

LUXURY MEMO SPECIAL REPORTS

Affordable luxury – Luxury Memo special report

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Coach, Inc. transitioned to Tapestry. Image credit: Coach

By SARAH JONES

Today, consumers are less apt to define luxury by price, opening up opportunities for more affordable labels and goods. But how should brands approach the accessible luxury opportunity?

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Post-recession, affluent consumers are more frugal than before, spending money more carefully and picking and choosing which categories to trade up or down in. Premium-priced brands are also putting pressure on traditional luxury houses, particularly as individuality and personal style become more important than having a specific status handbag or car.

"Luxury brands and marketers define their target markets in many different ways, for example by household income, wealth, gender, generation, buying habits, attitudes, etc.," said Bob Shullman, founder and CEO of the [Shullman Research Center](#), Greenwich, CT. "We strongly believe that luxury is in the eyes of both the consumers who purchase upscale and luxurious products and services as well as the brands and marketers who promote and sell them.

"Based on our work with luxury brands and the agencies and consulting firms that support them over the years, we have come to the conclusion that many of the luxury brands and marketers as well as their agencies/consultants define or describe 'luxury' differently than do the consumers they target as their prospective or current customers," he said.

Top 5 trends in affordable luxury

- New status symbols

Whereas status used to be tied to labels with the loftiest price points, today consumers care less about cachet and more about individuality and self-expression.

- Collaborations

Catering to surging styles and a wider population of consumers, luxury labels have linked up with more

affordable brands and fast-fashion retailers for special collections.

- Upmarket moves

A number of affordable luxury labels have reinvented themselves with higher price points or less discounting, seeking a more upmarket image.

- Frugality over flash

Luxury after the recession is less about overt spending and more understated. Affordable luxury fits into this changed mindset, offering consumers quality without worries of appearing ostentatious.

- Entry-level luxury

Almost every luxury label has accessible products to offer consumers more affordable access to their brand.

Updated status

Affluent consumers today tend to put self-expression and personal style above simply having the most luxurious item.

For instance, a car buyer might opt for a Mini Cooper over a Mercedes-Benz, as it reflects his or her personality.

Researcher Pam Danziger notes that HENRYs (or high earners not rich yet) are likely to buy products that show what tribe they belong to, eschewing the traditional status symbols ([see story](#)).

Shoppers' closets similarly take on a high-low mix, with consumers mixing designer labels with fast-fashion and more premium or indie brands. While partly motivated by economics, mixing and matching can also be tied to a desire for more variety or individuality.

Luxury shoppers are also increasingly turning towards more casual styles for self-expression, according to a report from the Boston Consulting Group and Altagamma.

Millennials are expected to represent half of the luxury market by 2024, and their fashion choices differ from previous generations, as they are more apt to mix high and low labels as they seek out clothing that fits their personal brand. Traditional luxury brands are responding through adaptation and collaboration ([see story](#)).

This trend is reflected in the rise of streetwear, as brands such as Supreme and Off-White find a footing particularly with a younger crowd.



Louis Vuitton x Supreme collection. Image credit: Louis Vuitton

Wellness is also a status symbol for the wealthy today, making upscale athleisure brands such as Lululemon a popular choice for everyday attire ([see story](#)). Luxury brands are also getting in on the game, with designers such as Stella McCartney and Riccardo Tisci linking up with sportswear brands Adidas and Nike.

As a result of this high-low mix and changing consumer behavior, luxury brands today are often competing with premium brands for the same audience.

"Luxury brands need to recognize they are in competition with premium, even mass brands," said Pam Danziger, president of [Unity Marketing](#), Stevens, PA.

"Just look at Walmart, which now sells luxury for less through its partnership with Lord & Taylor," she said. "And it is giving luxury a run with its acquisition of Bonobos and launch of Jet Black's home delivery service.

"At the same time, luxury brands must maintain their superlative values by adhering to a luxury business model."

