

RESEARCH

Luxury brands must regain focus on customer experience: study

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By PETER FINOCCHIARO

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Half of luxury consumers have noticed a decline in the quality of high-end products and services, according to Luxury Institute.

Fifty-seven percent of high-income shoppers identify superior customer service as a defining quality of luxury goods, yet 50 percent have noticed a marked decline in the customer experience. This downturn poses a significant threat to upscale brands, per Luxury Institute.

“Luxury brands need to start focusing on what customer service means,” said Milton Pedraza, CEO of the Luxury Institute, New York. “They need to start to out-behave – not just outperform – the competition.

“The customer experience at the store and Web site has to be extraordinary, and consistently so, in order for luxury consumers to develop long-term relationships,” he said. “There’s very little clienteling right now – no follow-up.

“We know from previous reports that consumers will give you twice as much of their wallets if they have relationships with sales people, but we also know that the state of clienteling right now is dismal.”

Luxury Institute surveyed U.S. consumers earning at least \$150,000 per year to compile its semiannual State of the Luxury Industry report.

The average yearly household income of respondents was \$286,000. Their average net worth was \$2.7 million.

Back to basics

The luxury industry is fighting the perception that the qualities that differentiate luxury brands – superior quality, craftsmanship, customer service and design – are declining.



Seventy-six percent of respondents said that superior quality is a defining quality of luxury goods. Fifty-one percent say quality is declining.

Meanwhile, 56 percent of consumers said the craftsmanship of luxury products is down.

Finally, 48 percent said luxury products are losing their design value.

While many luxury brands have sacrificed quality, craftsmanship and service, not all brands are getting it wrong, Mr. Pedraza said.

Luxury icons such as Ritz-Carlton, Four Seasons, Lexus, Porsche, Louis Vuitton, Chanel and Tiffany's have maintained strong customer experiences and have enjoyed success as a result, even amidst a recession.

However, the luxury industry as a whole has taken a step back.

"To their credit, some brands are trying to make customer experience better," Mr. Pedraza said. "Still, outside of the luxury world, brands like Zappos are outbehaving and outperforming luxury brands in terms of experience, and they shouldn't be.

"Kudos to Zappos, but luxury brands should be famous for service," he said. "When you're paying for the best, you're paying for the best quality, craftsmanship, design and service.

"Those create a compelling experience that consumers are willing to pay for."

Outbehaving and outperforming

Customer service is vital to creating long-term relationships with consumers, according to Mr. Pedraza.



However, maintaining a rich consumer experience can prove challenging for large, global brands, especially during the middle of a worldwide spending slump.

The key to developing the exceptional customer service regimen that luxury shoppers demand is scalability.

“Bigger brands that can scale their cultures are going to be winners,” Mr. Pedraza said. “It’s not just about great products – it’s important that the customer experience is scalable.

“That’s easy when you have a small bakery, but not so easy when you have 30 or 100 or 200 points of sale,” he said.

Shift to thrift

In the long term, an increased emphasis on customer service is of utmost importance for luxury brands looking to regain their luster.

However, in the near term these brands should prepare for a dip in consumer expenditure for high-end products.

Thirty-six percent of respondents said they plan on decreasing overall spending on luxury goods and services through year-end, versus 6 percent who say they plan to spend more.

The jewelry sector could take the worst hit, per Luxury Institute.

Meanwhile, other luxury categories susceptible to consumers’ tightening purse strings include home furnishings, gifts, watches, handbags, shoes and cars.

Additionally, as brands lower the prices of their high-end products, consumers could start spending.

Twenty percent of luxury consumers plan to spend more on marked-down luxury goods and services this year.

Likewise, 25 percent already paid out more for discounted upscale offerings in the first eight months of 2010 than they did in all of 2009.

Mr. Pedraza said that overall luxury spending could be up compared to last year.

Still, some sectors such as leisure travel, dining, fitness and technology should expect above-average increases in spending.

“We’re still going to be scraping along the bottom in luxury,” Mr. Pedraza said. “I expect

[overall] sales to pick up a bit, but that's compared to a dismal last year – comparables will be easy this year.

Final Take

Peter Finocchiaro, editorial assistant at Luxury Daily, New York

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