Putting the *Luxe* Back in Luxury

How New Consumer Values are Redefining the Way We Market Luxury

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> *Nothing will be the same again. It would be illusory to think it will be the same again.*
>
> —Bernard Arnault, chairman, LVMH Moët Hennessy Louis Vuitton

"Gleam Returns to Luxury-Goods Sales" proclaimed the *Wall Street Journal* on October 18, 2010, based on a new study by Bain & Company and its partner Altagamma, the Italian trade association for luxury goods. What a huge disservice this headline did to marketers trying in earnest to get a handle on what is really going on in the luxury market today. The danger is that marketers dependent upon the indulgent spending of affluent consumers will heave a sigh of relief and go back to luxury business as usual. That course, unfortunately, will be a big mistake because the luxury market has changed, and changed dramatically, from the go-go years prior to 2007.

What's wrong with this overly-optimistic and very simplistic report on the luxury market is that it measures the wrong things. The Bain assessment of consumers' return to luxury is founded on the results of about 220 luxury goods companies' sales reports. A sizeable portion of the revenues measured by the Bain study include LVMH and PPR, two giant multinational luxury brand conglomerates with exposure in developing markets, like China, India, and Brazil, where luxury is hot and growing. Without question these companies are doing very well, but their growth in revenues says more about their success at managing their businesses than it does about the affluent consumer market. The boom in luxury goods sales that Bain reports is based on a couple of core factors that have nothing to do with rising consumer sales in the U.S. and everything to do with economic trends and management practices. First, the companies have very weak comparables to work against, so 10 percent overall growth isn't particularly hard to achieve given the low starting point. Second, the euro suffered significant depreciation from the previous year, accounting for "40 percent of the sales revenue increase," as the Bain's press release reports. Third, luxury marketers have been successful at shifting a significant portion of their distribution from department stores and other third party retailers to company-owned stores. The end result is that in the current year these companies are booking 100 percent of the retail price of goods, rather than a lowly wholesale percentage. Take away these three factors that have nothing to do with the consumer market and the gleam turns to gloom for the luxury marketers that don't have these key factors going for them.

Just days following the Bain bit of mis-information came another story out of the American Affluence Research Center that also did no favors to luxury marketers. In a survey about plans for future spending among 439 high-net-worth households ($800,000+ net worth) which the study sponsors claim are representative of the wealthiest 10 percent of American households, they find "for the most part [the wealthiest 1 percent] are going to continue to spend," while everyone else is very much on the ropes. The AARC's primary advice for luxury marketers looking to grow is simple, and in my view, foolish. "Luxury brands and luxury marketers should be focused on the wealthiest one percent because they are the least likely to be cutting back and are the most knowledgeable about the price points and brands that are true high-end luxury."

If everybody takes this advice and goes after the top 1 percent of the wealthiest customers with household incomes of $500,000 and above, which is actually just a tiny, highly unrepresentative segment of the affluent market (what I call outliers because that is what they are—far, far outside the norm of households at the top 20 percent of incomes), a lot of brands are going to crash and burn on their rush of competition to the top. And we also have to face the fact that a lot of luxury marketers and their brands are really not equipped to compete in the rarified air of the super rich.

There is a lot more oxygen to sustain growth at lower income levels.

With the turn of the new year and positive reports out of the luxury retailing sector for the fourth quarter 2010, more headlines proclaimed that the luxury shopper was back. Among the typical headlines is this one from the *Dallas Morning News*, “Neiman Marcus holiday quarter profit rose as luxury spenders returned.” Similar stories have reported long-overdue positive results for Saks and Nordstrom. Frankly, these luxury retailers’ reports are a far better barometer than the luxury brands’ of what is going on with the luxury consumer sector since they are much closer to the actual customers and their transactions. But what is missing from these glowing news stories out of the retail sector is that the luxury retailing giants—Neiman Marcus, Saks, and Nordstrom—are very different today than they were pre-2007, before the recession. These companies have made dramatic adjustments in their businesses starting with more realistic pricing and greater focus on delivering product and services to online shoppers. They aren’t selling the same stuff the same way they did before the recession and now they are being rewarded for making those changes. While luxury shoppers haven’t returned to what they were before, they are starting to come back, but with new ideas, new demands, and new expectations.

We need to get real about luxury consumers and the potential in the luxury market

Make no mistake: The luxury consumer market has changed and will continue to morph through the next decade. Rather than wishing and hoping and praying for the good old days when luxury was hot and affluents as well as upper-middle-income folks couldn’t get enough luxury, marketers’ only hope is to face the reality that much of the luxe has gone out of their brands and their marketing. Using their old tricks, luxury brands aren’t pulling in enough shoppers and enough dollars to sustain the past levels of business. People who used to be able to afford luxury brands aren’t willing to pony up anymore, or only very occasionally. Customers are fundamentally different than they were just two or three years ago and there are fewer luxury customers coming to build a bridge to the future.

This is the reality of the luxury market through the next decade, until about 2020. This period of low levels of growth for luxury marketers, the luxury drought, is caused by fundamental shifts in the demographics of the consumer market, as well as changes to affluent consumers' purchase behavior and psychology. Taken together, these three factors—demographics, purchase behavior, and psychographics—will work synergistically to slow down the growth in the U.S. luxury market through the next decade. The way for marketers to succeed in this increasingly hostile low-growth environment is to integrate their understanding of the negative forces with innovative new products and inspiring new marketing and sales strategies.

