

BY KEVIN O'DONNELL

## LUX BRANDS FACE TOUGH BALANCING ACT

**LUXURY BRANDS FACE** no small dilemma these days as they try to deliver growth without compromising cachet—all against the backdrop of a severe global recession that's sure to challenge their fabled resistance to downturns.

New York's Tiffany & Co. is one company that's aggressively exploring its options. It's entering new categories; consider its line of elegantly styled sunglasses graced with Swarovski crystals on the sides. It's also forging new partnerships, such as one with Swatch to design a Tiffany-branded collection of watches to be distributed in and beyond its own stores.

On the upside, the partnership will deepen its presence in a segment of the lux market that's positioned to better contend with the current economic woes; watches are among the first luxury items purchased in emerging markets. What's questionable, though, is whether Tiffany-branded Swatches—a very mass market brand—can deliver the quality and experience that defines Tiffany specifically, and the luxury category as a whole.

Still, it's the kind of risk that luxury brands can't avoid. Bain & Company projects a drop of as much as 7% in global luxury goods sales this year as the sector grapples with its first recession in seven years.

Exclusivity and prestige reign in the luxury sector, and customers will pay top dollar for brands that don't stint in offering them. Brands that invest in strategies that reinforce the product experience and the products' relevance to customers will find themselves best positioned for the eventual business upswing. Here are three considerations for their efforts moving forward.

### The Innovation Equation

Brands with the most staying power are those that constantly find new and different ways to anticipate customer needs and expectations. Innovation is a critical differentiator in the quest to stay connected.

In the luxury category, the tactile customer experience is considered a key differentiation factor. It has made inventive high-touch events increasingly in vogue. American Express, for example, invited its best clients in Toronto to a dinner party that featured food prepared by some of Canada's top chefs. The site? A room suspended 160 feet in the air by a crane.

Others are tapping into technology, betting they can gain economic efficiencies without sacrificing the touch-and-feel demands of the luxury customer. Spanish fashion brand Zara is a master at this, having used technology to reduce its design-to-distribution process to an unparalleled 10 to 15 days. In tandem with its huge team of in-house designers, it can respond almost immediately to emerging consumer trends as well as demands of its own customers. On a different front, Polo Ralph Lauren is embarking on a "mobile commerce" initiative with U.S. customers, using quick response technology codes in its marketing materials that potential shoppers can scan and download to their cell phones. From there, they go to M.RalphLauren.com to not just peruse and buy the latest styles, but also view exclusive video content and a style guide.

### Reposition for Better Position

Repositioning can be risky for luxury brands. On one hand, many will be looking to make themselves more accessible to a broader audience, essentially going down-market, and possibly be accompanied by strategic pricing adjustments. The challenge is to avoid brand devaluation through a program that causes sub-brand proliferation or compromises quality standards. Coach, which helped define the term "accessible luxury," is the model here. Its bags and related extensions feel like luxury items and are backed by lifetime warranties that speak to their quality, but they aren't priced in the stratosphere, making them attractive to a broader base of aspirational customers.

On the other hand is the strategy of repositioning upward, which BMW successfully accomplished during the last recession with the Mini Cooper. In transforming the model into a premium brand more in keeping with the upscale BMW, and commanding prices of up to \$25,000, BMW gives its Mini lineup more staying power. And its customer-centric approach—more than half its owners design their own cars—gives it the kind of individualistic appeal that resonates with the luxury market.

### Solidify Your (Current) Connections

As the saying goes, your next best customer is the one you already have. In this business environment, the most successful luxury brands will eschew the relentless acquisition of new customers in favor of activities that reinforce their relevance to their existing, loyal base.

One way to go is to follow the recent successes in "individualized" luxury goods marketing. Accessories can be customized through color or fabric options. Handbags can be monogrammed. Scents can be personalized. This is a tack being pursued by Prada, for example, which tracks about 50% of its sales back to a mere 5% of its customers. It sees this as a strategy to make them feel special, unique and keeps them regularly coming back for more.

Success at tightening the ties hinges on a keen understanding of what resonates best with customers and responding accordingly. The up-market Fairmont hotel chain uses this understanding as a basis for Fairmont Fit, a unique benefit under its Fairmont President's Club loyalty program. Understanding the importance of health and wellness to some of its core business travelers led Fairmont to partner with adidas and EMI to provide workout apparel, shoes, an MP3 player and yoga mat to accommodate on-the-road wellness.

The paths open to luxury brands as they grapple with the pressures of the downward business spiral will be challenging to navigate. Those that don't sacrifice creativity and their dedication to a high level of personal touch will be most likely to emerge with their brands—and businesses—stronger than ever. **m**



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