

I BLOG FOR BRANDS

ANOTHER BLOG ON BRANDS AND COMMUNICATION. ON NEW THOUGHTS THAT SHAPE THEM. BY A FREELANCE PLANNER FROM GERMANY. IN BOTH ENGLISH AND GERMAN.

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How to Stay Gold - Luxury Brands and their Strategies in Today's Recession.



Image: londonconstant. Flickr

Where else in the market seems the brand such a strong driver, offer such iconic value as in the luxury market? But: if times are tough – who on earth needs luxury products? Will they not be the first ones to be substituted by cheaper choices? So obviously it is most interesting to look at what their assets and strategies are in today's time.

Sale is everywhere, and sales figures are evident.

The first three months of this year have been full of recession news: companies cutting costs and laying of staff, brands re-thinking their media budgets and channels, retail offering price cuts and mega-sales even long after the classical winter sale season. Luxury bands that have once been seen as recession-proof are also reporting declining results.

L'Oreal is struggling ([more on this in the German issue of the](#)



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[Financial Times](#)) with a slowing interest in their luxury goods as the German FTD states in an article in February – the turn-over showed a clear down turn for expensive cosmetics and the company is expecting even worse numbers in 2009 for brands such as Giorgio Armani, Lancome, or Yves Saint Laurent – they showed a minus of 6.8% in turn-over in late 2008. Especially tough seems to be the situation in US warehouses and Russian perfume chains where the decrease in sales is strongest. L’Oreal is hoping for an overall growing cosmetics market – as people need to look good in bad times. Their strategy will be to cut down product variants and have a stronger focus on cheaper products, also being available in more discount oriented outlets. Another focus will be innovations, as consumers will only be willing to pay for exceptional goods.

The US Luxury Institutes states in their latest “[Wealth and Luxury Trends](#)” for 2009:

“some luxury executives lookparalyzed by the terrifying headlines and by declining sales. Yet, genuine luxury purveyors know that luxury is, and always has been, a cyclical business. They see 2009 ... as a golden opportunity to deliver on the luxury fundamentals, to radically innovate,”

Struggling luxury figures – a global phenomenon.

It is not only the US-market where the financial crisis has a direct effect on consumer sales. The rapidly evolving financial turmoil is also affecting those fastest-growing economies, even the emerging markets such as the so-called BRIC nations (Brazil, Russia, India, China) are no longer safe terrain for growth of global luxury brands. The Russian market used to be one of the growing segments for luxury brands – not at the moment though. Low oil prices affect the fortunes of Russia’s super rich, and the Moscow market for luxury goods is shrinking, some designer stores have already shut their doors or are offering steep discounts. Brands like Stella McCartney, Alexander McQueen and Lanvin have announced that they are closing their Moscow outlets – and lower-priced brands are expected to take their place.

The history of luxury.

Back in the last century luxury brands were perceived as something not for everyone – but only available to an exclusive circle of customers. With the striving economy and consumers being more aspirational we saw a lot of luxury brands making themselves accessible to a broader audience via brand extensions or new brand lines offering more affordable pieces of luxury.

Even [after 9/11 we saw a discussion on luxury brands](#) and how they

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can get through tough economic times. So this question is not as new. What is different this time is that it seems to be a truly global economical down-turn and a stronger one than we have seen so far in our generation.

Luxury today seems to be very democratized – the past decade showed strong growth in luxury goods, with new product lines for a more mainstream clientele, and brands like Burberry or Tiffany’s consequently approaching a broader customer base. This killing traditional sales models based on real affluence and genuine exclusivity. And therefore also making price a relevant element in their marketing – as well as new marketing channels like e-commerce have taken a strong role. Just think about all the (fake) luxury goods offered on ebay.

Is price a relevant measurement for Luxury Brands?

Interbrand has published a study on “[The Leading Luxury Brands 2008](#)” –

picking 15 brands that submit to their definition of a luxury brand – that includes “being expensive is of neutral or even positive impact to their image” and that “perceived price has a low role among drivers of purchase”. So price is an important factor for luxury brands – and they need to be expensive in order to offer luxury. Cutting the price and doing sales obviously seems to be a step out of the luxury category.

