A guide to luxury brand success in economic downturns

Milton Pedraza, Luxury Institute, provides a seven-point checklist to help luxury marketers to prosper in a recession

FIIRST THE STORY was that luxury was omnipotent and luxury consumers were immune. Even affluents were trading up, they said, and luxury could do no wrong. Now the story is that luxury has lost its lustre and even the wealthiest are bailing out. Makes for great headlines.

Neither was, or is, an absolute truth. The luxury market, and wealth segments, are very dynamic entities, comprising different products and services categories, and different segments of wealth, respectively, that respond differently to economic cycles. These responses are driven by both consumer effective demand and psychology. It is true that things are never as good, or as bad, thankfully, as we make them out to be.

Even consumers, reporting their expenditures, past and future, and their attitudes and sentiments, tend to get it very wrong most of the time. For proof, go no further than current political polls. Try to correlate consumer sentiment indices with retail sales over a long period of time. It is tough to achieve. That is not to say these are not useful exercises conducted by well-intentioned professionals, and may be good indicators of consumer perceptions at the time. Overall, however, we believe that current rumours of luxury's demise are greatly exaggerated - as exaggerated as the previous estimates of never-ending growth.

There are several layers of wealth out there that respond differently to economic booms and busts. Let's generalise a bit for simplicity's sake. Let's say that there are three general demographic segments that buy luxury goods.

The first is the typical empty-nester, over-55, baby-boomer couple, worth over US$io million with at least $500,000 per year in income. They are very resilient (no one was ever immune). This group will continue to buy luxury, not only because they have effective demand, but because their life clocks are ticking and they understand that, after years of sacrifice building their business, they had better enjoy life right now. Economic cycles will come and go, but they will not live for ever. And, they probably won't want to drive that Ferrari or manage multiple homes at age 75-

Then there are the married couples in their 305 and 405 who have accumulated anywhere from $1-10 million net worth, and have income above $3ook. They have net worth, but they also have children at home, and many have ageing parents who need financial assistance. They are going to focus on wealth-building for the long term first. While they are very strong luxury consumers, in times of uncertainty they will throttle back spending. Not dramatically, but enough to affect luxury growth rates.

^ Finally, and I am generalising again, there are the young single professionals, living in large metro areas with low, or no, net worth, and earning around $150k per year. They have high rent or mortgage expenses, and have stretched to buy luxuries in the good years when they felt confident their jobs were secure and their earnings and wealth accumulation were on an upward spiral. In times of economic uncertainty, these educated and rational consumers scale back as job prospects dim, and they see their wealth accumulation slow or decline, especially in their first real asset, real estate. Although they were not the biggest spenders by far, there were many more of them trading up, and their dramatic cutbacks also affect luxury growth rates.

These examples are not made up. They come directly from the voices of executives in the front lines who know whom they serve. These generalised segments and their responses to economic downturn help explain the recent reduced growth rates and actual declines in growth of luxury firms.

Consequently, the reality is that luxury is cyclical, and always has been, as are all other industries, and that the luxury winners take a long-term view and business approach. We believe strongly that the global economic fundamentals of rapid and freely available technological innovation, emerging-market population sizes, emerging free-market economies that have the legal frameworks to support entrepreneurship and property ownership, and the availability of unbounded capital, make it likely that millions will continue to be lifted from poverty and that millions will become millionaires around the world in the next few decades. That bodes well for luxury goods and, especially, luxury services.

Here are seven 'tough love' steps from the independent and impartial Luxury Institute, to ensure your brand not only survives, but thrives, in an economic downturn.

1, Eliminate the hobbies

Many luxury brands have entered into categories where they have no expertise or credentials, merely because they want to be 'lifestyle' brands. Some categories are logical extensions for a luxury brand. Most are not a good fit, and will be marginally profitable. Fashion brands are notorious for pasting their logo on anything that they think will generate growth, regardless of the impact on the long-term brand equity, and the long-term bottom line.

Wealthy consumers are highly discerning, educated buyers. Several years of Luxury Institute empirical research shows that wealthy consumers prefer, and are willing to pay a significant price

Deliver extraordinary customer experiences: employ talented, caring people who connect with customers one to one

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premium for, brands that are specialists. Leiber in handbags, Harry Winston in jewellery, Christian Louboutin in women's shoes and Berluti in men's shoes are brands that wealthy consumers rate highest as category specialists.

