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Conspicuous Consumption and Signaling in the Age of Covid-19

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Conspicuous Consumption and Signaling in the Age of Covid-19

Why do we consume more than what we need to survive? Part of it is surely the pleasure of treating ourselves to small indulgences – a life in which we nourish our wants in addition to ensuring our needs are met is more enjoyable. Another, slightly darker reason underlying excessive consumption is an attempt to grasp at things which money cannot really buy, but which we believe are important things to have and thus make an effort to accumulate via proxies.

The Covid epidemic is shining a light on whether this historically excessive consumption is truly necessary, as well as redirecting the channels through which people choose to consume. In this piece, we explore how consumer behaviors are revealing new ways in which people are indulging themselves inside the home, as well as adopting creative methods of social signaling in the new world.

Conspicuous Consumption

Economist and sociologist Thorstein Veblen first [introduced](#) the term conspicuous consumption at the turn of the 20th century to describe the behaviors of the upper class who used their wealth to engage in activities which were intended to underline social status or prestige. Specifically, since only upper classes had the luxury of leisure time, they could engage in activities which weren't "necessary," like learning new languages and going hunting. In economics, the term used to describe such luxury products and services (where demand increases as price increases) is veblen goods. While often cited as an exception to the standard laws of supply and demand, they are not an exception to the laws of scarcity: the more expensive an item is, the fewer people can afford it, and the more valuable it is for those who do purchase it.

Flash forward to spring 2020, when individuals from all social classes and nearly all professions are suddenly confined to their homes for the vast majority of each day, and people have had to decide how they will pass this time in isolation. For many, this means reduced to no leisure time: the kids need constant attention, the plumber isn't allowed inside to fix the sink, meals need to be made quickly for the whole family, and finances need to remain as tight as possible during furloughs.

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Others, however, are finding themselves at home with fewer traditional opportunities to spend money, while their incomes remain largely intact. As cash is more available, but leisure time remains constrained, consumption decisions have shifted towards maximizing the amount of enjoyment one can experience in an hour of leisure, rather than maximizing the amount of enjoyment one can experience from \$100 of spend.

We've all heard about some of these shifts in consumption anecdotally, or observed them through our social media channels. At AE, we've also been able to measure them quantitatively using the AE Consumer Impact Index, which tracks outlier sales activity in the context of a one or two sigma event (where -100 represents the maximum possible number of unexpected outliers below the mean, and 100 represents the maximum possible number of unexpected outliers above the mean - and a score of 0 means sales are in line with historical averages).

In the month of April, we've seen outlier sales at beer, wine and liquor stores (AE Index = 82), as well as glassware and crystal stores (AE Index = 98). Alcohol may not be a luxury item per se (although it is certainly not a "necessity" either!) but fancy glassware is. Combined with narrative evidence of more people making and enjoying cocktails in the home, it's one indicator of a rise in in-home conspicuous consumption. Sales of cigars are not far behind (AE Index = 48), as people have more time to enjoy long smoke sessions at home (according to a quick internet search, a cigar takes a luxurious "30 minutes to two hours" to smoke).

We've also observed an increase in consumption which may be both conspicuous and useful. Sales at home supply warehouse stores are much higher than average (AE Index = 88), as are sales at nurseries, lawn and garden supply stores (AE Index = 41). Stuck at home, people may be getting around to repairs, planting, and overdue decorating (although, if the house was working fine before, one must assume some of these projects are DIY opportunities to keep busy rather than keep the roof up).

AN INCREASE IN SELF-LICENSING UNDER THE "RESTRAINTS" OF COVID-19

Some of these shifts in spending behavior may be driven by an intrinsic motivation to treat oneself. Many people have found ways to indulge themselves within the confines of social distancing. This might mean getting takeout from an upscale restaurant or spending an evening relaxing with a scented candle and bubble bath ordered online from a luxury retailer (after all, spend on Healthy & Beauty Spas has dropped significantly, with our AE Index at -68 for the month of April). In fact, people may find themselves indulging in ways that they wouldn't even think to do under normal circumstances.

AE CONSUMER IMPACT INDEX: 2σ FOR 4/3/2020 TO 5/1/2020 (28 DAYS)

CATEGORY	AE CONSUMER IMPACT INDEX
Glassware, Crystal Stores	98
Tire Retreading and Repair	98
Home Supply Warehouse Stores	88
Package Stores-Beer, Wine, and Liquor	82
Miscellaneous Apparel and Accessory Shops	51
Cigar Stores and Stands	48
Nurseries, Lawn and Garden Supply Stores	41
Cosmetic Stores	38
Wig and Toupee Stores	24
Precious Stones and Metals, Watches and Jewelry	20
Shoe Stores	10
Art Dealers and Galleries	4
Health and Beauty Spas	-68

↑ Score reflects degree of abnormality of consumption in this category compared to historical levels. Positive scores represent consumption now is higher than historical expectations, and negative scores represent consumption now is lower than historical expectations.

