Luxury Daily®
The News and Intelligence You Need on Luxury

RETAIL

HENRYs are preparing for an economic downturn: Luxury brands must, too

October 20, 2022

Pam Danziger is president of Unity Marketing

By Pamela N. Danziger

Peloton, the maker of high-end, digitally-enhanced exercise equipment that enjoyed a bump during the pandemic only to crash spectacularly afterwards, just announced it is laying off 500 employees about 12 percent of its existing workforce following three rounds of layoffs earlier this year.

Store closures accounted for most of the last round in June, but the latest one is cutting not just company fat, but essential corporate muscle: the marketing department will take the brunt of the job losses.

These are not low-paying, hourly retail workers, but professional and creative-class employees making salaries that put them into the high-earners, not-yet-rich (HENRY) demographic the consumer segment that is doing better income-wise than the bottom 70 percent but under the top 10 percent.

While retailers are still staffing-challenged at the store level and are aggressively looking to fill open slots, many, including some expanding at the hourly level, are cutting their professional office workers, such as Peloton. For example, Walmart is looking to add 40,000 associates this year, yet cutting "hundreds" of corporate roles.

Also announcing layoffs in the office ranks include PVH, VF, Stanley Black & Decker, Gap, Bed Bath & Beyond, Best Buy, Ford Motor, HBO Max, Netflix, Noom, Robinhood, Groupon, Kohl's and Wayfair.

Technology companies are not immune either and their layoffs will largely impact HENRY level employees.

"There have been over 30,000 job cuts by tech companies in the U.S. in the past few months alone, and unemployment claims have climbed to eight-month highs," Zero Hedge recently reported as Apple, Amazon, Tesla, Snap/Snapchat, Shopify, Twitter and Meta have announced layoffs.

In addition, Google owner Alphabet has implemented a hiring freeze, and Coinbase and Microsoft are slowing their hiring pace.

And with the stock market in turmoil amidst lower corporate earnings and rising interest rates, the high-earning financial sector jobs are also at risk.

Goldman Sachs just announced plans to cut several hundred jobs in the third quarter, while JPMorgan and Bank of America remain cautious.

In more troubling news, a survey conducted by PwC in August 2022 among 700-plus senior U.S. executives found 50 percent of the firms are anticipating a reduction in overall headcount, while 52 percent foresee instituting a hiring freeze and 44 percent are rescinding job offers.

During the first half of 2022, GDP has suffered two quarters of negative growth the traditional sign of a recession.

However, because unemployment remains low, many economists are hesitant to officially declare the U.S. economy has entered a recession.

Yet, unemployment, which is traditionally a leading indicator of recession, may be a trailing indicator this time. And the job cuts that typically come with a recession may not only affect those at the lower-end of the pay scale.

HENRYs feeling the pinch

The HENRYs see the economy headed for a dive. Some two-thirds believe we already are in a recession or it will arrive within the next six months. And that is turning the tide on their spending.

Nearly half (45 percent) of HENRYs have cut back luxury spending from a year ago and an overwhelming majority (63 percent) say now is a good time to limit purchases, according to a recent Research The Affluent Luxury Tracking survey.

For luxury brands, this comes on the heels of the pandemic's disruption which resulted in a 22 percent loss in the personal luxury goods market from 2019 to 2020, according to Bain.

While the industry recovered immediately in 2021, even topped 2019 revenues by 1 percent, luxury brands face another test if a recession sets in.

While HENRYs are not the luxury industry's primary target consumer that is the high-net-worth and ultra-affluent consumers with incomes over $250,000-plus they still depend upon the lower-income but still affluent, next-generation HENRYs for a good portion of revenues and growth.

And it will not only be the luxury sector that will feel the pain if HENRYs cut back.

The HENRYs correspond roughly to deciles 8 and 9 in the household income distribution, the 20 percent of U.S. households with an average income of about $135,000, according to the Bureau of Labor Statistics Consumer Expenditure Survey.

As a group, the HENRYs account for 27 percent of all consumer expenditures. That is equal to the amount spent by the three middle-income deciles (30 percent) below them and more than the top ten percent, with average income of about $300,000. The ultra-affluent 10 percent collectively contribute 23 percent in total U.S. spending.

While the affluent in general, and the ultra-affluents in particular, have greater ability to absorb a recession, a recent CNBC and Momentive survey found they are just about as concerned as those at lower-income levels about the current economy's downward turn.

"People making six-figure incomes are almost as worried about inflation as people making half as much and they are just as likely to be taking steps to mitigate its effect on their lives," said Laura Wronski, senior manager of research science at Momentive. "Inflation is a problem that compounds over time, and even high-income individuals won't be insulated from the second- and third-order effects of price increases."

HENRY lifestyle disruption to disrupt luxury brands

HENRYs are going to experience disruption to their lifestyles if the economy continues to turn south. They will more carefully evaluate new purchases and be more likely to trade down to less costly alternatives than they are to trade up to luxury.

Yet while pocketbook issues will more strongly influence HENRYs' shopping behavior, their underlying emotional needs will remain and that is what drives them to luxury brands.

Luxury shopping is driven primarily by emotional, not physical needs.

"Shopping behavior is always a means to an emotional-based end," said Chris Gray, founder of consumer psychology consultancy Buycology and one of the early pioneers in the shopper psychology field with Saatchi & Saatchi.

"Behaviors happen for a reason, always," he said. "If you can get to the bottom of why the reason it is happening you can start to understand consumer behavior."

The future of luxury brands rests on the future spending power of young HENRYs more mature ultra-affluents typically start their luxury journey as HENRYs.

Brands need to prepare for the changes coming in their spending and purchase behavior by leaning into the HENRYs' mindset, priorities, and values.

It all comes down to the value equation: giving HENRYs more of what they need, want and crave. Luxury brands need HENRYs to continue trading up

Pamela N. Danziger is Stevens, PA-based president of Unity Marketing and Retail Rescue, cofounder of the American Marketing Group, and a luxury marketing expert. She recently published a new report, "HENRYs in Recession and How Luxury Brands Can Prepare." Reach her at pam@unitymarketingonline.com.
