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Luxury Brands: Marketing the Upscale During a Downturn

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As 2009 shapes up to be the most challenging year in more than a generation for luxury items such as high-end apparel and fragrances, marketers' plans for targeting aspirational 16-year-olds and expanding rapidly into the new money hubs of Russia or the United Arab Emirates are suddenly "out," according to a panel at the recent Wharton Marketing Conference. What's now "in" for marketing luxury in this difficult era is pampering the wealthiest and most loyal customers with everything from monogrammed shirts to personal in-home visits.

"I really think the foundation of luxury is customer service -- that is what we are hearing," said panelist Cori Galpern, worldwide marketing and advertising director for Tom Ford International, the designer's growing chain of fashion houses. "I think what we'll see because of the economic crisis is that you lose a certain amount of that aspiration customer. Somebody who will buy a couple pairs of shoes over the course of the year is making other choices. The core for a luxury brand is a customer with very considerable wealth."

The issue of who will remain wealthy over the next two years, and how they might spend their disposable cash, was very much on the minds of the panelists, including top marketers with experience at some of the most storied names in luxury items and apparel -- from Gucci and Prada to Tom Ford and L'Oréal.

Upholding Your Brand

The panelists agreed that in a recession in which even upscale consumers may find themselves strapped for disposable cash, it is a bad strategy to chase customers too far down the economic ladder. "We don't want to see huge price cuts that will create a lower-priced brand," said Brad Farrell, skincare brand manager for L'Oréal Paris. "That's because you don't want to tarnish your brand. When this is all said and done, you still have your brand reputation to uphold."

Indeed, the deepening economic slowdown was such a hot topic for these luxury marketers that there was surprisingly little discussion of the panel's planned topic: "Targeting the New Luxury Consumer in a Flat World: Identifying Opportunities for Growth in a Global Luxury Market."

Several of the panelists said their firms remain hopeful that the next couple of years will bring expansion into some of the world's fastest-growing economies, including the so-called BRIC nations of Brazil, Russia, India and China, as well as the oil-rich Middle East. But they added that the rapidly evolving financial turmoil could hinder some of their most ambitious ideas. Alexandra Gillespie, who launched her own FLR Group for luxury marketing after a stint as senior vice president of Gucci, warned about "focusing too much on the luxury sector in emerging markets" because they, too, have been deeply affected by the economic downturn.

Many experts believe that the economic pain of the deepening recession could fall disproportionally on these marketers of high-end perfumes, trendy clothing or sleek fashion accessories. A study by Bain released in October found signs of a slowdown already in the personal luxury goods sector that includes shoes, jewelry and fashion; it predicted that sales could drop by as much as 3% to 7% in 2009 if current trends continue. Gillespie flatly predicted that "2009 will be the worst year on record for the luxury sector." The parent of her former employer, Gucci, just reported its worst third quarter since 2005 because of the slowdown.

Conspicuous consumption seems practically un-American in these troubled times, according to some observers. Renowned trend analyst Faith Popcorn recently said that "[i]f you go up Madison Avenue [in New York], past Fendi and Prada, those stores are empty. Women are shopping in their own closets. You feel shame in buying even if you can buy."

But that glum tone wasn't evident at the Wharton panel discussion. Several participants noted that their core customer base, the truly wealthy, may cut back some on their discretionary spending but will not eliminate luxury purchases altogether. According to Randy Kabat, executive vice president of marketing and advertising for Prada USA, roughly 50% of the firm's sales come from just 5% of its customers, although she is worried about the potential loss of some so-called "aspirational" middle-class consumers -- 16-year-old girls spending a small fortune on the "it" handbag -- during a recession.

As a result of the hard times, the panelists suggested that consumers are likely to see some moves aimed at selling high-end products at a slightly lower cost. L'Oréal's Farrell suggested that one obvious step would be to sell fragrances in smaller containers, as long as the actual product is not diluted. "You can still maintain your brand integrity, but you're selling at a price point that's more accessible for the consumer in today's market." A similar move, Farrell added, is to ensure that some version of your key products are more available in mid-market retailers like Target or even -- in the case of skincare products -- drugstores like CVS, because during a recession even upscale Americans are likely to do more shopping in such stores.