Mass-market luxury: will “Exclusivity for Everyone” die first?

With a growing mainstream customer base being in charge for strong sales figures – price obviously has become a significant element. As luxury brands have adopted mass-market brand models so have mass-market brands started to mould themselves into incarnations of luxury goods. Just think of many ads for rather bland clothing brands or the flirt of designers with mass-market retailers such as H&M. So it will be a challenge for luxury brands to set themselves apart again – offering true luxury.

The role of luxury in consumers lives.

I feel a great relief when looking at the glamorous promises of an affluent lifestyle pictured in many of these brands ads. It is a place to dream away from everyday recession talk. So what are the chances that I can keep getting my little fixes of happiness and projection space?

Will the well-off consumers go for the optimistic statement of openly shown luxury? Or will it be a trend toward a rather shameful and not

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openly demonstrated (still) wealthy lifestyle? As decadence will be the greatest possible contrast in a recession, this will also ensure awareness. Something consumers as well as brands could stage on purpose.

As even hip hop icon P Diddy announced he was cutting back on bling in order to sensitively reflect on the economic situation of many of his followers it seems that times are different in today's crisis. And that even the super-rich seem to act different this time.

[“The tradition has been that luxury brands have help up well in downturns – the difference in this recession is that the hyper-rich have been hit”](#) states Martin Runnacles, a former marketing director of Jaguar and BMW.

But the ones that are still having money to spare can and do enjoy to invest – as there suddenly is a buyers market in some of the luxury markets as the fine art, property, vintage fashion or fine wine – where prices of cases from the top 3 chateaux fell by up to 40% in late 2008.

The ones re-thinking their spendings are the middle-income consumers – during good times taking luxury brands as a nice treat, but not a need. The affordable luxury market – with perfumes, cars, ravel and clothing – will feel recession strongest. Consumers will truly check what they want in order to pamper themselves. Not neglecting luxury altogether but cutting down where possible. Only buying one piece and selecting more carefully.

As an interesting article in online edition of [UK marketingmagazine](#) puts it: “The end of mass affluence - people who earn their own money – could have a devastating effect on the luxury goods market. ... the “thinking middle class” has put the brakes on its spending.”

And as [Faith Popcorn](#) says: “Women are shopping in their own closets. You feel shame in buying even if you can buy.”

How luxury brands react to this recession.

A study from the [“Luxury Marketing Council”](#) did a survey in the US within almost 400 companies to find out what their reaction to recession will be. Their findings: 78% admit to a negative effect of recession – but leaving a surprising 22% saying they are not affected. And only 9% reported that they have less spending/ commitment on the part of best customers.

The ones under pressure will do the following to adjust:

- 52% cut marketing/ advertising expenditures
- 36% reduce orders to suppliers
- 23% lay-off staff
- 14% slow down delivery of ordered goods
- 8% reduce staff hours
- 6% cut expenses
- 1% reduce prices

What makes a strong luxury brand.

True luxury brands deliver qualities “such as excellence, precision, craftsmanship, taste and innovation” according to Interbrand. This making it easy to spot the superficial bling luxury offers from the high-class brands with substance and a loyal following. And also offering a first insight on which brands might not sail easily in today’s market. Other factors that will offer strength are their iconic value – connected to a desire that offers no substitutes in purchase and a global presence in all core markets spanning the globe from the Americas, Asia as well as across Europe.

Interbrand comes up with a list of the strong 15 – most of them from the clothing and jewelry business, which today also includes cosmetics as a nice way to extend and capitalize on the brand name. And Ferrari beng the only car brand. Interesting enough that most of them are global but rooted in Europe (France and Italy especially). The only US luxury brand is Tiffany.

