrate some intangible things. Usually, it is the level wealth or richness, the identification of good style and trends, and other points which support the idea the owner may belongs to some wealthy part of the society. Functionality, even quality, are not the deterministic factor for the purchase in such case. Being practical or usable are not the key advantages for luxury items. Usually, luxury pieces are bought because they are recognizable symbols of the income level and sometimes can be treated as masterpieces.

Besides, well off people in social orders with higher pay aberrations have higher motivations to buy extravagance merchandise and subsequently they are willing to pay more for these. Especially it is actual for post-Sovet Union society.

Table 1. Descriptive statistics for the Dependent Variable

	ALL BRANDS	LV	Dior	Celine	Kenzo
Min	61	429.0	72.0	61.0	6085
1st, Q	943.8	915.2	421.8	212.8	8015
Median	3989.5	1380.0	1580.0	2370.0	27082
Mean	21675.6	12545.3	3877.3	2804.8	67475
3rd, Q	12978.8	24563.1	7098.8	5025.5	156462
Max	191556.0	60405.3	14415.0	6961.0	191556

As predicted demand for luxury goods in Russia is several times higher than in Ukraine and Kazakhstan, because the quantity of wealthy individuals are proportionally higher. Moreover, there are more official stores which have been working as delivery points during the lockdown in Russia. Nevertheless, the tendency of the “constant” demand remains the same for all countries. Figure 1 represents the graphical confirmation of this fact.

From this graph we can find out that during the pandemic and lockdown of physical stores sales retained the same seasonality and the same level, which is quite differ from the global tendency of sales decline in the Clothes and Goods

market. This fact may be used as a confirmation of the fact that sales transfer from offline to online. It has allowed to remain them at the same level by using Instagram sales, paid promotion and Youtube, as a channel for improving loyalty to brands.

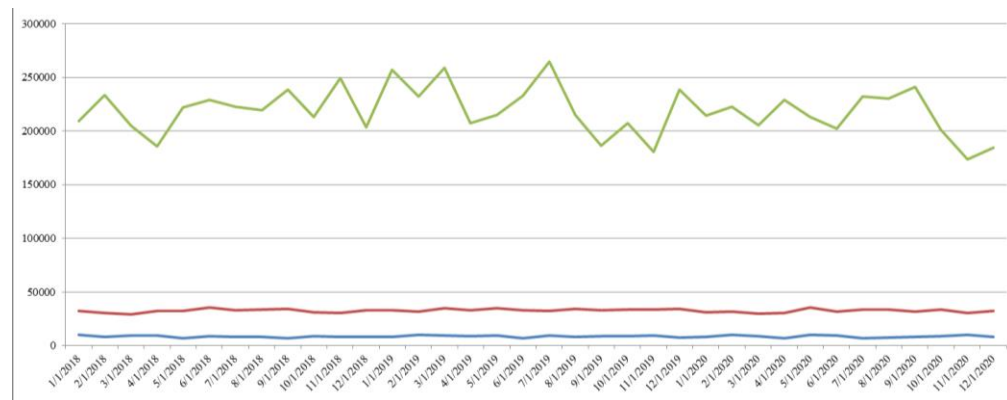


Figure 1. Total sales of LVHM grouped by country

Figure 2 provides the graph for one more dependent variable. The variable “quantity of views on Youtube” represents the amount of views of new collection presentations for men and women in different geographical regions during and after Fashion Weeks during the researched period. In general, presentations of new collections take place only twice per year in each region. There are 7 regions where these events happen. Additional at channels new limited collection overviews, unpacking, fashion tips and other entertainment formats are represented.

Till Fall-Winter 2020, Fashion Weeks had been fully in offline format with translation on Youtube. Since Fall-Winter, 2020 we can see the significant growth in the amount of views due to migration of shows to online (to Youtube online

translations). Also, this dependent variable may have seasonality effect. The amount of views decreases for all four brands during the summer.

The amount of Youtube views for each official Chanel of the holding LVHM had been taking from the source “Socialblade”². It had been calculated by the source as the sum of views of all videos at the last calendar day of the month minus the amount calculated for the previous month. This information has been collected for official channel of brands in my research. All channels have been created before January 1st, 2018, except Kenzo. This channel has been created at the end of January 2019 and videos have started to be posted since February 2019.

It can be seen from the graph that Celine and Kenzo Youtube profiles are historically less popular. It may correlate with quantity of its sales and overall lower consumer loyalty to these brands.

Luxury industry as well as any other is influenced by seasonality in terms of views at Youtube. During the summer period people prefer spent more times “out”, while since September- October their behavioral patterns change and they start to spend more time at home or in cafes\restaurants watching videos.

