

# Luxury brands

How to maneuver through this moment of austerity

Interbrand

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Earlier in this decade, luxury brands found themselves facing what was at first a troubling phenomenon: the “democratization of luxury.” Hordes of consumers, enjoying upticks in their net worth, developed a seemingly insatiable appetite for products and services, which assured them that they were special and that they deserved to treat themselves to items of better quality and more exquisite taste. Luxury brands, used to serving a particular tier of customer, quickly learned to adjust. Many companies nestled into what seemed like a comfortable and lasting relationship with their new fans. Others tried to further distinguish themselves from upstart “New Luxury” brands – brands that offered premium products and services that were affordable to more mainstream consumers, but were spiked with a sense of connoisseurship – by focusing on those characteristics that have long defined luxury: quality, provenance, craftsmanship, innovation, scarcity, and a compelling story.

Now, it goes without saying that the world of luxury has been turned upside down...again. Like regular Joe the Plumbers, most luxury goods brands are facing the toughest times they've had in fifteen or twenty years. Sadly, those new customers, who spent money during flush times on handbags and other high-margin items (many of which were emblazoned with logos or identifiable design elements that constituted free advertising) appear to be pretty much gone. And not only are the newbies dropping luxury brands like yesterday's newspaper, but even core customers – high-net-worth individuals for whom the downward-spiraling economic conditions are less consequential – are adopting normative behaviors and shunning any type of conspicuous consumption. It's unseemly to buy and flaunt bling, baubles, and It-bags right now. It's just not done! Luxury shame has escalated to the point where consumers are actually asking for unbranded (or softly-branded) shopping bags so that no one will know they just dropped US\$ 600 on a pair of stilettos.

### How on earth can a luxury brand maneuver through this moment?

To begin with, it's important to remember that this is just that: a moment. It may be a painfully long moment, and a particularly harsh one, but the best luxury brands aren't built for moments – they remember where they came from, and they last for generations. So stay away from that price lever, because once you push it down, you can't pull it back up. Consumers have long memories, and your brand is worth far too much to risk tarnishing.

A more brand friendly answer to this problem can be found by re-examining what you provide to consumers for their money. There are a few particular solutions that can help your brand feel more appropriate, yet still aspirational, to those core luxury customers – and even to those newer customers for whom luxury goods are a stretch purchase. These solutions are based on the simple fact that two luxury goods drivers which have become more important in the category over the last decade will not go away: People will still want to lead enjoyable lives with meaning, and they'll still want to feel connected to the world around them.

It makes sense that, in a category that had undergone so much change, these types of drivers would emerge. They speak to the ultimate expression of true substance and quality – the sense of permanence that we seek to gain through our luxury brands. Traditional luxury brands provided consumers with a sense of permanence by promising longevity based on their heritage of craftsmanship (“You don't actually own a Patek Philippe. You merely look after it for the next generation.”) As the world of luxury expanded, consumers wanted more reasons to believe that they weren't making purchases they'd regret – that the products, services, and experiences they chose to spend their money on would last. By working harder to address these permanence-related drivers, brands can begin to make their customers feel more comfortable with indulgences, big, or small.

### Solution #1: Offer bite-sized immersion

Luxury brands have always been master storytellers. Through the narrative they provide, signaled through words, visuals, environments, and service, they invite consumers to immerse themselves in their world – even if only for the moment that it takes

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to bite into and savor a piece of high-end chocolate. Presenting an opportunity for immersion directly answers consumers' desires to feel that they're truly enjoying their lives.

In reaching consumers who may want to indulge, but are watching the stock market warily, brands can make that immersion – and that purchase – more bite-sized. In taking this approach, luxury brands need to ensure that what they're offering is special and valuable, but not through a price cut in the traditional sense. Canyon Ranch, for instance, is a renowned spa whose mission is to “inspire people to make a commitment to healthy living, turning hopes and intentions into the highest enjoyment of life.” Like many spas, it provides clients who are able to afford a weeklong stay at the resort with a sense of relaxation, rejuvenation, and escape that can be difficult to obtain elsewhere (at least, that efficiently and reliably). Canyon Ranch has responded to the state of the economy not by advertising lower prices, but by promoting a special opportunity to indulge in a two- or three-night getaway to one of its exclusive spas in Tucson or Lenox, MA, which normally require a longer stay; bite-sized immersion, at an easier to swallow price.

