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## **Are Luxury Brands discounting their brand and their product.**

"To Discount or Not to Discount" Highlights from a A Luxury Marketing Council seminar April 30, 2009 from The American Museum of Natural History, Rose Center, MNew York City.

Moderator Greg Furman. The Luxury Marketing Council

Panelists : Mathew David Hopkins, founder of 360 Design Events, NYC Paul Hooker, owner, Sferra, fine linens Karla Martin, Booz & Company Steven Treppo, principal, Booz & Company Ira Neimark, CEO emeritus, Bergdorf Goodman, NYC Valerie Seckler, marketing editor, WWD Eli Marcus, co-publisher, Promenade Magazine, Devler Media Group Dr. Mario Simon, partner, Millward Brown & Company Steven Treppo, principal, and Karla Martin, Booz & Company

Obviously there is this incredible amount of pressure right now on retailers and manufacturers to either drop prices or spend a lot more money at retail, discounting or displays whatever is measurable.

So the pressure is globally on these companies to do something about taking prices down or at least putting more money back into the marketplace. We have been telling our clients to do two things, both based along on the elasticity of pricing. Pricing is obviously the biggest lever in the short term to increase profits, raise revenues.

What we would really like people to start thinking through is to know their brand a better and not take price increases but to really know whether they are being strategic about what they are doing in the marketplace. People are spending their money on the marketplace with no idea what the return on that amount investment should be. Really understanding analytics at retail is very important, especially on the promotion side. Not many retailers truly understand what's going on with the customer.

From the pricing point of view what we would put forth is you don't want to lower your prices. That is the last thing we want to do in recessionary time. It is going to be a slippery slope if you start training the customer to look for lower prices .

You should really start thinking about any other possibility to give value, pricing is the last switch over. We know that the customer can be more willing to pay and brands should be looking at that at cutting as the last resort because we found once companies start down that road at the end of the day they have to pay even more money on the backend.

We feel that the bleeding that started around the holiday is over. I think a lot about super discounting and irrationality. I know stores buy in advance and there is a lot of fear. If you talk about the portable luxury category we are still really short framed because they have trained customers to always want the sale but there is still a willingness to pay the super higher level.

Margins are still strong. The dangerous thing we are trying to help clients get out of is this sale trap for the super high end. I mean if you are going to pay \$3000 for a jacket, you want it to be \$3000 tomorrow and not sit next is someone in the café who got it for \$500.

As the super high-end, people are just waiting, not because they cannot afford it, there are still a lot of people willing to pay who actually have the capacity to buy higher luxury but they are waiting longer in season so things that used to move right off are now sitting later.

From the retailer's point of view you need to turn the space, you've got more inventory coming, there is pressure to put it on sale, or do we try to wait it out? You cannot ever go back from the sale so we need to stay firm on pricing. Because the margins are good, and to some extent there has been a squeeze in the back, inventories are

low, and there are fewer items in the category.

Consumer spending is coming back in a different way. We are seeing more people buying at the high end online. There is a sense that we don't want to be seen in store with a lot of big packages so they buy full price but online.

There is going to be a scarcity of retail space allocated for any brand and a retailer must think though how you own or use that space better to communicate about the brand to create the sort of an experience around brand understanding. You are going to have to merchandise differently and probably slim down some of the categories. We are seeing clients waiting to expand into new categories around cosmetics and fragrance, which works very well in the luxury market, and that adjacent luxury brand is the slowest to rebound.

Ira Neimark, Author of Crossing Fifth Avenue to Bergdorf Goodman, former CEO Bergdorf Goodman

How did we get to this point? Unfortunately retailers brought the market down, and unfortunately that will continue in the spring of this year, before the retailers get back to the regular business of managing their inventory, which they did not do, which is the reason for the downturn.

My point is, if these retailers had stuck to their business and not panicked what happened now would be quite different.

Unfortunately the customers are used to prices being knocked down and set the agenda. Over the years, in many cases we can anticipate a recession, and you know that the inventory could dip slightly. I think what happened in New York, is many retailers completely lost control of inventory and had to unload at any cost.

Eli Marcus, co-publisher, Promenade Magazine, Devler Media Group

The experience could be a huge driver. One of my favorite people is David Burke who owns some very good restaurants in the city. He priced a Sunday brunch at \$20.09 and his gross has gone from about \$5,200 dollars a day to approximately \$13,000 a day. That's a pretty good example of using discount to your advantage. The way he looks at it, it's just one day in the week. He's very creative.

You probably heard what the New York Yankees did the other day. They reduced by half the prices for premium seats that were previously up to \$2,500 per game. You can make an attempt to sell something at a certain price but if the consumer doesn't agree, you have to go with the flow.

Greg Furman, Founder and CEO The Luxury Marketing Council

Since 2002 about half the luxury purchasing in this country has been transacted by people with six figure incomes and quite a few of these consumers have severely curtailed their spending on luxury goods. This trend is expected to continue for the foreseeable future, and in fact, according to the Boston Consulting Group report that came out today, about 2/3 of households expect to continue cutting back on their luxury spending over the next 12 months. And 4 in 10 of those households anticipate continuing to curtail their consumption even after the recession is over.

The luxury picture is going to radically change in the years ahead. It will be shaped by more discrimination in making purchases, looking for luxuries that last and an absence of aspirational shopping and consumption that we've seen in recent years. Most of the wealthy people in this country are self-made, have middle class roots, and are looking for much simpler lifestyles. I think luxury is a market in flux that will be remarkably different in the years ahead.