Conduct a rigorous assessment of your brand's category portfolio and unflinchingly eliminate the marginal 'hobby' categories. Renew your focus on what you do best and innovate within those categories.

2. Go up market right now

One of the great ways to kill a luxury brand, albeit slowly, is to go down market. Gucci was a great comeback story because someone had decimated it before Tom Ford saved it. It is the 'boiled frog' syndrome. The warm water feels so good that the frog doesn't know it's being made into soup until the water starts to boil. By then, it is too late to bail out. If you are a luxury brand that really aspires to be a mass brand, then create and execute a strategy to be distributed in as many mass-market outlets as possible. You have lots of choices.

If you aspire to be a top-rated luxury brand, then our research says that you must serve high-net-worth consumers, be unique and exclusive, your distribution must be limited, and your service impeccable. Great quality is not enough. Focus on going up market with bespoke, one-of-a-kind, custom-made, made-to-order, limited-edition product, and deliver service to match. Only then will the new, growing multi-millionaire consumers globally be willing to pay a premium for your products over the long term. That's your growth strategy.

3. Innovate and dare to be different for a change

Luxury firms have commoditised luxury to the point that 63% of wealthy consumers feel that luxury is being commoditised. Walk down most high streets, such as Fifth Avenue, Avenue Montaigne and Bond Street, and you see the same look and feel in store designs and products, to the point that you can take away the store signs and logos and wealthy consumers would probably not be able to identify who is who. The same is true for services.

It is time to stop emulating your competition and begin to innovate in such a way that you are creating never-before-seen products and categories that are relevant and revolutionise your industry. Apple is beating luxury at its own game by creating great products and services, innovating features and benefits, and charging a premium. Now its stores are becoming high-tech/high-touch destinations. If luxury has any claim to fame it is in innovation and novelty. Demand innovation and you will get it.

4. Leverage PR, not advertising

Especially in challenging economic times, every communication dollar counts. Public relations is a far more effective and credible vehicle for persuasion of key constituents than advertising. Give your agency the opportunity to communicate the authenticity, the rich history of your brand, your brand icon, your brand integrity, your brand's corporate citizenship, your knowledge of the category via your vast internal data and, most importantly, your breakthrough innovations.

5. Deliver extraordinary experiences

The truth about extraordinary customer experiences is that they are delivered not with gimmicks and props, but by talented, caring people who connect with customers one on one. How much extra does it cost you to staff your company with people who are experts in your products, and even your competitors' products? Who is trustworthy? Whose interests are aligned with those of your clients? Who is genuinely interested in helping people with a smile?

Great people are the most difficult resource to scale, yet companies such as Ritz-Carlton and Nordstrom are consistently rated by wealthy consumers as delivering extraordinary customer experiences, despite their size. Apple now has better experiential stores than many luxury firms. And it is not the bricks and mortar that are delivering that. When will your brand be rated at the top of customer experiences by the only constituents that count?

6. Innovate online

Luxury brands have been in perpetual debate as to whether to be present, and sell, online or not, and if, and how, to advertise online. This could remind you of the dotcom era, when so many 'experts' were vigorously debating whether content was king on the internet, and whether technology would become a commodity.

Thankfully, the internet debate is over for most luxury brands. Now is the time to use this rich channel to reach global, wealthy consumers, no matter where on Earth you happen to be located. If a luxury brand asks whether it should spend scarce funds on opening another store, launching a print advertising campaign, or investing in a great website and online advertising, the internet wins every time as the fastest, cheapest and most effective way to leverage a luxury brand in today's world.

7. Let the voice of your customers be your guide

Strategy meetings are great, but you will find yourself in circular group think in economic downturns. Everyone will want to play defence, when you need to have a great attack.

Inject the voice of the wealthy consumer into your strategy sessions. Use internal and external quantitative research, create an online community, mine your transactional database, engage customers one to one at point of purchase, and so on. In effect, do whatever it takes to understand what consumers are thinking right now and why they are behaving the way they are. Find ways to put consumer feedback into practice immediately. Consumers will guide you not only to survive, but thrive in any landscape, including a downturn. This too shall pass, and you will be the stronger for it. ■

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