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Signs Of Recession Become Clearer

A cascade of recent economic readings confirms a widening and deepening slowdown. The U.S. Department of Labor reports that employers shed a net of 17,000 jobs in January, the first monthly contraction in non-farm payrolls since August of 2003. Meanwhile, the Commerce Department reports GDP growth slowing to a crawl in the fourth quarter of 2007, clocking an annualized rate of just 0.6 percent – about half the pace that economists had expected.

Major U.S. stock indices remain in the red for the year and down sharply from highs last year. Stocks are still struggling, despite the Federal Reserve's extraordinary rate cuts, which have taken overnight lending rates down 1.25 percentage points since the panicky morning of January 22. Spectrem Group reports that millionaire investors are the most bearish they've been on stocks in the survey's four-year history. Blamed as the primary culprit for the current funk, housing continues to struggle, too. The National Association of Realtors says that the median price of an existing home sold in December was $208,400, down 6.0 percent from December of 2006. Inventories of unsold homes remain bloated in dozens of markets across the nation, offering little encouragement for a swift upturn.

As it did during the weak holiday shopping season, the dim macroeconomic environment continues to darken the retail picture. Last month, retail chains posted a 0.5 percent rise in same-store sales, the weakest January on record since the International Council of Shopping Centers began tallying the numbers in 1969. Even luxury retailers who earn consistent praise from their customers, like Nordstrom, are feeling the pain. January same-store sales fell 6.6 percent at the Seattle-based retailer. Saks, however, posted a surprisingly strong 4.1 percent rise in same-store sales and Neiman Marcus reported a 3.7 percent gain. With Saks sharpening its focus on a more upscale consumer and Neiman's traditional strength with the more well to do shopper, their stronger January performances offer more evidence that a wealthier customer base acts as a buffer during a downturn.

We may learn sometime in the future that the economy is already in a recession, and if it is, the good news is that the recovery is not far away. The official arbiter of the business cycle, the National Bureau of Economic Research, did not declare the U.S. economy to be in a recession seven years ago until November 2001 – the very same month it much later (in July 2003!) concluded marked the end of the eight-month recession. The average recession since World War II has lasted eleven months, so even if we're in recession, it's hardly cause for panic, and smart companies will take advantage of the current slowdown to refine strategies and systems during the difficult time. The guide on the next page will help luxury firms manage through the downturn.

Guide To Luxury Brand Success In Economic Downturns

First the story was that luxury was omnipotent and luxury consumers were immune. Even the "affluent" consumers were trading up and luxury could do no wrong. Reality is that luxury is cyclical and always has been. All industries are. Luxury winners take a long-term view and business approach. With that in mind, the Luxury Institute recommends that luxury firms consider taking the following seven "tough-love" steps to ensure that their brands are ready to ride the recovery.

1. Eliminate the Hobbies. Many luxury brands have entered into categories where they have no expertise because they want to be "lifestyle" brands. Some categories are logical extensions for a luxury brand but most are not a good fit and will be marginally profitable. Fashion brands are notorious for pasting their logos on anything that they think will generate growth regardless of the impact on long-term brand equity and the long-term bottom line.

Wealthy consumers are highly discerning, educated buyers. Several years of Luxury Institute empirical research shows that wealthy consumers prefer, and are willing to pay a significant price premium for, brands that are specialists. Leiber in handbags, Harry Winston in jewelry, Christian Louboutin in women's shoes, and Berluti in men's shoes are brands that wealthy consumers rate highest as category specialists. Conduct a rigorous assessment of your brand's portfolio and unflinchingly eliminate marginal "hobby" categories. Renew your focus on what you do best and innovate within those categories.

2. Go Up-Market, Right Now. One of the great ways to kill a luxury brand, albeit slowly, is to move down-market. Gucci was a great comeback story because someone had decimated it before Tom Ford saved it. It is the "boiled frog" syndrome. The warm water feels so good that the frog doesn't know it's being made into soup till the water starts to boil. By then, it is too late to bail.

If you are a luxury brand that really aspires to be a mass brand, then create and execute a strategy to be distributed in as many mass-market outlets as possible. You have lots of choices. If you aspire to be a top-rated luxury brand, then Luxury Institute research says that you must serve high net-worth consumers, be unique and exclusive, limit your distribution, and maintain impeccable service. Great quality is not enough. Focus on going up-market with bespoke, one-of-a-kind, custom-made, made-to-order, limited edition product and deliver service to match. Only then will the growing ranks of multi-millionaire consumers globally be willing to pay a premium for your products long-term. That's your growth strategy. Period.