There are several psychological explanations for why the lockdown might be conducive to self-indulgence. The first is the theory of [resource depletion](#), which argues that self-regulation is a limited resource; when we exercise it in one domain, we might “use it up” and have none left for subsequent decisions. Some of the new demands on our self-regulatory resources during the pandemic include the juggling of remote work (or the even greater stress of lost income) with additional household responsibilities like caring for children. Having dealt with these, a person can easily give in to the impulse to eat an extra scoop of ice cream after dinner.

A related theory of [self-licensing](#) explains that people may engage in hedonic gratification during the pandemic not because of failed impulse control, but rather through deliberative reasoning that they deserve a treat after doing something virtuous. The “indulgent” behavior is often a way of overcompensating for the “restrained” choice which was made earlier in the day. The same burdens that deplete self-control may also cause us to explicitly acknowledge how hard we are working to do the right thing for our families and community, and thus decide that we deserve a reward of some sort. Certainly, if you allow your child some extra TV time after completing their Zoom school lessons, you can also splurge on a nice bottle of wine after completing your Zoom work meetings.

CONSUMPTION AS SOCIAL SIGNALING

At the same time, it’s likely that a significant driver of these new consumer trends is a desire to continue signaling one’s status in whichever ways are possible under the new constraints. Your client drives the latest Tesla because she wants people to know that she simultaneously prizes innovation and the environment – and that she’s well-off. There’s a multitude of electric vehicles on the market (among the star-studded ads played during this February’s Super Bowl, four of them were from car companies launching new EVs this year), but they don’t quite send the same signal as driving a Tesla does.

In fact, an arguably large amount of human behavior can be attributed to signaling. We choose to consume X because the utility we

obtain from signaling that we are the type of person who would consume X is sometimes as much or more than the utility we obtain from consuming X in the first place (replace X with your favorite designer “splurge,” and this will become clearer).

The original signaling model was [introduced](#) by Michael Spence in the 1970’s to formalize the value of

education in labor markets. In the setting of a job search, there is asymmetric information regarding the skills of a prospective employee (the employee has full information, whereas the employer has a small sliver of information). The theory goes, in order to speed up the process of evaluating whether a candidate has the appropriate skills to do a job and build trust quickly, people will invest time and capital in education. By obtaining a certain level of education, the prospective employee can then convey (signal) information about their “quality” to a prospective employer. The employer, in turn, believes that there is a positive correlation between the worker’s skills and their ability to obtain the credential (the assumption is that low quality workers would not be able to obtain such a credential), and hence the credential is informative.

Signals, like trees falling in forests, only make a sound if there is a widely agreed upon value to that signal among the intended receivers. It is worth investing time and capital to go to Harvard so that one can still write “obtained BA from Harvard” on their resume thirty-five years later. While it is possible that none of the skills actually obtained during your time at Harvard are relevant to the position you’re applying for, the difficulty of obtaining admission into Harvard will forever put you in a small group of people who employers tend to believe are highly skilled. Since admission is limited, a Harvard education is a scarce resource which further gives an employee additional leverage if a firm is looking for a hard to find, highly skilled candidate.

To that end, signaling is applicable in any situation where there is an asymmetry of information between the signal sender and the

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signal receiver. [Some economists](#) argue that a significant amount of individual behaviors are driven by signaling given how difficult it is to objectively evaluate attributes like intelligence, influence and wealth - all of which are different types of status that people generally strive towards being perceived as having "more" of.

An even looser definition of signaling beyond the original Spence model further applies to associations which may not be particularly difficult to obtain, but which function to project one's specific group membership or preferences. For example, choosing to get a tattoo of the Dodgers is a clear signal that you are part of a group of perennial Dodgers fans. Part of how companies manage to sell seemingly similar products at sometimes wildly different price points and advertising narratives is that each product more or less closely matches the specific signal which the relevant segment of consumers wishes to send.

If so much of our consumption decisions are indeed intended as signals, imagine if the signal value of those choices suddenly disappeared. If all the scarce resources we worked hard to obtain suddenly lost a big part of their value. Going through the effort of getting into Harvard and no one knowing that you went to Harvard? Buying an LVMH bag and never having anyone see you wearing it? In fact, the strict measures adopted around the world in response to the Covid-19 epidemic have put out the proverbial signaling flame of many products and services we consume precisely for their information value. With entertainment venues closed and social contact limited to phone and video calls, people are left with much smaller windows (er, screens) of opportunity for signaling. While it means that some aren't getting as much utility from their designer handbags these days as they used to, the shift is also unlocking some interesting new behaviors, and perhaps new markets.