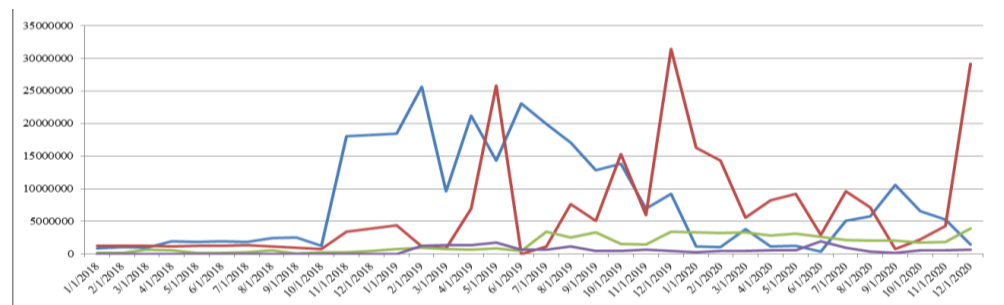


Figure 2. Monthly YouTube views of official channels

Additional significantly important fact for my research, which should be taken into account, is the format of main Fashion Shows of the world and its

² <https://socialblade.com/youtube/>

organization. For luxury industry Fashion Weeks are events which allow to attract new customer, strengthen the relationship with existing ones and claim about the brand, support the idea of “being especial” several times per year. It has been a powerful communication method and a good first point of contact with future customers, important driver of sales.

The lockdown made the conducting fashion shows in offline format – impossible thing due to governmental restrictions. It made brand to rethink quickly their approach and push them to invest their budgets and efforts in social media promotion. Since 2019 Fashion weeks has switched to online format. Figure 3 demonstrates the quantity of view of main fashion events on the official Youtube accounts of brands. On the graph in addition to the seasonality which can be observed, it can be seen the growth of total amount views for each brand.

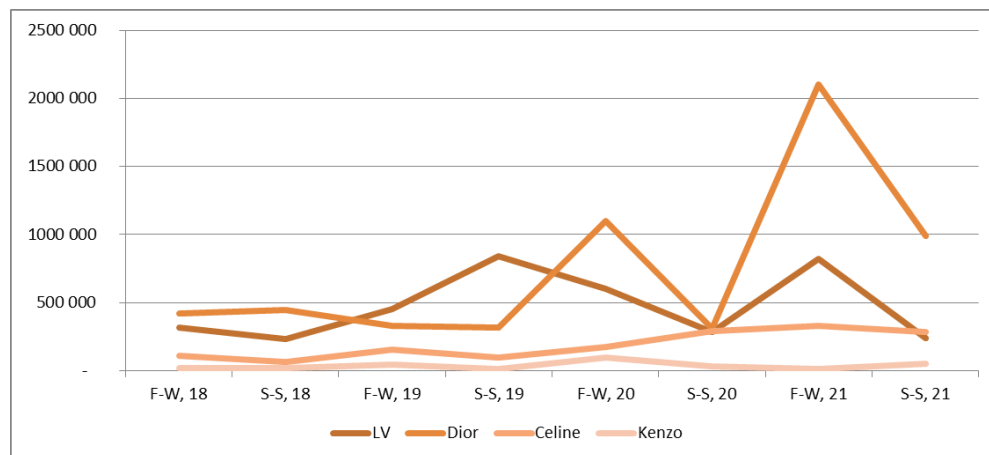


Figure 3. Views of Fashion Weeks on Youtube

Source: Youtube

The dependent variable “income per capita” is used to determine the average per-person income for an area and to evaluate the standard of living and quality of life in the country overall and general trend. The “income per capita” has a tendency to growth in each country. In Russia it is significantly higher as well as

the quantity of sold luxury products. In spite of this trend the quantity of products purchased during 2018- 2020 remains approximately the same. It is also a question for my research.

The dependent variable “quantity of subscribers in Instagram” reflects the monthly growth in the amount of subscribers’ for official brands accounts in the social network. In general Instagram Engagement numbers are calculated by dividing the average number of likes under posts per the total amount of followers. If this rate is below 12 %, it means that audience doesn’t interact with the profile content. The rate under 20 % is counted as highly effective. For LVHM the highest average rate of engagement is demonstrated for LV and Celine in spite of the significant volatility of this metric for them.

We can assume that the growth during this period was constant. The Figure 4 illustrates the average engagement rate of Instagram users at the official brands pages. The average is taken for each month of researched period. From the graph we can find out that Celine and Kenzo have bigger fluctuations and significantly higher engagement rates in some periods. It can be explain by less-conservative approach to marketing and “younger” age of consumers, who probably may be potential buyers.

