CASE STUDY NO. 05 · LUXURY CONSUMER PSYCHOLOGY

The Price Is The Product

Why luxury brands burn their own inventory, why discounts destroy desire, and what a glass of wine taught neuroscience

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I · THE QUESTION

A Sample Sale, and the Bag That Shrank

There is a bag I have looked at for two years. Not longingly, exactly — more the way you register something as existing in a category you have not yet entered but might one day. Structured leather. Understated hardware. The kind of bag that sits on a shelf and makes the room around it look slightly less serious.

Last autumn I found it at a sample sale. Seventy percent off. The tag was there, the discount clearly printed, the bag itself identical in every material way to the one I had been considering for two years. I stood in front of it for a long time. And then I put it back.

This is the thing I want to understand. Not why I didn't buy it — the answer to that question is obvious in retrospect. But why it looked different. Why the same object, in the same room, with the same stitching, the same leather, the same hardware — felt smaller with a discount sticker on it. Why the price reduction did not make the bag more accessible. It made it less desirable. The tag hadn't changed the bag. It had changed what the bag meant.

This case study is about that shift. Specifically, it is about the fact that for a luxury good, price is not a number attached to a product. Price is part of the product. It is a sensory signal — processed by the brain, shaping the experience of the object before the object is touched. Change the price, and you do not just change the cost. You change what it feels like to own it. And for luxury brands, that distinction is the entire business model.

II. WHAT THE BRAIN DOES WITH A PRICE TAG

The Neuroscience of Paying More to Feel More

In 2008, a team of researchers at Stanford and Caltech ran an experiment that should have been career-ending for the assumption that price is a neutral variable. They put twenty people inside an fMRI scanner and gave them wine through a tube. The scanner measured blood flow in the brain while the participants tasted. The participants were told the wines varied in retail price — some cheap, some expensive. What they were not told was that the wines themselves were identical. The experiment was a lie about price, not about wine.

The results were unambiguous. When participants believed they were drinking the more expensive wine, the medial orbitofrontal cortex — the region of the brain most associated with experienced pleasure and reward — showed significantly higher activity. Not anticipated pleasure. Not reported preference. *Experienced* pleasure, measured in real time, in the brain, while the person was actively tasting. The wine with the higher price tag produced more actual enjoyment in the people drinking it, despite being chemically identical to the wine with the lower price tag.[1]

Plassmann, the lead researcher, described this as the "marketing placebo effect." Like a placebo medication, the price information had an effect not because of any property of the wine itself, but because the brain processed the price as a cue and used it to construct the experience. The researchers put it with precise language that deserves its own moment: "Price is not just about inferences of quality. It can actually affect real quality."[1]

> *"What we document is that price is not just about inferences of quality, but it can actually affect real quality. So, in essence, price is changing people's experiences with a product and, therefore, the outcomes from consuming this product." — Baba Shiv, Stanford GSB. Plassmann, O'Doherty, Shiv & Rangel (2008). PNAS, 105(3).*

The finding has a second edge that most summaries miss. In a subsequent study from the same research group, the effect was not symmetric. Higher prices did not simply increase pleasure — lower prices actively decreased it. When participants tasted a twelve-euro wine presented as a three-euro wine, their ratings dropped below even the blind tasting baseline. The discount made the wine taste worse than it would have if they had been told nothing at all about the price.[1]

This is the neurological mechanism underneath what I felt at the sample sale. The discount did not free me to enjoy the bag more cheaply. It retroactively degraded my experience of it. The price tag at seventy percent off sent a signal to the part of my brain that constructs value — and that signal said: this is not what you thought it was. The object shrank because my brain had already decided, from the price alone, that it was smaller.

III. THE ECONOMIST WHO PREDICTED ALL OF IT IN 1899

Thorstein Veblen and the Goods That Work Backwards

Thorstein Veblen was an American economist with the particular gift of writing clearly about things that made other economists uncomfortable. In 1899, in *The Theory of the Leisure Class*, he described a category of goods for which the standard rules of supply and demand do not apply. For most goods, lower prices produce higher demand. For Veblen goods, higher prices produce higher demand. The relationship between price and desire is not inverse. It is direct.