The key is not to make any move that will diminish the value of a brand with a well-established name for luxury. "Good management weathers good times and the difficult times, and fashion doesn't change," said Patrick Abouchalache, who analyzes the retail industry as a managing director at Roberts Mitani, a New York-based investment firm. "You have to stay the course."

Panelists agreed that marketing and branding issues are very different for high-end luxury companies than for large mass-market consumer goods firms, which typically seek to identify sizable voids in the marketplace and then create new products in an effort to fill them. For luxury goods, they noted, the business plan places trust in the artistic vision of a designer -- and hopes that will lure customers.

"With high end fashion, you're buying into a lifestyle," said Prada's Kabat. "You're buying into someone's point of view, and that's reflected in the products that are created." Miuccia Prada, the Milan designer who began creating the current incarnation of the company in the 1970s, is content to leave the business side of marketing new products to others so that she can focus on European runway shows, Kabat pointed out. "She had the freedom to produce newness -- and a new point of view in her fashion."

No Billboard on Times Square

Because of the luxurious image they must portray, these marketers said they also need to guard their brands in ways that mass-market companies do not. Tom Ford's Galpern notes that her company rejected an idea for a digital billboard in Times Square as insufficiently high-brow. Tom Ford sees its fragrances as competing with Chanel -- and "would Chanel have a billboard in Times Square?"

That does not mean, however, that luxury firms do not want their products to reach a fairly broad audience. Indeed, Kabat had words of praise for a trend she described as "Targetization," in which the coast-to-coast mass retailer Target offers something of a higher design aesthetic to customers who are slightly more upscale than those of rival chains. Still, she noted that the United States can develop its appreciation for good design much further. "In Europe, fashion and design [are the] fabric of the culture, but [they are] not a part of the fabric of our domestic culture."

Indeed, luxury marketers believe that their success in establishing an aura of desirability is what will ultimately get them through the financial crisis. It may be counter-intuitive, but Abouchalache said that demand for a consumer product like Cheerios cereal is finite, in a way that the need for a luxury item is not. "When it's a tough day and you're on the way home and you have to buy that handbag ... it's just a different factor driving that purchase. A customer could always use another purse."

But to boost the bottom line, fashion firms are likely to focus now on pampering their best and most loyal consumers, using computer technology to increasingly customize upscale products that will be designed or tailored especially to their needs. The success of individualized luxury goods -- such as designer clothes or eyewear -- is a development that could keep a customer repeatedly coming back for more, according to the panelists.

"Everybody wants to be a lifestyle -- and they're going to want to stay for 10 or 15 years with your product," said Abouchalache. Among the designer trends in customization are monogrammed handbags, personalized options for a color or a fabric in accessories, or a wider array of fragrances that are "personalized." According to Kabat, Prada -- which started its success with a simple but well-designed nylon backpack -- is focusing on a similar approach, one in which "customization makes the purchaser feel special and unique."

"This is not a time to panic," added Gillespie, referring to the difficult fiscal environment. "This is a time to define and redefine the brand."

Ironically, while the panelists were not particularly enthusiastic about the short-term prospects for emerging overseas markets, their companies continue to position themselves for when the time is right. Tom Ford International, for example, has already awarded franchises for stores in Beijing, Hong Kong and Dubai as it weighs a much larger presence in Asia; the firm has also spoken of plans to market made-to-measure Middle Eastern men's robes called dishdashas.

L'Oréal's Farrell noted that a lot of demand in Europe is coming from Eastern Europeans and especially from Russia, which has been swimming in oil wealth because of the price spikes in crude in 2007 and 2008. But he worried that the bubble of financial growth in such markets could burst quickly, adding that "you really have to be careful."

Still, regardless of where the global economy winds up, luxury marketers say their principle mission will remain the same: Selling a more glamorous way of life to aspiring consumers. "You're buying into that dream," Kabat said. "And you're buying into that grand theme, which is our job."