## **Solution #2: Provide opportunities for personalization**

A large part of luxury consumers' willingness to pay premium prices comes from their expectation that a brand will go out of its way to attend to their needs: customers must feel that they're being treated as valued individuals when they're consuming luxury goods. Personalization conveys this well, and the most effective type of personalization is tied to a particular time and place. It will not only make consumers' interaction with your brand more meaningful, but also provide them with a story that they can tell to others – thus creating a positive memory, one that will etch itself in their minds.

An example of a brand that has accomplished this beautifully is Le Labo, a fragrance company with stores in New York, LA, and Tokyo, in addition to counters at high-end retailers such as Barneys and Colette. One might argue that perfume is a “frivolous” luxury purchase: It's not terribly functional in this day and age, and when you buy it, you're often buying an image, pure and simple. But if it's a truly special perfume – a definitive one that's truly meant for the person who buys it or receives it as a gift – it can be extraordinarily meaningful. Le Labo custom mixes each perfume and affixes a label to the bottle that includes the purchaser's (or recipient's) name, the date, and the location, providing a link to the moment of purchase and the store experience every time you look at the bottle. The

company also creates exclusive scents that are available only at certain locations, making that purchase even more personal, special, and memorable.

## **Solution #3: Demonstrate a clear conscience**

For those core consumers who can comfortably make luxury purchases but feel they shouldn't due to changing social norms, the best justification for indulgence is a sense that, by engaging with the brand they're considering, they're contributing to something larger than themselves. To provide permission for indulgence, luxury brands should consider aligning themselves in a meaningful way with a relevant cause. When this is done in an authentic and significant manner, it creates a sense of connection between the brand, the consumer, and the rest of the world in a way that is particularly powerful.

While many luxury brands have been holding events recently that feature tie-ins to nonprofit organizations, they could create an even deeper sense of partnership. For instance, LVMH emphasizes its role as a patron of the arts by not only supporting major exhibitions, but also providing opportunities for young people to enjoy, learn about, and pursue careers in art and music. The company takes this role a step further by promoting an “authentic art of living” through donations to a variety of humanitarian and public health initiatives. Brands can heighten awareness of significant commitments such as these by connecting each purchase to a charitable donation or providing additional opportunities for customers to support particular initiatives.

Luxury brands could also consider filtering product- or service-related decisions through this lens. For example, Environment Furniture, which uses reclaimed, recycled, or repurposed wood and canvas materials in its eco-chic furniture collections, has begun to carefully evaluate every aspect of its operations to lessen the environmental footprint of its offices and stores. It has also joined the Tropical Forest Trust, an organization that works with its members to eliminate illegal and controversial tropical wood from supply chains.

## **Re-framing the moment: from New Luxury to New Aspiration**

These solutions can be particularly effective today because they address our desire for a sense of permanence in a more modern way. When one considers luxury goods in general, one usually thinks of the category as “aspirational.” Our definition of that word has

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historically tended to focus on aspiration in the economic and social sense: luxury goods as badges of social status, ways in which to enjoy – and show that you're enjoying – a life of privilege. But now that our economic moment disparages this focus, our definition of the word has shifted to settle upon aspiration in the emotional sense. We're now recognizing that lasting memories of an enjoyable, meaningful life are what we have at the end of the day (whereas one's social and economic status, as we've seen in the past several months, is not necessarily here to stay).

In a way, this is a softer, more authentic version of aspiration that creates a deeper sense of permanence. Consumers now seek a sense of significance and permanence not merely by purchasing well-crafted goods that they can pass on for generations, but by creating their own unique stamp on the world around them through a meaningfully rich, full, positive life. If we need to look for a silver lining in the effect of this economic downturn on the luxury category, we can find it in this: it reveals that the category, and consumer motivations to engage with it, isn't nearly as shallow as some might believe. Luxury brands should embrace this shift, and to the degree that they can, help consumers realize these new aspirations. ■



### **Dara Kennedy**

Dara Kennedy joined Interbrand in 2008 as a Senior Consultant with the strategy department in New York. She leverages her experience in marketing, advertising, and retail to help clients develop compelling brands that solve important customer problems.