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RESEARCH

Luxury market faces spending drought through 2020: Unity Marketing

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By PETER FINOCCHIARO

NEW YORK – The tough economy has permanently reined in the purchasing habits of the current generation of affluent consumers and upscale brands should expect more conservative spending until Generation Y enters the luxury market in force in 2020, according to Unity Marketing.

High-end brands will have to market more aggressively to drive sales for the next several years and will not be able to rely as heavily on purchases at the highest price points. Instead, these companies should follow the lead of Neiman Marcus, which extended its brand down-market with its Last Call brand.

"The assumption is that something was lost in the recession, but you should be thanking God for the recession," said Pam Danziger, president of Unity Marketing, Stevens, PA. "There are structural changes going on in the consumers you sell to.

"If it hadn't been for the recession, you wouldn't have had the wake-up call to understand there are changes afoot, and the market won't resolve itself until 2020 when the Millennials reach prominence." she said. "If you think the spending slump is over, you're going to get killed."

Ms. Danziger's "State of Luxury Marketing Today" presentation promoted her upcoming book "Putting the Luxe back in luxury.

The event was hosted by the Luxury Marketing Council.

Happy days are here again?

Headlines have been dominated in recent weeks by diverging opinions on the near-future prospects for luxury brands.

Bain & Co. released its ninth annual Luxury Goods Worldwide Market Study, declaring that luxury spending this year has returned to pre-slump highs (see story).

However, Ms. Danziger has been vocal in her disagreement with Bain (see story).

The Unity Marketing president said that Bain's research is dominated by global luxury brands who have been successful by expanding into emerging markets such as China and India. She said that such an approach glosses over the fundamental driver of the luxury market – the consumer.

Many luxury brands have decided that the best route for winning back revenue post-recession is to go up-market and focus on pushing ultra-expensive products.

However, while ultra-affluent consumers have recovered from the slump and are likely to purchase such items, their investments alone will not provide the revenue luxury brands need.

Upscale goods and service providers instead need to attract HENRYs - High Income, Not Yet Rich.

A key demographic
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 reason appealing primarily to ultra-affluent consumers – those with household income above $250,000 a year – is that HENRYs outnumber them ten to one, meaning these elite spenders would need to dish out ten times as much cash to make up for the absence of HENRY dollars.

Aspirational luxury consumers are no longer so enamored with the prestige of the brand that they are willing to spend ten times as much on a product only three-times better – a sell many upscale brands keep trying to make.

Instead, these shoppers have become much more discriminating and value-oriented in their purchase decisions, trying to eek out as much quality as possible at lower price points.

Ms Danziger suggests the solution then for luxury brands is to go down-market and emphasize the quality of the products as much as possible.

"We need to be thinking more like Consumer Reports and less like Vogue," Ms. Danziger said.

Final Take

Peter Finocchiaro is editorial assistant at Luxury Daily, New York