Rank	Brand	2008 Brand Value in USD (\$m)	2008 Brand Value in Euro (€m)	Country of Origin
1	Louis Vuitton	21,602	16,718	France
2	Gucci	8,254	6,388	Italy
3	Chanel	6,355	4,918	France
4	Rolex	4,956	3,836	Switzerland
5	Hermès	4,575	3,541	France
6	Cartier	4,236	3,278	France
7	Tiffany & Co	4,208	3,257	United States
8	Prada	3,585	2,775	Italy
9	Ferrari	3,527	2,730	Italy
10	Bulgari	3,330	2,577	Italy
11	Burberry	3,285	2,542	United Kingdom
12	Dior	2,038	1,578	France
13	Patek Philippe	1,105	855	Switzerland
14	Zegna	818	633	Italy
15	Ferragamo	722	559	Italy

Source: Interbrand, 2008 Leading Luxury Brands

True Luxury: emphasizing heritage and sustainability.

Louis Vuitton has already in the 80s been a popular luxury brand that was, at least in Germany and like Versace – easily perceived as a bit of too bling and vulgar. They have already taken an attempt to emphasize

their classy heritage in 2007 ad campaign, using personalities such as Gorbachev and Sean Connery.



The relevance of heritage will continue in 2009 – combined with product sustainability it will lead toward a “[more humble design approach to luxury that’s all about understated perfection and unconscious simplicity](#)” states fashion analyst company WSGN.

Enduring value is a key fact - even though a lot of car manufacturers are facing decreasing sales – Rolls-Royce reported a 20% increase in sales in 2008. Another indicator that there are still Uber-Rich clients that are unaffected by the downturn. And even if we see the very rich being hit by recession – and potentially buy more consciously – they will go for lasting quality as it means value for money.

Hidden luxury: simple and discreet style.

As luxury seems to need lesser glitz and more substance, the brands that represent a rather discreet and downgraded style such as Bottega Veneta or Margiela will obviously have an advantage.

Another issue in regard to being discreet is a trend towards “inconspicuous consumption” – people still buying but hiding their luxury in non-branded bags. Rather questionable way of enjoying luxury – but a stated issue in different articles over the last few weeks: As seen in [German FAZ: “Ausverkauf im Paradies”](#) –and [here](#).

Luxury reflecting a need for indulgence and a get-away from austerity.

Even though or especially since times are tough and people are spending less and are more conscious on what they buy they are still looking to treat themselves to a little something.

Luxury brands should not get caught up in austerity – there is a need for lustful consumption. Keeping up a sexy aura of great desirability is the key factor to get through recession – as with luxury goods there is very little rationale and an extreme degree of emotion involved in the buying process.

Luxury brands pampering their core clients.

There seems to be a strong need to uphold the brand and not get caught in price wars as pointed out by the participants at a Wharton Conference on Luxury in November 08.. The stated study by “The Luxury Marketing Council” only 9% reported that they have less spending/ commitment on the part of best customers. And [at Prada USA roughly 50% of the firms sales come from just 5% of its customers.](#)

Individualized luxury will make a difference.

All indicators that a lot of luxury brands will focus on pampering their core target: the wealthiest and most loyal customers can expect a lot more attention – customer service will be key in serving the core for a luxury brand.. Customization of high-end products will also be an element to design and tailor products to the individual needs of upscale clients. As customers with very considerable wealth have high expectations they can expect spanning from monogrammed shirts or handbags, personal in-home visits, personalized options for a color or a fabric in accessories or personalized fragrances.

More ideas to keep luxury available for consumers.

A potential way to keep their brand core but adjust to consumer behavior is to sell perfume in smaller containers – thus keeping the core of the offer, but being able to sell a smaller dose at a smaller price. Another suggestion at a [Wharton conference](#) was to keep the product offer but access new sales channels in a recession – as even upscale consumers might head for discount- and mid-priced outlets in

tough times, e.g. for cosmetics and skin care.

What's your opinion?

So: what are your examples of “bling vs. substance” in the different luxury categories from clothing across jewelry, accessories, cars or cosmetics? Which brands will flourish, which ones will struggle?

More on Luxury and Recession can be found here:

[Japan and Luxury Recession](#)

[Recession of Luxury was already feelable in 2001 after 9/11](#)

[Luxury figures for retail not satisfying.](#)

[A little video on Luxury buying in Germany, with English sub-titles:](#)

[CNN on tech gadgets in a recession.](#)

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