The mechanism Veblen identified was conspicuous consumption: the use of visible spending as a signal of social status. The value of a Veblen good is not intrinsic to the object. It is constituted by the price. The price is the signal, and the signal is the point. A good that announces its own expense is useful precisely because it announces its own expense. Lower the price and you remove the utility — not the functional utility, but the social utility, which for this category of goods is the only utility that matters.

Leibenstein (1950) formalised this into the three demand effects that still structure how economists think about luxury: the bandwagon effect, where demand increases because others are buying; the snob effect, where demand increases because fewer others can afford it; and the Veblen effect, where demand increases because the price itself signals status. All three are present in luxury markets simultaneously, in different proportions for different consumers. But the Veblen effect is the one that creates the pricing paradox: the product that becomes more desirable as it becomes more expensive, and less desirable the moment it becomes attainable.

The corollary that neither Veblen nor Leibenstein quite said explicitly but that the data makes plain: lowering the price of a Veblen good does not expand access to the luxury. It destroys the luxury. What was scarce and therefore desirable becomes available and therefore ordinary. The discount does not give more people access to the dream. It cancels the dream for everyone, including the people who paid full price.

> *"Luxury brands that set lower prices find it backfires by decreasing perceptions of worth and sophistication... When a lower price is set, it backfires. Luxury brands highlight premium prices in marketing rather than discounting to maintain an aura of aspirational quality." — Beyond the Backlog (2024), citing the Veblen Effect literature.*

The connection between Veblen's economics and Plassmann's neuroscience is not incidental. They are describing the same mechanism at different levels of analysis. Veblen identified the social function of price. Plassmann measured its neural consequence. The brain does not evaluate a luxury object and then factor in the price. The price is part of the evaluation. It arrives first, conditions the expectation, and then constructs the experience of the object through that expectation. You cannot separate the price from the product because the brain never separated them in the first place.

IV. THE BRANDS THAT UNDERSTOOD

What Hermès and Louis Vuitton Did Differently — and Why It Diverged

In the winter of 2008, as the global financial crisis was dismantling the balance sheets of banks and the confidence of consumers, most luxury brands did what brands do in downturns: they discounted. Private sales, outlet channels, staff events, discreet price reductions that preserved the appearance of full price while quietly moving inventory.

Louis Vuitton held the line publicly. No sales, no discounts, no visible concessions to the recession. The brand came through in considerably better shape than many competitors. Hermès did the same and has never deviated. The house has never discounted a Birkin or a Kelly bag. In 2025, when new American tariffs threatened to increase costs across luxury, Hermès management announced they would simply pass the additional cost to customers. Their clients, management noted, did not blink.

The contrast between Hermès and Louis Vuitton in recent years illustrates what happens when the pricing discipline diverges. Louis Vuitton expanded aggressively into the aspirational market — lower price points, higher volume, a deliberate democratisation strategy that brought new consumers into the brand. In 2024, LVMH's fashion and leather goods division posted a two percent decline. Hermès, in the same period, reported seventeen percent growth. A Citi analyst wrote that Hermès could soon overtake Louis Vuitton as the largest luxury brand in the world by revenue.

The divergence is not primarily about product quality. Both brands make exceptional things. It is about what each brand has communicated about price. Louis Vuitton, by expanding access, signalled to its core consumer that the bag they paid full price for is now reachable by a much wider group.

V. WHAT THIS MEANS FOR EVERY LUXURY BRAND

The Practical Implications of Pricing as Signal

The neuroscience and the economics converge on a set of principles that are simple to state and, evidently, very difficult to maintain under quarterly revenue pressure.

Price is a product decision, not a financial one.

Most brands treat pricing as a finance function: what can we charge given our costs, our competitor pricing, and our margin targets? The Plassmann research reframes this entirely. Price is experienced by the consumer the same way material, craft, and design are experienced. It arrives before any of those things. It conditions the brain's construction of the entire experience. A brand that makes its pricing decisions without considering the consumer's felt experience of that price is making a product decision without realising it.

A discount is not a sale. It is a correction of expectation.

