

COMMERCE

Just how high or low can a luxury brand go?

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When the going gets tough, affluent consumers get going – and shopping.

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For affluent consumers, meticulous craftsmanship remains a strong selling point, rather than the price on the tag. But how do luxury brands stretch their pricing even more to maximize market share without affecting positioning?

“I would say Chanel, Louis Vuitton and Gucci prove that you have to maintain your luxury halo, but you still can be accessible to affluent and wealthy people, while serving the ultra-affluent people,” said Milton Pedraza, CEO of the Luxury Institute, New York. “I think what the recession proves that those who sell to the classes live with the masses, and those who sell to the masses, live with the classes.

“When you serve the ultra-wealthy, it is difficult to scale that product and you wind up being vulnerable,” he said.

Price dice

To increase market share through pricing, companies seeking to preserve the prestige of the primary brand can employ product line extensions using slightly different names or labels.

“When it comes to the affluent consumer, pricing is not about the money, but the meaning,” said Pam Danziger, president of Unity Marketing, Stevens, PA. “Brands need to understand exactly what that meaning is in order to put the price tag behind it.

“Brands have been given a lot of latitude by the consumers to stretch their prices,” she said.

Burberry Prorsum and Nordstrom are just two retailers that have extended their product line, according to Ms. Danziger.

For example, Nordstrom offers fashionable looks in its catalog that generally seem to be more expensive than they really are.

Neiman Marcus’ “Last Call Studio” is another example of a move toward a more affordable line to attract a wider audience.

Marc Jacobs launched a more affordable line called Marc by Marc Jacobs, as did Donna Karan with DKNY. Giorgio Armani is attracting a wider audience with Armani Exchange.

DKNY spring/summer runway show

Ron Kurtz, president of the American Affluence Research Center, Atlanta, said that Ralph Lauren has mastered tiered brands with the Black, Purple, RLX, Polo and Big Pony labels.

“This could be accompanied by limiting the channels of distribution for certain names or labels,” Mr. Kurtz said. “Price promotions, when done very selectively, might be used occasionally but one needs to be very careful that the prestige of the brand is not diluted by such actions.”

However, Luxury Institute’s Mr. Pedraza said luxury brands need to be careful that they are not found everywhere.

“If you’re serving people who are making less than a certain amount of income, you might be becoming too ubiquitous,” Mr. Pedraza said. “There are ways that you can measure it. It’s hard to know where you’ve crossed the line until you’ve crossed it.”

Retool is cool

Though affluent consumers continue to be selective about spending, it is clear that expansion of a brand, rather than hunkering down, is the way to go.

“While affluent shoppers are ever watchful for discounts and finding the best for less, this is also an excellent time to think about moving their top price points up in order to reposition their prices for their premium and better lines,” Unity Marketing's Ms. Danziger said. “Fashion designers have done this for years.”

Indeed, even as luxury brands need to think about ways to present a more affordable range to a wider consumer base, they also have move prices up to retool their brand as more luxurious.

“In the affluent market, there are ten times more households with incomes in the \$100,000-\$249,999 range than there are with incomes over \$250,000,” Ms. Danziger said. “High-end retailers can’t afford to walk away from those with lower levels of income.

“While those households can’t spend as much on luxury as those who live at the top 2 percent of U.S. households based on income, in aggregate they are a very big market and vital to the future of the luxury business,” she said.

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