NEW MEDIUMS FOR SIGNALING...

Consumption decisions related to the home were historically not particularly driven by a desire to signal. You may wear an expensive suit to the office, where your colleagues can receive the message that you take your job

seriously; but at home, where your family doesn't care how you look and clients cannot find you, you are happy to walk around in oversized tee-shirts and those sweatpants with a hole on the side. But in light of the shift to remote work in response to Covid-19, signaling is invading home-based consumption decisions in unprecedented ways.

Constrained to the home but expected to show up on video calls, people need to rethink what they wear and how they look. This starts from the physical clothing people choose to wear: many of us have unofficial "uniforms" in the office, knowing what is and is not acceptable to wear among colleagues. The new social norms are less clear when joining a conference from one's bedroom. It's probably unnecessary to wear the Patagonia vest in the house, but are pajamas acceptable? Many have opted to blend authenticity with more subtle forms of signalling - casual wear, but with small logos; pajama top, but made from silk. While many retailers are struggling, we've actually seen a rise in sales at apparel and accessory retailers

(AE Index = 51) as well as at precious stone, watches and jewelry stores (AE Index = 20).

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Ironically, given we are all physically farther apart, but perhaps understandable given we increasingly only see one another's faces, there has been more anxiety around physical appearance, particularly with respect to facial beauty. Hair coloring products reportedly have soared as people seek to maintain their looks with salons closed (as well as hair generally - the AE Consumer Index for wig and toupee stores in April is 24) and we've seen a rise in the predictable [lipstick effect](#), with more women purchasing and using cosmetics (the AE Consumer Index for cosmetic store sales is 38). This time, it is not just the unfolding recession which seems to inspire an increase in self-grooming behavior, but the constant need to project your face to colleagues and clients over video calls.

Having signaled everything you wanted to upon joining the meeting, you can now focus on the conversation. Many meetings start with

a few sentences of small talk, with colleagues exchanging notes about what happened the past weekend. Previously, everyone knew you as the type of person who sought out high-quality meals because you would always recommend the Michelin star restaurant you went to over the weekend. Will they think less of you when forced to reveal what you made for dinner in your own kitchen? Not if you learn to make beautiful loaves of sourdough, and follow the latest “garden focaccia trend” (using vegetables and herbs to casually recreate an impressionist painting in your bread).

With international travel largely prohibited, one can no longer droll on about their planned getaway to Fiji, but it doesn’t stop them from posting photos of many former holidays to remind their social media followers of exactly what status they are at a time when everyone is doing nearly homogenous things. Even better, photos of relaxing by the pool or playing tennis in the backyard can remind the followers that even at this seemingly homogenous time, you are still riding out the quarantine in much greater style.

Signaling applies to other aspects of one’s identity too. Parents have been faced with an interesting set of challenges. When going to the MOMA is no longer possible, and no one will actually know whether you spent the weekend exposing the kids to “culture” or not, do parents buy art books and make an effort to recreate a museum experience at home, or do they let the kids watch TV all day? A reported [survey](#) estimated that the average American household is supposedly now streaming eight hours of TV a day, so it would certainly seem like the latter is more common. And yet, when it comes to signaling, parents are still arranging for dance classes over video chat

and taking more time to demonstrate how creative and nurturing they are, by creating over-the-top craft projects and spending time teaching their children skills that wouldn’t otherwise be covered in school.

...WILL UNLOCK NEW MARKETS?

Signaling is just one of many lens we use to understand how behaviors are changing during this epidemic, and forecasting which new behaviors are likely to stick even as things ‘return to normalcy.’ But it is particularly relevant for “conspicuous” behaviors, which are often executed primarily for their information value. Overall, the signaling model predicts that any behaviors (new or old) which have a widely accepted information value - i.e. allow an individual to project something about themselves which is otherwise difficult to assess objectively - will persist.

So if individual behaviors remain at least partly altered for an extended period of time, as appears increasingly likely, then at

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least some of these new behaviors unlock new, profitable market opportunities. The products and services which will succeed are those that have clear signaling value from inside the home (either through a video conference screen, or via social media). These will include new and clever ways to demonstrate all the age-old things we want people to believe we are: intelligent, influential, and wealthy, while constrained by the boundaries of our new normal.

In constructing the indices for this article, we sampled from a population of values conscious consumers, who are more likely to change their spending behaviors based on affinity, community, and trust. As a result, some of the trends identified may not be representative of the general population.

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