When a luxury brand discounts, the customer does not receive the product at a lower price. They receive a corrected signal about the product's value. The brain updates its model of what the object is. The experienced quality decreases. This is not a subjective preference or a cultural attitude toward discounts. It is a measured neurological event, documented in a scanner, visible in blood flow. The wine that costs three euros tastes worse than the twelve-euro wine even when they are the same bottle. The bag at seventy percent off is not the same bag at full price. The price changed it.

Scarcity is the price tag you cannot see.

Hermès understands something about the relationship between scarcity and price that most brands have not internalised: scarcity is a form of pricing. When a consumer is told they may wait two years for a Birkin, or that only three of this design exist in this region, the brain processes that information the same way it processes a number on a tag. It is a signal of value, of exclusivity, of the gap between what this object is and what ordinary objects are. Hermès raises its prices five to eight percent per year and manages production so carefully that waiting lists persist. The result is that demand often grows as prices rise. The Veblen effect, engineered deliberately at the production level.

The signal the original buyer received from their purchase — that it placed them in a specific category of person — was retroactively weakened. Hermès, by maintaining scarcity and continuing to raise prices by five to eight percent annually, sent the opposite signal: your purchase is becoming more exclusive over time, not less.

	HERMÈS	LOUIS VUITTON
Pricing	Never discounted. Annual 5–8% increases.	Held during 2008. Expanded lower price points since.
Inventory	Almost no overstock. Everything sells.	€3.2B excess inventory at LVMH group level (2023).
2024 Growth	+17% revenue.	-2% fashion & leather.
Signal Sent	Becomes more exclusive over time.	Becomes more accessible over time.

The inventory data deserves its own paragraph because it makes the stakes concrete. LVMH held €3.2 billion in excess inventory at the end of 2023. Kering held €1.5 billion. For decades, both groups — along with Chanel, Dior, and Louis Vuitton specifically — resolved excess inventory through a practice that the industry discussed in carefully neutral language: destruction. Unsold goods were burned. Not because it was cheap — it was expensive — but because the alternative, selling at a discount, would have been more expensive still. France has since banned the practice. The EU is following. The brands are now having to find other solutions, none of them comfortable, to a problem created by the gap between their pricing discipline and their production volume.

Hermès almost never faces this problem. Their inventory management is so tight that in 2014, one industry analyst noted the company had “thrown out almost nothing” in years — not because they don’t make mistakes, but because they produce so close to actual demand that almost nothing goes unsold. The waiting list for a Birkin is not a marketing strategy. It is the result of a production philosophy that treats scarcity as a non-negotiable feature of the product, not a side effect of capacity.

The brands that discounted in 2008 are still paying for it.

The luxury market normalised significant discounting during the 2008 recession and again during the pandemic. The brands that held pricing discipline came out of both periods with stronger positioning than those that did not. The brands that discounted attracted a new cohort of consumers who entered the brand at a lower price point and built their expectation of value around that price. When those brands subsequently raised prices back to pre-discount levels, those consumers felt they were being overcharged. Today's excess inventory crisis at LVMH and Kering is partly the consequence of years of gentle, invisible discounting that reshaped the consumer's sense of what the product is worth.

VI. THE HARDEST QUESTION

If Price Constructs Experience, What Are You Actually Selling?

This is the question the series has been building toward, and this case study is where it becomes inescapable. If price is a product decision. If the brain constructs the experience of luxury partly from the number on the tag. If scarcity and inaccessibility are features, not side effects. Then what is the luxury brand actually selling?

Not the object. The object is the vehicle. This series established that in Case Study No. 01, before we ever got to pricing. The bag, the hotel lobby, the watch, the dress — none of them are the primary product of a luxury transaction. The primary product is a felt experience of self: the specific version of who you are when you possess or inhabit or wear something that signals a particular kind of belonging.

Price is part of that signal. In some cases, it is the dominant part. The Birkin's value is not separable from its price any more than it is separable from its leather or its stitching. The price is one of its materials. Discount it and you have removed a component of the product. Burn it rather than discount it and you have understood something about what you are making that most businesses never have to confront: some products are destroyed by access, not by neglect.

The wine in the scanner tasted better at forty-five dollars than it did at five, despite being the same wine. The bag at the sample sale was smaller than the bag on the shelf, despite being the same bag. The product did not change. The experience of the product changed. And in luxury, the experience of the product is the product.

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