Putting the Luxe Back in Luxury is intended to strip away the illusions and fantasies many marketers hold about the luxury consumer marketplace. In my many years of consumer research, I have never faced a business segment so under- and mis-informed about the customers served. Marketers' fantasies about how the luxury consumer lives and behaves cloud their judgments. In this book you will learn who the luxury consumers are, what they really want, and how marketers that depend upon reaching them can tap their potential.

At its core, this book is about *aspiration* or creating desire in the minds of consumers for luxury. An aspiration is "a strong desire to achieve something high or great or an object of such desire." I often find marketers attribute motives to the aspirations of their customers when they really are projecting their own aspirations onto the customer. As marketers, we can't build consumer aspiration if we are caught up in our own personal aspirations. We must strip away the aspirational to get to the fundamentals of marketing luxury to customers who have different desires than they had just a few short years ago.

Why luxury and the affluent consumers matter

In a time of economic upheaval where unemployment is at record highs, and government debt has reached unimaginable proportions, the middle class is getting squeezed. Middle class incomes actually declined in real terms from 1999 to 2009; the average income of the average U.S. household dropped 3.5 percent in current dollars from $70,462 to $67,976. The obvious question is how important are luxury and the affluent anyway? As a culture, don't we have bigger problems to deal with than indulging the privileged few with more luxuries? Not true. In the future, affluent consumers are going to become even more important to marketers at every step up the pricing ladder—from discount to middle-market to ultra-high end—simply because the American economy is so highly dependent on consumer spending, which makes up roughly 70 percent of the GDP.

Affluent households at the top 20 percent of the income scale do far more than their fair share in propping up the nation's economy and GDP. This 20 percent of households accounts for:

- more than 50 percent of all income and earnings, and
- more than 40 percent of all consumer spending.

The households in the 20 percent are truly the heavy-lifters in the U.S. consumer economy.

Luxury marketers' new challenge: To put the luxe back in luxury

Luxury marketers must change the old way of doing business. They must embrace the values of today's affluent consumers' and deliver products and services that have meaning and value given the consumers' new enlightened, increasingly post-materialistic perspective. It is no surprise that Merriam-Webster named *austerity* word of the year for 2010. The old luxury model based on image, status, conspicuous consumption, and spendthrift indulgence is now tarnished and dull. Marketers and brand managers have to find new ways of marketing and communicating that will put the luxe back in their luxury brands, products, and services.

Marketing starts with understanding the customer

Today's luxury marketers face a marketing challenge: how to build connections with a new type of customer with new values and new priorities. To meet that challenge, luxury marketers must integrate new learning about the consumer into their marketing, advertising, communications, and product-development strategies.

Understanding the new consumer market for luxury will take a three-pronged strategy:

Demographics

If marketing starts with understanding the consumer, then understanding the consumer starts with demographics. Demographics are the facts and figures that define the people who are the target market for luxury now and in the future. The 2010 Census data reveal the changing demographics of affluence and how those demographics will shift during the next decade.

Purchase behavior

Luxury marketers have to understand how their customers change product and brand preferences, where they shop, how much they spend, and their basic shopping strategies. The latest findings from Unity Marketing's exclusive luxury tracking study allows us to examine in detail the shifts, turns, and transitions of luxury customers over time.

Psychographics or why people buy

The underlying psychology of the consumer is without a doubt the most important piece of the puzzle. Psychology is where consumers' values lie, what guides and directs their purchase behavior. To put the luxe back in their luxury marketing efforts, marketers must tap deeply into the psychology of the consumer.

You can use these three key understandings of the consumer—demographics, purchase behavior, and psychographics—as a springboard to new marketing and branding strategies.

This requires three more steps:

Integrate

As a luxury marketer you need to integrate consumer insights (i.e., understandings from the study of demographics, purchase behavior, and psychology) into your business and strategic planning. This book presents the most relevant insights that you need to integrate into your new business models.

Innovate

You must discover unique and original ways to innovate your brands, your products, and your marketing messages to find new ways of connecting with your consumers. Innovation is particularly challenging for luxury brands. The long-standing heritage of many of these brands is crucial to their marketing and branding proposition. Yet innovation is critical for luxury brands to remain relevant to consumers empowered by the internet and who employ new strategies for shopping. Use the consumer insights presented in this book as a springboard for innovation and to reinvent your marketing messages and brands for a new kind of luxury customer.

Inspire

Ultimately, luxury products and services must inspire consumers to spend their time, money, and personal resources to forge a relationship with your brand. Luxury executives must be inspired to manage their brands carefully and honestly. They must find inspiration to create better products, more meaningful services, and more value for the customer. Retail sales executives and associates must be inspired when dealing with customers. The time when luxury and high-end items could be sold without sales skill has passed. Inspiring the people who connect with customers is crucial to the entire luxury consumer experience. Luxury marketers should forget about *aspiration*. The new challenge is to give customers *inspiration* for your brands and your products.

Companies that use the formula above to put the luxe back in luxury will grow sales, build market share, and create a sustainable business model for the future.

My personal goal in writing *Putting the Luxe Back in Luxury* is to inspire you to grab hold of a bright future. I will highlight inspiring examples of companies and brands who are putting the luxe back, and are tapping the new consumer psychology to more effectively market luxury goods and services to affluent consumers.

Putting the Luxe Back in Luxury concludes with steps that luxury brands must take now to put the luxe back into their brands. I hope it will provide inspiration for you as a luxury marketer or branding executive, to create a new business model for the 21st-century luxury consumer. Your challenge for the future is to sell luxury goods and services that will ultimately transform the individual. This book will show you how.