A 2015 study by professors from Rome's LUISS University and the University of Salento found that rather than diminishing the positioning of a luxury brand, fast-fashion actually boosts high-end labels.

The research measured participants' eye movements and gaze when looking at images of styled outfits that were either head-to-toe designer or mix-and-match. When looking at photos of a luxury brand item paired with pieces from a retailer such as Zara or H&M, the study subjects were more apt to be able to identify the label.

Beyond the benefit of brand recognition in dressing, the researchers believe there is a significant opportunity for luxury brands to market next to fast-fashion in mass-market glossies.

As millennials and Gen Z consumers grow to make up a larger portion of the luxury market, this high-low approach and perspective on luxury will become even more dominant.

At Luxury FirstLook 2018: Exclusivity Redefined on Jan. 17, an executive from BCG spoke about the differences between the generations when it comes to luxury shopping and behavior. What BCG found was that the concept of trading up and trading down was very popular among millennials as a means of purchasing products outside their normal range.

A true luxury customer is someone who on average spends around \$60,000 per year on luxury goods. But many luxury consumers, 40 percent by BCG's estimate, fall well below that line, yet still regularly purchase luxury goods.

Millennials are more likely than any other generation to willingly trade down on certain categories they do not care about so that they can splurge on expensive goods or experiences ([see story](#)).

The majority of sales for luxury products come from Americans whose household incomes are less than \$100,000 a year, according to Shullman Research Center.

Many luxury brands think of themselves as catering to the affluent consumer with yearly salaries over \$100,000, but research is showing that average Americans make up the majority of customers. While those with higher incomes spend larger amounts and buy more frequently, the average customer still makes a big impact for these brands, as they outnumber the affluent ([see story](#)).

"Loads of opportunities exist in affordable luxury," said Livia Stefanini, head of [Havas LuxHub](#) U.K., London.

"Consumers are hungry for luxury experiences but the truth is, true luxury has now reached a price point that only HNW and UHNW individuals can regularly afford.

"This summer saw a continued growth for 'accessible' fashion brands such as Staud, Ganni and Rixo, destinations such as Portugal and Sicily whilst premium skincare and wellcare brands continue to gain traction," she said.

"Ultimately there is a big opportunity for thoughtful, premium and aesthetic yet affordable luxury the average consumer can enjoy."

Understated luxury

During the recession, affluent consumers felt guilty spending on luxury as the economy and less fortunate consumers struggled. During this time, stories surfaced of shoppers asking luxury brands and retailers to put their purchases in unmarked bags, camouflaging their splurges rather than broadcasting them.

Following the recession, shoppers may not feel the need to hide their purchases, but the economic downturn changed their perspective on luxury.

While counterintuitive, affluent consumers feel wealthier today, but are less likely to use their perceived wealth, causing a drop in consumption of luxury goods. This "luxury drought" made high income households reconsider their shopping habits, with a focus on finding good value rather than acquiring bragging rights through high-end brands ([see story](#)).



Consumers may be waiting for sales to shop. Image credit: Aventura Mall

Over the past few years, frugality has shifted from an economic necessity to a celebrated lifestyle choice, according to a report from Havas.

Despite the recovery seen following the financial crisis, consumers around the world feel that economic growth will never return to its pre-recession rates, with most adjusting their expectations around money and possessions. As individuals criticize overt displays of wealth and avoid excessive spending, luxury brands will need to adapt their strategies to reach these more conservative consumers ([see story](#)).

While consumers may buy luxury, many are waiting for these items to come on sale.

Despite some deep pockets, global luxury shoppers are evenly split in their purchasing habits, with a YouGov report finding that half only buy luxury items at a discount.

While the discount-oriented luxury shoppers tend to be a bit older, they are demographically very similar to those who will buy luxury at full price. However, many in the discount-oriented group may still be adjusting to their financial situations, since 45 percent have acquired their wealth within the last five years ([see story](#)).