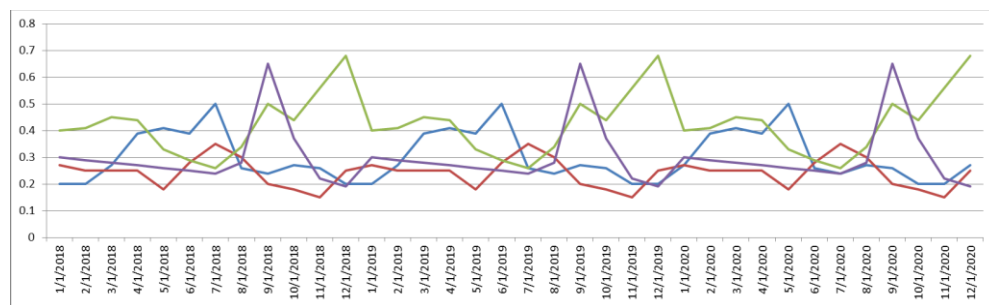


Figure 4. Average monthly engagement rate of Instagram audience

The dependent variable is “new COVID-19 cases”. It is measured by John Hopkins University since the beginning of the pandemic. The data is provided like a quantity of new cases for the date divided by 1m of people for each country.

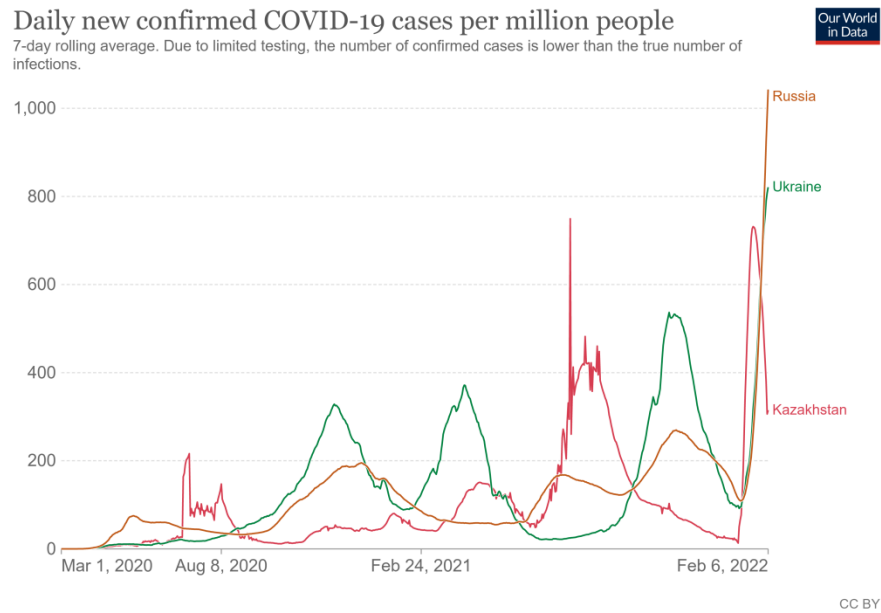


Figure 5. Daily new confirmed COVID-19 cases per million people

Source: John Hopkins University CSSE COVID-19 Data

Chapter 5

ESTIMATION RESULTS

Social media has received a significant role during the coronavirus crisis and lockdown. It became even more significant especially at the beginning because of the felling of communication deficit and restrictions imposed on fac-to-face communication, ability to go out. Overall, its influence and impact are visible and drives a lot of changes in various areas of our lives—from work to shopping and time spending. The COVID-19 pandemic and the associated social distancing and lockdown made individuals increasingly turn to social media for support, entertainment, and connection to other people.

Primary data for the study were obtained from a sample of 432 observations which reflect the quantity of sale of 4 brand belonging to the Group LVHM. The main prediction of our regression model is that Instagram influence on sales of luxury goods has statistically significant connection with the growth of the new Covid-19 cases detected in Ukraine, Russia and Kazakhstan . We have tested it based on the suggested OLS regression model (1). As we can observe the independent variable of new Covid-19 cases reported is statistically significant for our model and totally has negative influence on sales.

The first research hypothesis (H1) is related to statistically significant influence of new Covid-19 cases detected on Instagram engagement rate of the audience plus total influence of Instagram on units' of luxury goods sold. In other words, the question is in the following: whether new Covid-19 cases drives user to be more involved in Instagram activities of the brand and overall together with the positive influence of Instagram engagement rate it ads additional positive value on quantity of units sold of luxury goods.

Table 2 represents the result of this estimation from which we can observe that the coefficient of the connection between Instagram engagement rate and quantity of detected cases of Covid- 19 is statistically significant . According to the results received one percentage increase in new detected cases resulted in the average growth of engagement rate of audience in Instagram for 9.83 %. The coefficient of this intercept estimates that its influence is higher than the coefficient of the Instagram engagement rate of the audience itself. It can be explain by the fact that before the pandemic online segment hadn't provided the large input to the total sales amounts in the luxury industry. People preferred offline shopping mostly in case of expensive products, because they had been paying and for special luxury service also.

