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COMMERCE

Are luxury brands impervious to threats of a recession?

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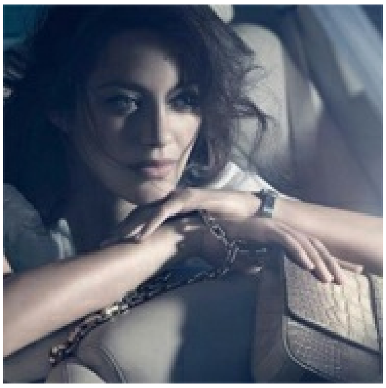


By RACHEL LAMB

European debt crises, shaky stock markets and a worldwide slump in consumer confidence have all plagued the third quarter, but luxury marketers have been showing impressive results during this time. Is the luxury industry resistant to the world's economic struggles?

Less-than-affluent consumers have been reporting a lack of confidence, but their wealthy counterparts have also reported doubts that the economy will get back to where it was pre-recession. Experts believe that consumer guilt and lack of conspicuous spending, rather than just a stop in goods purchases, are the reasons behind a strong third quarter.

“The luxury consumer didn’t stop spending, they only stopped conspicuous consumption,” said Dale Grossman, a New York-based strategic retail consultant. “The true luxury customer really is only affected by the DOW.

“When the luxury brands took a dive in 2007, it was because the DOW took a dive, and that’s when the luxury consumer stopped spending,” she said. “They still have the money to spend, but when they see their friends or neighbors who just lost their jobs, they don’t want to spend all of that money in front of them.

"They just do it privately."

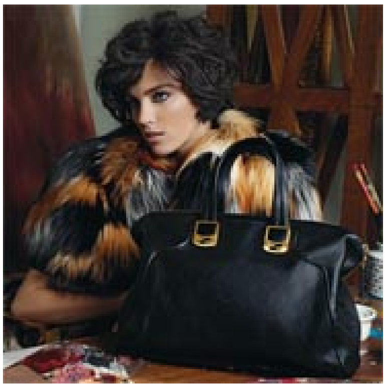
Crunching numbers

Although not all of the numbers are out yet, some marketers have reported their earnings for the third quarter.

Luxury giant LVMH Moët Hennessy Louis Vuitton reported sales in the third quarter of $8.5 billion, a 17.6 percent advancement last quarter, and 15 percent year-over-year growth.

The company's fashion and leather goods alone recorded organic revenue growth of 15 percent and attributed the inauguration of Maison Louis Vuitton in Singapore as a "highlight of the quarter."

The brand also noted Fendi, Donna Karan and Celine remained strong performances.



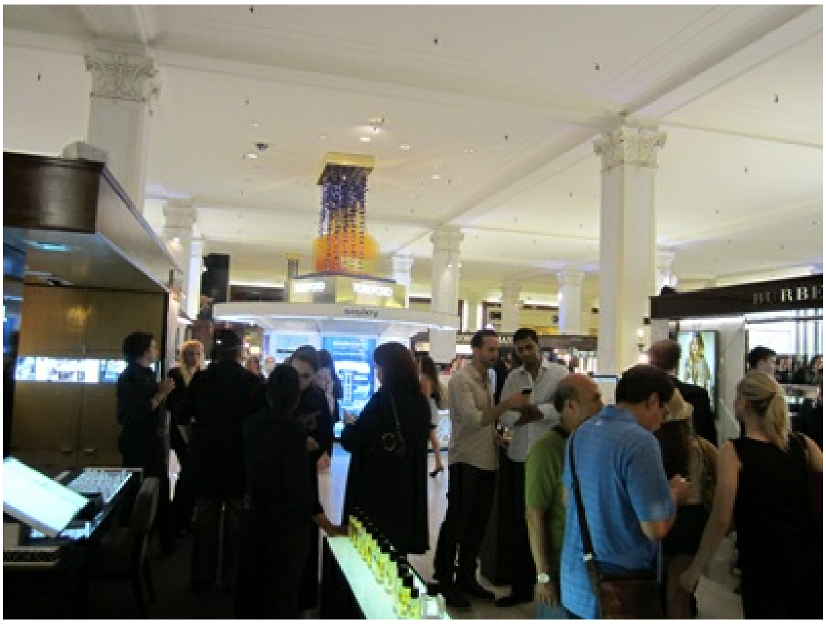
Fendi

Wines and spirits grew 11 percent, watches and jewelry 26 percent and perfumes 10 percent.

In addition, Swiss watch exports including but not limited to Hublot and Tag Heuer, rose 21 percent in September.

A strong demand in Asia fueled most of these exports, according to a report from WWD.

Saks Fifth Avenue reported a 6.6 percent increase compared to last year in comparable stores sales for July and September.



Saks Fifth Avenue during Fashion's Night Out in the third quarter

“The current economy is neither weak nor strong, and while it is not directly impacting the luxury buyer as much, the lack of direction in the market creates this uncertainty and the luxury consumer becomes more cautious,” said Doug Fleener, president and managing partner of Dynamic Experiences Group, Lexington, MA.

“The economy and market had a better direction at the time, and I believe there was pent-up demand,” he said.

Miss the impasse
The United States barely missed a double-dip recession last quarter.

Mixed reports on consumer satisfaction and the economy are confusing experts as to whether or not luxury marketers should expect a rebound — and how they should prepare for the future (see story).

The worry did not stop in the U.S.

Overseas, Europe is squabbling over whether or not some countries will decide to ditch the euro in exchange for previous currencies. And, all luxury marketers were threatened to be hit by the debt crises plaguing European countries such as Italy and Spain (see story).

Brands had a successful second quarter, and experts wondered whether or not the impasse in Washington in July would undo that progress.

Luxury brands have remained resilient, however. To keep the progress, marketers are encouraged to keep up marketing strategies dedicated to help luxury consumers want to spend on their goods.

“Our view is that for a purchase to happen, there are three things that have to all be answered in the affirmative: the need to buy, the ability to buy and the willingness to buy,” said Pat Johnson, managing partner at retail strategist firm Outcault & Johnson, Seattle. “We’ve gone through a situation from 2008, but the luxury sector is staying strong.

“It’s partly because at this point in time, those consumers see that they can get great value,” he said. “It’s almost like an investment.

“They see quality products that will last a long time and they are willing to spend.”

Indeed, it is not as if luxury consumers do not have the money to spend on luxury goods, even during the time of a recession.

To coerce them, luxury brands need to maintain their high standards of quality, craftsmanship and services, according to Ms. Grossman.

“People are willing to spend an enormous amount of money on things, it is just that it has to be worth it to them,” Ms. Grossman said. “You have to get something out of it, and you have to see the value in spending that kind of money.”

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York