"Luxury brands have traditionally viewed that they are immune to pricing pressure," Ms. Danziger said. "They have believed that they held all the cards to price their products as high as they wanted to.

"But with the emergence of the digital age with access to new products and information about brands so readily available and consumers using those resources in most every shopping decision, they don't have the luxury any more," she said. "The consumer now controls commerce, not the brands, so recognizing that the brands no longer can control the pricing equation is critical for future success.

"Even the richest are looking for the lowest prices. After all, they didn't get rich by spending all their money, but by vigilantly looking for the right price/value relationship. Luxury brands need to focus on the value inherent in their products, not try to push off some over-priced, but sub-par product as luxury."

Embracing this remaining frugality, some brands have looked to make their products more budget-conscious.

For instance, Tamara Mellon is aiming to undermine the idea that luxury must be exclusive with a new installment plan that will let lower-income customers afford luxury goods by paying for them over time.

The move is part of a larger effort from Tamara Mellon to take luxury "out of the ivory tower" and make it into something that anyone can aspire to. Definitions of luxury have always been unclear, particularly when it comes to price, but this move shows that a brand can confidently retain its luxury identity while courting less affluent

customers ([see story](#)).



Tamara Mellon now offers an installment plan. Image credit: Tamara Mellon

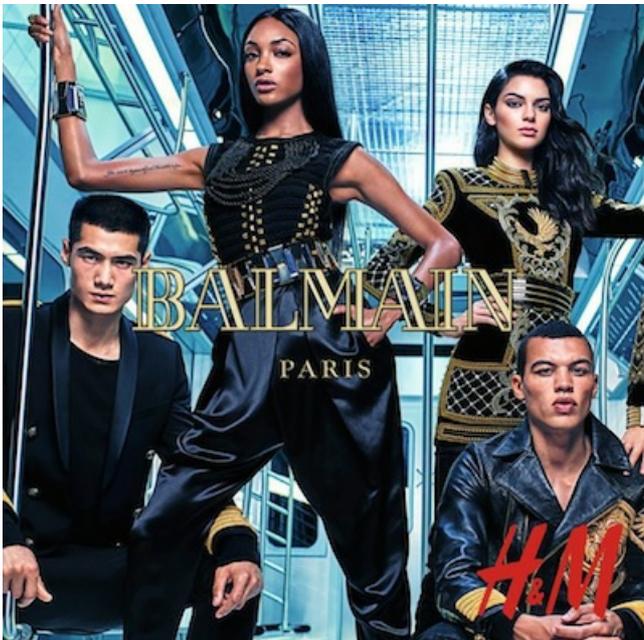
Since launching the installment plan, Tamara Mellon has seen about 11 percent of orders financed, according to its partner Affirm. This has also boosted the brand's return customer rate while lowering the number of returns.

"Whether it's a young woman starting her career and needs a great pair of shoes for job interviews, someone going to a special event, or a woman who wants a new pair just because, I want all women to have access to my shoes," said Ms. Mellon in a statement to Affirm.

Joining up

Another way in which luxury brands have embraced more affordable alternatives is through collaborations or acquisitions.

H&M and Target have each launched a series of designer partnerships, bringing in labels such as Missoni, Versace and Balmain for one-off lines. These give more consumers an affordable entry point to a brand, making similar styles at a fraction of the cost.



Balmain for H&M. Image credit: H&M

These collections are often highly sought-after, with interest in these collaborations fueling a lucrative secondhand market.

Meanwhile, Guerlain customized a Fiat 500, basing the car on its Le Petite Robe Noire Eu de Parfum. Made exclusively for the French market, the vehicles started at \$21,500 ([see story](#)).

Sometimes, designers will lend their cachet and talents for a charitable project.

For instance, French fashion label Jean Paul Gaultier entered affordable territory for a brief period with a collection at Scandinavian retailer Lindex to help raise money for breast cancer research.

