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Natural Scarcity: What Makes a Product a Suitable Means For Status Signaling

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Three studies examine the underlying factors that make a product most suitable for status signaling. We propose a construct that we call natural scarcity, which occurs when a product of excellence is produced by naturally constrained resources (e.g. skills or material) and which functions as an inimitable status signal.

[to cite]:

Dan King, Robert Kreuzbauer, and Shankha Basu (2013) , "Natural Scarcity: What Makes a Product a Suitable Means For Status Signaling", in NA - Advances in Consumer Research Volume 41, eds. Simona Botti and Aparna Labroo, Duluth, MN : Association for Consumer Research.

[url]:

<http://www.acrwebsite.org/volumes/1015761/volumes/v41/NA-41>

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Natural Scarcity – What Makes A Product A Suitable Means For Status Signaling

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EXTENDED ABSTRACT

From Stone Age pottery, to Renaissance paintings and modern luxury watches, there is strong evidence that using objects as status symbols is at the core of human behavior. This phenomenon has been widely studied across various research disciplines.

Given that signaling high status through products (for instance, through luxury products) is a prevalent behavior, we examine the underlying factors that make a product most suitable for status signaling. In other words, we accept that a lot of consumers want to signal high status (socio-economic-status, SES) through the products they consume and we try to understand the characteristics a product needs to have so that it is preferred over another product as a means of status signaling.

In this article, we propose an answer to this question, a construct that we call natural scarcity. Although scarcity has been frequently studied as a factor that enhances the value of products we contend that only in situations where a product of excellence is produced by naturally constrained resources, such as the unique skills of a craftsman, or scarcely available raw materials, will enhance the value of product in the context of status signaling. Other means of scarcity, such as artificial scarcity induced by the marketer, are much less effective in the long run. Typically, luxury goods are supposed to be of superior performance, made by hand, from traditional brands, require craftsmanship, have exclusive designs, or are limited editions, etc. As we will argue, natural scarcity provides the necessary mechanism to explain such instances (and all others). It explains under what circumstances a product's performance matters and when products would signal high-status even when they are not made by hand or do not require craftsmanship. It is important to mention though that our intention is not to define when a product should be called a luxury product and when not, but to explain the underlying mechanism that makes a product a more suitable signal for high socio-economic status and this mechanism could also apply to products that are not typically considered luxury products, such as collectibles (e.g. stamps) or premium products. As we will show, suitability for status signaling also correlates with the product's perceived value.

It seems intuitive that having access to scarce resources signals status. However, research has not been very clear about how specific forms of scarcity affect product valuation. On the one hand, just making a bad product appear scarce does not necessarily enhance its status signaling value. But we also hardly ever observe limited editions from excellent cell phones, computers, or TVs. According to the basic microeconomics market model, when supply is low and demand is high, the price (as an indicator of perceived value) goes up. Yet, in line with signaling theory we argue that for a signal to be an efficient (or to function as an honest signal, which means that a true high status individual is able to signal his true underlying qualities (i.e. having high status) with this signal) signal of high status it must be hard to imitate from low status individuals. For example a US\$50 watch from a supermarket would not function as a suitable signal for the underlying trait of high SES, because it can easily be bought by a low SES individual who wants to pretend signaling high SES. On the other hand an expensive Patek Philippe mechanical watch of which the company produced only five and which can only be acquired from members of the brand's most selective collectors club is an efficient signal for high SES, because low SES individuals neither would have

the financial resources nor the access to the collectors club to own one these watches. Natural scarcity provides the underlying basis for such honest signal, because when a highly demanded product of excellence also requires naturally constrained resources to produce, it is the best guarantee that it cannot be mimicked by imitators. For example, the reason why there are only few pieces from a very exclusive Patek Philippe watches is not because the company artificially restricts production, but because such a high-level of precision can only be done by a small number of highly skilled watchmakers who could not produce more units without compromising the quality of the watch (because then they would have less time to spend working on one single watch). On the other hand, the design, planning, and construction for an iPhone also require extraordinary skills, but once it goes to manufacturing, producing a higher number of units would not affect the performance. To produce more iPhones, one just needs to let the assembly line work longer, whereas producing more Patek Philippe mechanical watches would decrease the performance and level of excellence of every single watch. In this context, natural scarcity serves as a better signal of high SES, because the person who owns such a product can be sure that only few people would own such a high quality product. We test these hypotheses with three experimental studies where participants rated product scenarios in various contexts of natural scarcity. Study 1 shows (similar to the argumentation above) that handmade products are only perceived as suitable means for status signaling if the production is naturally scarce. In study 2 we demonstrate how even fully machine-made products can be considered as high status signaler under the context of natural scarcity (e.g. when it requires high skills to monitor production of every single unit). Finally study 3 extends the concept to décor elements and examines under what conditions a naturally scarce décor element can add value (and increase its high SES signaling capacity) depending on the product's functional performance.

The implications of our research is that natural scarcity provides an important construct to explain various phenomena in the context of product valuation. It is probably one of the central factors to determine both a product's suitability for high SES signaling and its perceived value. It can furthermore account for various factors and variables that have been frequently been suggested as driving factors for product valuation.

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