

When cheap is exclusive

Hard times for luxury retailers are good times for discount fashion websites.



In a few weeks it will all be on Rue La La – Alamy

The racks of expensive gowns and shoes sit, serene and mostly untouched, on the floors of Saks Fifth Avenue, Bergdorf Goodman, Bloomingdale's and almost every fancy department store. In a sign of how consumers' newfound thrift has hurt luxury retailers, Saks Incorporated, the parent company of Saks Fifth Avenue, recently announced losses of more than \$50m in the three months to July. Sales are down more than 20%. The recession, it seems, has spelt an end to Americans' appetite for luxury—at department-store prices, at any rate.

Yet luxury e-tailers, which sell designer goods online at discounted prices, are flourishing. The slowdown has actually helped them, simultaneously producing seemingly endless supplies of unsold inventory and forcing consumers to tighten their belts. That has let American e-tailers such as Gilt Groupe, HauteLook and Rue La La, and their French rival Vente-privee.com, sell last season's designer apparel for as much as 80% off the original price.

But low prices are not the websites' only allure. Their sites are open only to those who have received an e-mail inviting them to join from another member. This lends them an air of exclusivity and creates the sort of buzz marketers crave, says Adam Bernhard, the boss of HauteLook. The sites also put new items on sale at the same time every day for a limited period, usually no more than 24 hours. That makes shopping an urgent and competitive daily activity for many members. (Cleverly, the sites do not say how many items of each size and colour they have, so customers feel even more pressure to buy right away, lest they miss out on the last pair of size 37 hazel Jimmy Choo pumps.)

Designers, for their part, can use the sites to get rid of stock quickly and discreetly, sparing them the disgrace of seeing their heavily discounted products lingering on sale racks in full public view. Most consumers do not even know which designers are available through luxury e-tailers until they become members. The sites shield themselves from search engines, so they do not pop up in response to online searches for the brands they offer. That has encouraged grand firms like Cartier to sell their wares through them.

Ben Fischman, the boss of Rue La La, which started in 2008 and expects to have revenues this year of around \$130m, thinks the "theatrical environment" of his site keeps customers hooked. He says retailers became complacent during the boom years and failed to make the most of new technology. Rue La La recently launched an iPhone application to make it easy for members to make purchases while on the move. It has also started selling wine, spa services and travel packages in addition to clothes. Vente-privee.com has even sold yachts and apartments.

Although none of the sites has yet reached Amazon-like proportions, they are doing well. Gilt, which was launched by two graduates of Harvard Business School in 2007, has over 1.4m members in America; it expects revenue of \$400m next year. Vente-privee, which started in 2001, says its membership is 8m, up 42% from last year. Even Net-A-Porter, a popular e-tailer that offers designer merchandise at full price, is doing well. It recently launched a discount site, called the OutNet, because it does not want to lose out on the booming discount market.

E-tailers are also looking to expand geographically. Vente-privee.com has operations in Germany, Britain and Spain as well as France. Gilt recently launched a site in Japan that has over 200,000 members.

Retailers, however, are fighting back through their own websites. Neiman Marcus, for example, has started offering sales of limited duration to selected customers, in an attempt to mimic the "insider" feeling that the fashion e-tailers trade on. There is talk of new technology to make shopping both easier (through software that would allow buyers to assess whether a particular cut will be flattering for their build) and more social (through chat rooms, for example).

However, Hamilton South, a founding partner of HL Group, a retail consultancy, thinks the future of luxury retail may not be online but on television. He believes that viewers will soon be able to use their remote controls to buy the clothing that appears in the programmes they are watching. Retailers need to stop thinking about making shopping entertaining, he says, and concentrate on making entertainment "shopable" instead.

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