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COMMERCE

How should luxury brands react to talk of a recession?

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By RACHEL LAMB

The flailing euro, sluggish stock market and general economic malaise has made the luxury industry wary about whether or not the United States is headed for a double-dip recession.

A turbulent stock market may convince U.S. shareholders to pull back from investing, despite desperate pleas from Wall Street and Washington. To add salt to the wound, certain countries in Europe are in danger of returning to their own currencies if the euro fails, further worrying consumers and undoubtedly making them pull back from unncessary luxury purchases.

"The key word is react, which is not the same as overreact," said Al Ries, chairman of marketing consultancy Ries & Ries, Roswell, GA. "Many luxury brands are overreacting to the recession by running sales and launching inexpensive versions of their expensive products.

"How do you react to a recession? A luxury brand should never, ever change its high-end position," he said. "That's what made it successful in the first place.

"A luxury brand needs to keep its current position and wait for the economy to improve."

Luxury experts and brands have weighed in on how brands should react to the chatter, highlighting the problem and offering a solution. Some remain optimistic, while others urge brands to take the matter more seriously.

Nancy Hubbell, prestige communications manager at Lexus, Torrance, CA

When talk turns to recession, luxury brands need to take pause and look for ways to align their products with the change in sentiment.

In the luxury automotive world, the motivation and rationale for purchasing a new car may be altered.

Instead of buying a new car to make a statement of the success they have achieved, buyers may want to justify their purchase by showing how they made a smart choice.

Traditionally, Lexus has done well in economic downturns as buyers put an emphasis on the brand's quality and service, as well as its luxury amenities.

Christoph Oberli, New York-based vice president of ecommerce at Mandarin Oriental

During the most recent economic downturn and the recession of 2009-10, the luxurymarket place became very competitive.

This was primarily because demand was lower than supply and companies needed to show value to the consumers in order to stay competitive.

This does not mean just lowering rate, but it required the creation of better experiences, whether during the sales and romancing process or actually at fulfillment of the service.

Despite a recent uptick in transient occupancy and rates, due to the continued uncertainty of the market I would expect this value-driven experiential marketing to continue.

Pam Danziger, president of Unity Marketing, Stephens, PA

Luxury brands need to take the potential of a new recession or double-dip of the old one, very, very seriously.

Many companies got caught short the last time, thinking that their business was immune or their customers would not be impacted.

When it comes to luxury, nobody needs any of it and because of that it is the easiest place for people to cut back when times are uncertain.

Now that companies have gotten rid of the excess weight in their lower-paying jobs, they are turning their sights on the more highly-paid management staff.

Nobody, not even the affluent consumer, is immune to these economic forces.

When affluents feel threatened, they can easily hunker down, shop their closet, not the store, and just hold tight till things feel better.

I believe we are headed back into this same recessionary mindset among luxury consumers.

Unity Marketing's Luxury Consumption Index (LCI) took the sharpest downturn in the third quarter that we have seen since the lead-up to the recession in 2008.

That does not mean there will not be opportunity for some brands and some companies, but it is better to see this economic glass half empty and plan for that, rather than see it half full.

Ron Kurtz, principal of American Affluence Research Center, Atlanta

First, I don't think luxury brands should talk about the recession in their communications with consumers.

[Brands should] give priority marketing to the consumers who can easily afford and appreciate their products.

For true luxury brands, this usually means targeting the wealthiest 1 million households, net worth of $6 million or more per Federal Reserve Board data.

The higher-educated and more affluent consumers are not as affected by unemployment risks and declines in home values -- two of the primary consequences of the current economic problems.

Cater to past customers and strengthen their loyalty and repeat purchases.

Promote increased usage through higher frequency of purchases or larger quantities, depending on the nature of the product.

Enhance the perception of the value of their product by adding extra value through new features and services.

Introduce new products that are truly innovative or with unique appeal, such as in limited editions or quantities, to create excitement for the brand and its products.

Milton Pedraza, CEO of the Luxury Institute, New York

During the recession, luxury brands should focus on customer retention, especially the 20 percent that account for 70 percent of the sales.

They should establish a customer culture with an emphasis on long-term relationship building and of respectfully obtaining referrals.

This should be part of a self-reinforcing customer culture, not just a knee-jerk training project.

Customer culture always matters, but in a recession it allows you to thrive while others survive.

Chris Ramey, president of Affluent Insights, Miami

Talk of a recession makes great headlines, but little sense.

The media chatter denies that companies are profitable and that they are hoarding cash.

The affluent are whole and their money is, more than normal, in safe investments with low returns.

Much of the research currently being released is flawed as it is indicative of a bloody summer where the media had the U.S. defaulting on loans.

We are OK and affluent consumers are OK. Give them a reason to buy your products and they will respond in-kind.

True luxury brands should be promoting. The affluent, particularly the top 1 to 2 percent, are still spending money.

This is not a time to withdraw from the market.

Shenan Reed, chief creative officer at Morpheus Media, a Createthe Group company
From all the research we see the top end of the luxury consumer is not affected as much by the recession as you might think.

They still have money to spend and they are used to a certain level of quality and service and so therefore will continue to spend.

In addition, recessionary times are traditionally great times for brands to gain market share as the natural reaction for companies is to pull back on marketing and advertising.

Historically, brands that have spent more during recessions have gained significant market share.

Al Ries, chairman of branding consultancy Ries & Ries, Roswell, GA

The key word is react, which is not the same as overreact.

Many luxury brands are overreacting to the recession by running sales and launching inexpensive versions of their expensive products.

In the short term, this will help sales, but only at the expense of the long term.

Luxury brands that get a reputation for introducing cheap versions of their products will ultimately pay the price.

Missoni's deal with Target is a good example. In the short term, it was a sales and public relations success, but in the long term, it will seriously hurt the brand.

How do you react to a recession? A luxury brand should never, ever change its high-end position.

That's what made it successful in the first place.

A luxury brand needs to keep its current position and wait for the economy to improve.

That's difficult to do because there is enormous pressure to cut prices, run sales and launch inexpensive versions.

All of these things will do long-term damage to the brand.

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York