

RETAIL

## Should luxury retail move away from discounting?

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*Affluent shoppers are not above seeking discounts*

By SARAH JONES

Discounting is on the rise in the luxury sector, as retailers strive to make up for slowed spending by cutting prices.

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The annual post-holiday sales are currently on, promising price cuts of up to 80 percent. While discounting may drive traffic and sales, is the hit to retailers' positioning and profits worthwhile?

"The easiest strategy to increase sales is to discount and move down market, but it's never the right strategy for a luxury brand," said Chris Ramey, president of [Affluent Insights](#), Miami.

"Luxury brands require strong leadership and vision to manage soft periods," he said. "Weak brands discount when sales are weak. The trick is getting clients back without discounting."

### Reduced retail

A number of factors are making success in the luxury industry more difficult, and financial results are showing the challenging climate. From reduced tourist traffic to the slowdown in China, retailers are finding themselves needing to recoup sales.

According to a recent report from Bain, off-price retail is now 11 percent of the luxury market. While this segment of the sector grew less rapidly in 2016, it was still up by double digits.

Additionally, 37 percent of luxury sales today come from marked down merchandise (see story).

Luxury retailers including Nordstrom and Saks Fifth Avenue have aggressively expanded their off-price chains. Nordstrom Rack's 215 stores far outnumber its 123 full-line stores, and Saks Off 5th similarly has 118 locations compared to the brand's 41 full-line outposts.



*Image courtesy of Nordstrom*

"In the luxury boom of the mid-2000s, there was a lot of 'aspirational luxury shopping,' fueled by mass affluent and upper middle class consumers, rather than a traditional wealthy consumer," said Steve Kraus, chief insights officer at Ipsos. "The attitude at the time was 'I'm going to buy luxury, it's going to be expensive and it's going to be worth it.'"

"With the recession, and continuing on afterwards, this aspirational luxury shopping has dried up, and the consumer mindset has become 'I'm going to buy luxury, and I expect a deal,'" he said. "It's the great paradox of the recession it didn't lower consumer expectations, it raised them."

"Value expectations are now a part of luxury in a way that they weren't in the mid-2000s. Discounting is now widespread, in luxury and in mass markets, particularly as more and more shopping is done online."

While many retailers limit their sales to specific times of the year, such as after the holidays, when they do cut prices it becomes the main event.

For the opening of the Harrods Sale on Boxing Day, the retailer traditionally pulls out the stops for the crowds gathering in line, passing around hors d'oeuvres and putting on a show.

Selfridges saw 1 million visits to its ecommerce site as its winter sale kicked off, and its stores pulled in \$2.5 million in sales within the first hour of business on Dec. 26 ([see story](#)).



*Promotion for Harrods sale*

While the blowout sale at the end of a season is common practice among multi-brand retailers, some particularly tightly distributed labels avoid this strategy.

Louis Vuitton reportedly destroys merchandise that is unsold at the end of a season rather than selling it at a reduced price.

"In the long-term, I think success has come more to luxury brands who have not discounted for example, Louis Vuitton, Herms, etc.," Mr. Kraus said. "They build their value equation around quality and heritage, rather than discounts."

In general, luxury brands are trying to pull back and become more strategic in how they approach off-price.

For instance, U.S. fashion label Michael Kors has pulled back its inventory in department stores mainly to avoid its

merchandise being placed on sale by its retail partners, protecting both its profits and image ([see story](#)).



*Image courtesy of Michael Kors*

"Many brands are moving away from department stores due to their addiction to discounting," Mr. Ramey said. "Discounting exists outside the luxury code."

"Luxury is about fantasy; price is about reality. Discounting price diminishes brand value," he said. "Consumers demand value. Too many retailers define value as price."

"Successful luxury brands are disciplined. They must reinforce the brand narrative and create desire. No luxury brand has ever been built on price."

#### Consumer behavior

Luxury brands often believe that their clientele will not be swayed by a deal, but this may not always be the case.

According to a report from Unity Marketing, the majority of affluent consumers employ a number of shopping and saving tactics to manage their money, with 52 percent of ultra-affluents regularly comparison shopping.

Luxury marketers often think that affluent consumers want to spend their money as fast as they earn it, but the affluent are actually invested in saving their money. These strategic spending habits call for a revised marketing plan that recognizes that consumers care more than previously thought about what they purchase ([see story](#)).



*Image courtesy of Bloomingdale's*

"Discounting illustrates the schism between a luxury buyer and an affluent buyer," Mr. Ramey said. "The one commonality amongst the affluent is they save money."

Similarly, the Luxury Institute's Milton Pedraza noted in an interview with Luxury Daily that consumers are less loyal today, and they can be wooed by a better offer from a competitor ([see story](#)).

Keeping up with competitors is often the motivation behind retailer pricing strategies.

Upstream Commerce noted in a holiday report last year that high-end retailers were trying to cut back on promotions, but the industry at large puts pressure on them to follow trends. For instance, a brand may be sold at both a promotion-heavy chain such as Macy's and a luxury department store, requiring the upscale retailer to match Macy's or be passed over ([see story](#)).

"I think the problem is that luxury brands, like so many others, remain fixed on the old 4Ps model of marketing product, price, promotion, placement when where they need to focus is on the 4Es experience, exchange, everyplace and evangelism," said Pam Danziger, president of [Unity Marketing](#), Stephens, PA.

"Luxury brands shouldn't and shouldn't need to rely upon discounting to sell their stuff," she said. "The fact that they do only testifies how out of touch they are with the consumers and how badly they have failed at marketing in new luxury style."

#### 1 thought on "Should luxury retail move away from discounting?"

1. [Jardins Florian](#) says:

[January 13, 2017 at 5:21 am](#)

Discounting is a joke... But the luxury industry has become trendy and fashionable so it produces too many seasonal items and is working on artificial/inflated margins... Time for reality check.

We never ever ever discount as our products are manufactured with best materials and skills available, final products are as traceable, sustainable and durable as we can. So our products are not seasonal, they sell when they sell, period.

Disposable products and products with built-in obsolescence (hello Apple!??) are truly a shame!!!

Time for everybody to work towards sustainable design so that customers think twice before purchasing and then cherish their items throughout the product lifecycle. Eventually they can re-sell it, re-use it, recycle it etc.

Everybody should read the "Cradle to Cradle" book, it is a mind opener.

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