Table 2. Regression results for 1st Hypothesis

<i>Regression results for H1</i>			
Variables	Estimate	Standart error	Pr.
Intercept	3.046	1.003	0.00255 **
Instagram engagement rate	1.756	2.591	0.49834
Quantity of Youtube views	1.593	2.202	0.46968
Income per capita (on quanterly basis)	-1.265	7.220	0.08052 .
New Covid-19 cases	-2.294	1.261	0.06964 .
(Inst engagement rate * new Covid-19 cases)	9.838	4.471	0.02829 *

The second research hypothesis (H2) is designed to check whether the intercept of new cases and quantity of Youtube views influence on the quantity of Youtube views of official brands channels, and how these 2 variables drives sales of luxury

product of the Group LVMH. As we can see from the table with results, the positive value is generated but it is significant for the model. One percentage growth in new Covid-19 detected cases is resulted in the average growth of quantity of Youtube views for 1, 90 %. This value is smaller than analogical one for the intercept of Instagram and Covid-19 cases.

Table 3. Regression results for 2nd Hypothesis

<i>Regression results for H2</i>			
Variables	Estimate	Standart error	Pr.
Intercept	2.669	9.828	0.00688 **
Instagram engagement rate	1.005	2.467	0.68404
Quantity of Youtube views	2.154	2.233	0.33545
Income per capita (on quarterly basis)	-1.259	7.215	0.08167 .
New Covid-19 cases	-4.837	2.279	0.03438 *
(Quantity of Youtube views * new Covid-19 cases)	1.900	8.274	0.02212 *

The intuition, which stay behind it, may be in the following facts. Instagram is the social media about lifestyle — what people do and how they spend their money, which is tangent to the one of main reason of purchase luxury spending (money spending on some “additional” wells). On the other hand, it is quicker, especially since Stories and Posts are located at the top of the string some short period of time. Usually “expensive” purchases aren’t spontaneous and require some time to “digest” this idea. It may potentially be done by the consumer through additional research at Youtube, overviews of desired products, etc. Often for brands it increases probability to lose the customer , because every

additional investigation or overthinking about this time of money spending may decrease necessity of this good for a consumer.

As a platform for spontaneous purchases Instagram has introduced the opportunity to go to the page for order of some item through the platform since 2019. This feature with shopping options has provided many producers with an opportunity not only to demonstrate their products, but also drive bigger volumes of sales by making a purchase without switching to the site for the order or contacting producer separately by writing a message by himself. It has made this social network a good direct sales platform. The example of such option is demonstrated on the Figure 5. It may be assumed according to the facts above and our regression results that Instagram engagement influence more on sales of LV goods than Youtube overall.

Additionally, another existing option in Instagram, which has been existing even before the previous one, is carousel posts. It includes a several photos in the one window for posts with an ability to tag products within the images. It is a good way to represent especially seasonal collection and pay attention of customer to the veracity of the brand's portfolio.



Figure 6. Link to the order-page of an item

Source: Instagram

CONCLUSIONS

It is well known that digital technologies and media have opened up significant new opportunities for direct interaction with consumers for all producers in almost all segments even in luxury, where the personal approach and customer services played one of the key role in their offline success.

This study reviews how new the demand side trends in luxury goods' sales forms. In this paper the author tries to put emphasis on the growth of importance of social media as a driver of sales of luxury goods. The key attention is paid to Youtube and Instagram official account of brands and the activity at their pages. Nevertheless, there are several factors which can be a good background for the future investigation at this are.

For example, mostly brands prefer to cooperate with influencers and spend significant portions of their budget on influence marketing. It creates a new point for future discussion, whether it drives sales or just raises awareness of fashion brands and current fashion trends. It is assumed that these factors affect content value has not been strongly confirmed. In the future it can be estimated using more complex model, for example advertising value model.

In our paper a standard OLS regression model of sales of luxury goods has been used, where the joint effect of social media and the pandemic expansion in Ukraine, Russia and Kazakhstan, was introduced. This model predicts that quantity of units sold of luxury goods of LV, Kenzo, Dior and Celine increases with the growth of Instagram engagement rate of the audience or Quantity of YouTube views and the significant factor which influence these independent variable it is their dependency from new Covid-19 cases detected.

This research provides contribution to the understanding of the drivers of sales in luxury industry at all and in leather and clothes segment, especially. Our results suggest what kind of factors influence on sales and how exactly, without of overestimation due to the growth of social media popularity in the world.

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