

INTERNET

Luxury brands must push ecommerce harder this holiday season

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By PETER FINOCCHIARO

Luxury brands must use the reach and convenience afforded by online shopping to offset consumer restraint in the face of a still-tepid economy this holiday season.



Slow growth in economic measures such as personal income and GDP mean that many affluent consumers are still cautious with their finances and less likely to indulge in expensive luxury purchases. However, the Internet provides a rich environment for promoting the value of upscale goods, while also catering to the needs of busy professionals who might not have time to purchase gifts in-store.

“Online this year plays a far more important role than even stores,” said Milton Pedraza, CEO of the **Luxury Institute**, New York. “It has such a dramatic reach and such a high convenience factor.

“[Luxury brands] need to put all their products online, unless it is so bespoke or expensive that it needs more personal attention,” he said. “For most luxury brands, online will be the biggest door by far, if it isn’t already.”

Oh, HENRY

Ultra-affluent consumers are likely to spend more this holiday season than in past years

(see story).

However, another consumer segment that has the potential to make or break the holidays for luxury brands is HENRYs – High Earners, Not Rich Yet.



HENRYs consist of consumers with average annual incomes between \$100,000 and \$250,000, according to Pam Danziger, president and founder of **Unity Marketing**, Stevens, PA.

This consumer group was a boon to luxury brands prior to the recession, having propelled into higher price points based on the wealth created by real estate and financial investments.

However, when those two markets collapsed in fall 2008, HENRYs reined in their spending, a problem for luxury brands.

“The problem is that for every one ultra-affluent household – with household income of \$250,000 and above, you have 10 HENRY households,” Ms. Danziger said.

“Ultra-affluent consumers spend on average three to four times more in every category,” she said. “But, the ultra-affluent will never make up the difference caused by the HENRYs pulling out of the market.”

The economy is still on shaky footing, so luxury brands will need to convince these consumers to start spending again.



How to encourage spending

How can brands sell this segment on making the plunge and purchasing high-priced items?

As far as courting affluent consumers this holiday season, online channels have a few

things working in their favor.

For one, stores can often be inconvenient for professionals who run on busy schedules, while ecommerce sites provide a speedier alternative.

“Luxury brands have been slow on the Internet because they think it can’t duplicate the in-store experience so they want to drive consumers to stores,” Ms. Danziger said. “But that’s not serving the needs of the consumer – they want the speed, convenience and instant access to products online.

“Time is the ultimate luxury,” she said.

Additionally, the online environment lends itself well to the collection of information and comparison shopping than does buying in-store, a plus for shoppers on a tighter financial leash than in boom years.

The thought of discounts is probably unappealing to luxury brands that derive brand equity from the stratospheric price points and high margins to which they are accustomed.

Luxury brands should be careful to be discreet when lowering prices.

Flash-sale sites such as Gilt Groupe and Rue La La are valuable partners for moving products at discounted, but not extravagantly slashed prices.

Coordination is key

Online shops such as Gilt Groupe and Rue La La also provide good opportunities to establish a sales channel where the traditional perks of the in-store experience are less of a concern, according to Karla Martin, San Francisco-based vice president and head of North American retail and luxury sectors at [Booz & Co.](#)



However, luxury brands selling online both through their own ecommerce sites and in partnership with other retailers need to coordinate their inventory decisions to ensure they do not cannibalize sales in other channels.

“For some luxury retailers that sell not only through branded stores but also through other retail partners, you have some channel conflict, so you have to figure out what hot items you can give to Neiman Marcus that they can sell in-store and online so that what you sell online doesn’t cannibalize the business,” Ms. Martin said.

“It’s a tight balance that luxury retailers face if they sell outside their own speciality stores,”

she said. “Ecommerce didn’t create that problem – it just made it more difficult.”

Best practices

Still, online has the potential to move the needle for luxury retailers at a time when economic conditions have not left many consumers confident in spending gobs of money.

Luxury brands can position themselves for success by following a few best practices when developing their own ecommerce sites, according to the Luxury Institute’s Mr. Pedraza.

Service is an essential feature of a luxury brand’s value proposition.

A brand’s ecommerce site should dovetail with other mediums to provide a richer shopping experience.

Luxury retailers designing their online sales platforms should make sure to prominently advertise channels through which consumers can easily get in contact with sales representatives to answer any questions they might have.

Additionally, they should make the site as easy to navigate as possible.

When consumers want to look at products, they should be able to get a good sense of how that product will look in real life, which means providing multiple images, zoom functionality and rich photography.

Most importantly, brands must justify the price of the products they are selling, which means a strong emphasis on the heritage and tradition of the brands, as well as the high quality and craftsmanship of the products themselves.

“Online is a great comparison shopping channel and a great convenience channel, so it will be a larger percentage of overall sales,” Mr. Pedraza said. “But, it will cannibalize in-store sales.

“The channel will become even more important, but overall sales won’t move dramatically [this holiday season],” he said. “Volume goes up but revenue dollars may not be that much higher.

“[Luxury brands] are going to have to work harder this year and entice consumers that much more.”

Final Take

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