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Luxury brands respond to tough economic times

by Gregory J. Furman * • 11 Mar 2009

Given the worldwide economic decline, the once seemingly recession-proof luxury sector is under siege.

It's no longer just aspirational customers — families with household incomes of $250 to $500k — that are pulling back. It's the buyers of couture products and services: people with liquid portfolios, investible assets of $1,000,000 and more.

Many luxury brands experienced double-digit losses for Q4 08 and anticipate continuing losses in Q1 and Q2 09. It's no longer possible to say that "despite tough times, ultra-rich keep spending" as was the case last year.

At issue is a "systemic de-leveraging," the paying down of massive debts accumulated in recent decades. That's a naturally deflationary force, and one set to go on for years inside the U.S.

The haunting question remains: When times get tough, will the smartest and richest still spend money? And how will the most innovative luxury marketers change their strategies to persuade them to do so?

As the divide between the merely wealthy and the ultra wealthy widens, how will this affect the luxury market in 2009? What are the smartest brands doing to offset hard times? How are they changing their marketing spending? Is there light at the end of the tunnel and when?

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Research Findings

The Luxury Marketing Council (860 companies, 3,000 CEOs and CMOs in 32 cities worldwide) recently completed a survey of its members in New York (320 companies) and Boston (65 companies) to address these issues.

Seventy-eight percent say recent economic/financial events have negatively impacted their businesses. Surprisingly, some 22 percent said they have not.

Sixty-five percent said sales were declining; 34 percent said less store traffic; 28 percent said fewer inquiries from customers; only 9 percent said less spending/commitment on the part of best customers; 6 percent had cut budgets and only 2 percent were experiencing an increase in returns.

What are luxury brands doing to adjust?

- 52 percent were cutting advertising/marketing expenditures
- 36 percent were reducing orders to suppliers
- 23 percent were laying off staff
- 14 percent were slowing down delivery of ordered goods
- 8 percent were reducing staff hours
- 6 percent were cutting expenses
- 1 percent were reducing prices

Those that were pessimistic about the upcoming year were asked what actions they were taking:

- 69 percent said reduce advertising/marketing expenses
- 44 percent said reduce orders
- 41 percent said not hire more staff
- 6 percent said cut back business hours
- Only 3 percent said increase advertising and promotion, be more aggressive with pricing.

Gregory J. Furman is founder and chairman of The Luxury Marketing Council. In 15 years The Luxury Marketing Council has become a global community that includes some 860 member luxury brands, 2,800 CEOs and CMOs in 33 cities worldwide: Boston, New York, Philadelphia, Atlantic City, Atlanta, Tampa Bay, Miami, Palm Beach, Fort Lauderdale, Naples, Sarasota, San Antonio, Dallas, Fort Worth, Houston, Austin, Orange County, San Diego, Los Angeles, San Francisco, Las Vegas, Phoenix, Scottsdale, London, Mumbai, New Dehli, Hong Kong, Brasilia, Belo Horizonte, Rio de Janeiro, Sao Paolo, Dubai and Abu Dhabi.

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