The collection included women's wear, children's wear and accessories, and displayed many of Jean Paul Gaultier's quintessential themes, such as prints and elaborate details. Prices for the collection went no further than \$270, a figure that would seem minimal for Jean Paul Gaultier's main products, but the partnership's underlying and temporary purpose preserved the brand's integrity ([see story](#)).

Some collaborations with affordable brands boast luxury price tags. For instance, Louis Vuitton teamed with Supreme on a co-branded capsule that included T-shirts, hoodies, handbags and luggage that more closely resembled Louis Vuitton's pricing than Supreme's.

Beyond one-off collaborations, companies have added brands with more affordable price points.

In an effort to meet millennial demand, Este Lauder acquired premium label TooFaced. Similarly, BMW added Mini to its stable in the 1990s, expanding its price range.



Mini Cooper. Image credit: Mini

"A rising tide of millennial wealth could result in a new luxury boom starting in the middle of the next decade, but only if brands meet this new generation with luxuries that reflect their values and world view," Ms. Danziger said.

"However, if luxury brands keep doing what they have always done, putting the status before substance, they will miss the mark," she said. "The world's changed and luxury brands must change with it."

Accessibility vs. exclusivity

A number of brands that forged empires on affordable luxury have since made moves toward more upmarket price points, with varying success.

Michael Kors has pulled back on its wholesale presence to move away from discounting.

The company's profits grew 30.6 percent year-over-year in the first quarter of this fiscal year, bolstered by higher margins from both businesses. Recently, Michael Kors has made moves to make its retail presence less promotional, looking to sell more full-price, elevated merchandise.



Michael Kors' revenues were up in fiscal 2018. Image credit: Michael Kors

The brand has also shifted its boutique concepts to its new vision of luxury. These renovated stores are doing better than those that have not yet been updated ([see story](#)).

U.S. fashion label Ralph Lauren also recently reported that its shares have risen 5 percent after it debuted a new

business strategy aimed at pivoting towards a more elevated luxury status. Similarly to Michael Kors, Ralph Lauren has worked to move away from discounting ([see story](#)).

Coach has also made moves to regain its luxury status after a period of heavy discounting, a move that has paid off.

Mulberry tried to push upmarket and achieve more exclusivity, but saw a lowered demand. After issuing multiple profit warnings in 2014, the brand returned to a lower pricing strategy, which helped its sales rise ([see story](#)).

While some brands have made moves towards more exclusivity, others desired a piece of the accessible luxury market.

In 2016, U.S. fashion label Marc Jacobs announced it was upping its focus on the leather goods and accessories category.

Marc Jacobs' spring collection of handbags, available in a variety of sizes and colors fitted with new double-J hardware, was the first released with the brand's democratized pricing strategy as it gears up for a future IPO offering. Modeling its strategy off Michael Kors, which has seen immense success in the category, Marc Jacobs handbags, ideally, will account for 70 percent of the brand's overall sales going forward ([see story](#)).

Italian fashion label Trussardi is showcasing its enhanced focus on its leather goods business with the release of a handbag designed to be a constant companion.

Part of the house's planned five-year transformation toward accessible luxury, the Lovy bag features the craftsmanship and design details at an approximate \$600 price point ([see story](#)).



Trussardi Lovy bag. Image credit: Trussardi

According to research from Euromonitor, accessible items were the driving force of the \$350 billion personal accessories market in 2017.

The category was on track to see 4 percent growth over the previous year, with products such as affordable jewelry and handbags behind much of the increased sales. While lower-priced luxury items reflect a growing opportunity for upscale labels, they should wade into this territory carefully to preserve their positioning ([see story](#)).

Beyond accessories, brands across sectors are creating more affordable options, allowing them to cater to a wider group of affluent yet aspirational consumers.

