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RESEARCH

Personal luxury goods market poised for disruption: report

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Photo of VivaLuxury courtesy of Bergdorf Goodman

By SARAH JONES

Between 2013 and 2014, affluents decreased spending across personal luxury goods categories by 15.4 percent, according to a new report from Unity Marketing.

While spending dropped, demand for personal luxuries remained flat at 73 percent, leaving it only a point higher than the all-time-low in 2009 in the midst of the recession. This combination points to a general trading down, or consumers selecting less expensive luxury brands.

"We have seen a steady decline in luxury goods spending in the post-recession period," said Pam Danziger, president of Unity Marketing, Lancaster, PA. "After reaching high levels in 2010 and 2011, affluents have dialed back their spending on luxury, moderating and establishing a new normal in 2014 and 2015. Part of the reason is continued lack of affluent consumer confidence, and another is the aging of the consumer market.

"Affluents are seven to eight years older now than when they went into the recession," she said. "That is a long time in consumer years, since young affluents generally have a much stronger appetite for luxury goods and spend more aggressively than matures do, who already have invested in purchasing luxury goods in support of their lifestyles. With age, affluents tend to shift their luxury spending toward luxury experiences and these are the trends we see."

Unity Marketing's "Personal Luxury Report USA: The Seven-Year Guide to Trends in the Affluent Consumer Market for Personal Luxury Goods" is based on data from its four quarterly Affluent Consumer Tracking Studies each year from 2008 to 2014. These surveys of about 2,500 consumers with an average household income of $250,000 to $300,000.

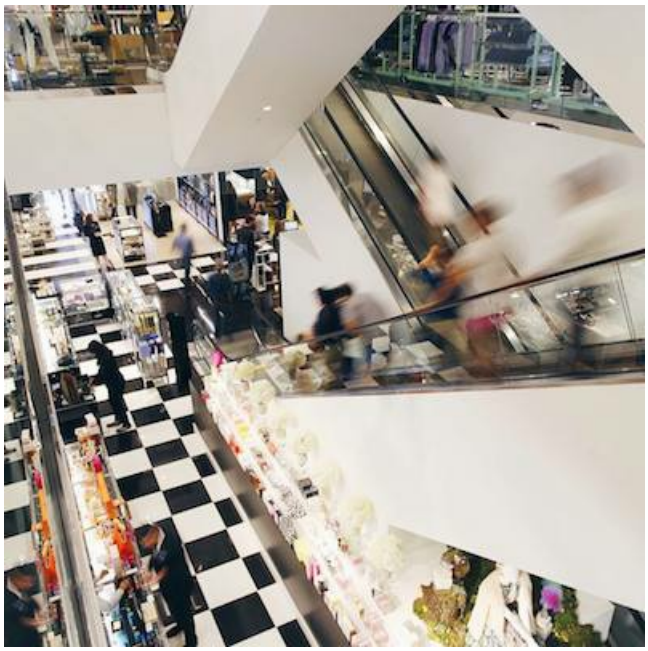
Spend thrifts

Throughout the height of the recession, from 2009 through 2011, the demand for luxury products was dwarfed by spending in the luxury category. This changed in 2012, as demand increased but spending began to take a downturn, leaving it today at its lowest since 2008.

In a three-month period, affluents are spending on average $1,000 less than they were in 2008.

All personal luxury goods experienced decreases in spending from 2013 to 2014, with jewelry declining the most. Exceptions were fashion accessories, which saw a rise in expenditures, and fragrance and beauty, which stayed relatively flat.

Females, those under the age of 44 and ultra-affluents decreased their spending at a greater rate than their male, older and high-earners not rich yet (HENRY) peers in the period from 2013 to 2014.



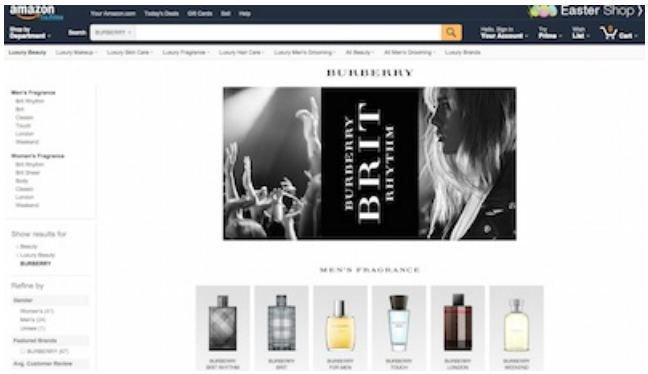
Bloomingdale's store in Palo Alto

At the same time, demand grew slightly for wine and spirits, personal electronics and beauty, while declining in apparel, accessories and watches.

"Luxury brands must recognize that exclusivity isn't what it once was," Ms. Danziger said. "Luxury goods, or very good substitutes, are available widely and at all different price points.

"The idea that luxury brands don't compete with mass brands anymore is absurd," she said. "There is so much good quality product out there that customers can take their pick.

"And after all, affluent consumers don't become affluent by spending all their money. They are just as keen as everyone else to save a buck on purchases, giving new brands and disruptive marketers real opportunity to capture the spending that otherwise might have gone to a luxury brand."



Burberry Beauty on Amazon

One of the big disruptors poised to take on the luxury industry is Amazon.

As Amazon's penetration into high-income households becomes increasingly apparent, luxury brands are going to need to find new ways to avoid losing to their online-only competition, according to a recent report by Shullman Research Center.

Through pricing, convenience and selection, Amazon has seen its popularity skyrocket over the past two decades, and data in the report shows that its popularity is positively correlated with household income. The report suggests that luxury brands will have to double-down on efforts at providing things that Amazon cannot or will not provide (see story).

Next generation

With retail sales flatlining, brands must appeal to a new demographic to sustain growth and forge relationships with

the next generation of ultra-affluent customers, according to Ms. Danziger at the Luxury Retail Summit: Holiday Focus 2015 on Sept. 16.

Specifically, HENRYs, especially HENRYs aged 44 and younger may save luxury from its current drought. Appealing to HENRYs and aspirational millennials, however, means brands will have to retell the story of luxury and market in new ways (see story).

"Luxury is truly a state of mind, not a brand or a price point," Ms. Danziger said. "While everyone we surveyed tends to view luxury's most outstanding characteristic as high quality, ' followed by expensive' which may not be such a positive spin on what luxury brand values they really want to confer to the customers.

"After these top two values high quality and expensive -- differences emerge for what luxury means that rank below that," she said. "For affluent consumers, two demographic variables are key to how they look upon and ultimately value luxury: their age and their income."

Ms. Danziger explained that those between the ages of 24 to 44 are more apt to hone in on the status associated with luxury goods and are more attuned to the brands themselves than their more mature counterparts. Those 45 to 70, the focus is on luxury as something to work toward, concerned with ownership and classic ideals.

HENRYs look for high quality in luxury goods, defining luxury as the "best of the best." Their wealthier counterparts, the ultra-affluent, also care about quality, but are more prone to care about the lifestyle that comes with luxury and are more concerned with brands.

"Our research points to the fact that luxury has a brand new style today in the consumer mindset," Ms. Danziger said. "While luxury still is perceived as high quality in whatever category it competes in, the other values for luxury differ based upon age and income.

"Brands need to delve into the differing definitions that apply and recognize that what may have been luxury in the past, may well not be luxury in the future."

Final Take

Sarah Jones, staff reporter on Luxury Daily, New York