For instance, Tesla waded into more affordable electric cars with the launch of its entry-level Model 3. Priced well below its previous models, the car has proven popular, with a waiting list frenzy for the vehicle.

Beauty is another way that brands can cater to less affluent consumers, allowing a piece of their experience at a fraction of the cost.

For instance, Gucci launched a beauty collection in 2014, expanding its offerings from fragrance into color cosmetics ([see story](#)).

British diamond company De Beers entered the lab-grown diamond market with the launch of Lightbox Jewelry.

[View this post on Instagram](#)

When you all shine together #lightboxjewelry #lightboxlabgrown

A post shared by Lightbox Jewelry (@lightboxjewelry) on Oct 4, 2018 at 12:24pm PDT

Instagram post from Lightbox Jewelry

The new brand focuses on creating sustainable diamonds at a more affordable price than their mined counterparts. The brand's products begin at around \$800 per carat, significantly less than De Beers mined diamonds

Lightbox is positioned as a more casual alternative to De Beers' natural stones ([see story](#)).

Luxury conglomerate Richemont is preparing for the future with a new brand as the heritage Swiss watch industry remains turbulent.

Investing into a lower price point model, sustainability and unisex designs, Richemont is launching a new watch label. Priced between \$560 and \$1,000, Baume is a side brand of the iconic and higher priced heritage Baume & Mercier label ([see story](#)).

For luxury brands, the trick is finding a happy medium that appeals to both aspirational consumers and the ultra-affluent.

"Within Havas LuxHub we have stressed the importance of luxury brands balancing inclusivity with exclusivity," Ms. Stefanini said. "An inclusive spirit is essential from a messaging point of view but product or brand access should adhere to some limitations.

"Just a touch of exclusivity can strengthen brand lust and serve to instill mystery in an always-on digital era," she said. "Brands such as Coach and Michael Kors became too inclusive and accessible, hence the need to re-position.

"That said exclusivity need not be limited to a price tag but can be created through brand behaviors."

Best practices for affordable luxury:

- Bob Shullman, Shullman Research Center
 - "The number one practice we recommend they do is to speak with and ask their customers and prospects what they consider to be 'luxurious' about their offerings. That's what they should be emphasizing in their marketing and advertising and many times the themes the customers provide and materially different than what the brands and marketing believe matter."
 - "Conduct pricing tests among your targeted consumers to assess the price that will deliver an acceptable ROI for the luxury products or services you are introducing."
 - "Assess what the brands in your competitive set are currently charging for comparable offerings and include Amazon in their competitive set even if you don't believe Amazon competes with you, as many consumers start their searches on Amazon."
- Livia Stefanini, Havas LuxHub
 - "An affordable price point combined with premium and confident behaviors are the best bet. Therefore affordable luxury brands should be focused [in terms of] product range and target consumer, and limited [for] quantity and retail stockists."
- Pam Danziger, Unity Marketing
 - "The key is to understand who are the brand hopes to attract. In the premium-luxury space, the target customers now and the future are the HENRYs - high-earners-not-rich-yet. This next-generation mass-luxury millennial is not necessarily attracted to the same heritage values on which many luxury brands are based. At the same time, some luxury brands have established a foot-hold with HENRYs by offering products that meet them where they live today in order to create aspirations for the authentic luxury brand when they reach that spending level."
 - "Ecommerce is essential. Many luxury brands were surprised by the rapid rise of the digital age. While many understand the power of the Internet, they have been embraced the concept of omnichannel strategies."
 - "Tell new stories that millennials can share...They want to be self-expressive, and not self-absorbed or narcissistic. Louis Vuitton's monogram canvas tote bags, which may be the world's biggest perpetrator of logo pollution, with Everlane's understated, but equally functional 100 percent leather tote for only \$175. Everlane is the epitome of a new luxury brand, positioned as 'luxury basics for less,' in the pricing and ethical, conscientious manufacturing. HENRYs want to be a democracy, not elitist and only for the 1 percent."