3. Innovate And Dare to Be Different For a Change. Luxury firms have commoditized luxury and 63 percent of wealthy consumers recognize this commoditization. It is hard to ignore. Walk down most high streets, such as Fifth Avenue, Avenue Montaigne, or Bond Street, and you see the same look and feel in store designs and products to the point that you can take away the signs and logos and wealthy consumers would probably not be able to identify who is who. The same is true for services. It is time to stop emulating your competition and begin innovating and creating never-before-seen products and categories that are relevant and that revolutionize your industry. Apple is beating luxury at its own game by creating great products and services, innovating features and benefits,

and charging a premium. Its stores have become high-tech/high-touch destinations. If luxury has any claim to fame, it is in innovation and novelty. Demand innovation and you will get it.

4. Leverage PR, Not Advertising. Especially in challenging economic times, every communication dollar counts. Public relations is a far more effective and credible vehicle for persuasion of key constituents than is advertising. Give your agency the opportunity to communicate the authenticity, the rich history of your brand, your brand integrity, your brand's corporate citizenship, your knowledge of the category via your internal data, and most importantly, your breakthrough innovations.

5. Deliver Extraordinary Experiences. Extraordinary customer experiences are delivered not with gimmicks and props, but by talented, caring people who connect with customers one-to-one. How much extra does it cost you to staff your company with people who are expert in your products, and even your competitors' products? Who are trustworthy? Whose interests are aligned with your clients? Who are genuinely interested in helping people with a smile? Great people are the most difficult resource to scale, but wealthy consumers consistently rate companies like Ritz-Carlton and Nordstrom as delivering extraordinary customer experiences despite their size. Apple now has better experiential stores than many luxury firms. And it is not the bricks and mortar that are delivering that. When will the only constituents who count – wealthy consumers themselves – rate your brand at the top of their list for providing the best customer experiences?

6. Innovate Online. When management of a luxury brand asks us whether they should spend scarce funds on opening another store, launching a print advertising campaign, or investing in a great website and online advertising, the Internet wins every time as the fastest, cheapest, and most effective way to leverage a luxury brand in today's world. Now is the time to use this rich channel to present, advertise, and sell to global wealthy consumers no matter where on earth you or they happen to be located. In fact, some firms, like Active Endeavors, are moving entirely online. The Evanston, Ill., upscale apparel retailer is closing its boutiques, reflecting the fact that two-thirds of the company's $15 million in annual revenue came in over the Internet last year. Internet sales have been growing at a 20 percent to 30 percent annual rate and they're much cheaper: a 10 percent increase in online sales hikes costs by just one percent.

7. Let The Voice Of Your Customer Be Your Guide. Strategy meetings are great, but you will find yourself in circular groupthink during a downturn. Everyone will want to play defense, when you need to have a great offense. Inject the voice of the wealthy consumer into your strategy sessions. Use internal and external quantitative research, create an online community, mine your transactional database, and engage customers one-on-one at point of purchase, wherever and whenever that may be. In effect, do whatever it takes to understand what consumers are thinking right now and why they are behaving the way they are. Find ways to immediately put consumer feedback into practice. They will guide you not only to survive – but thrive – in any landscape, including a downturn. This too shall pass, and you will be the stronger for it.

Opportunities In New Markets

Regardless of the current shape of the U.S. economy, luxury firms need always to consider logical steps for expansion into markets with the most growth potential**.** According to Verdict Research, luxury expenditures in the Asia-Pacific region will post annual growth in excess of 20 percent for the next five years. Europe, including Russia, should grow about 10 percent annually until 2112, just ahead of the forecasted pace in the Americas. Luxury Institute members may obtain the full report, which includes outlooks for individual companies, at a 20-percent discount by contacting Ali Mohamed at Verdict Research: alim@verdict.co.uk.

Customer Interaction Preferences

Part of managing successfully through a downturn is taking a fresh look at policies and procedures to make sure they're aligned with customer expectations. Last month, we examined customer engagement best practices in customer data management, problem resolution, returns and refunds, and maintaining consistency across sales channels. This month, we look at the importance of specific factors wealthy consumers deem to be important when interacting with a luxury brand in-person, online, via mail order, and over the telephone. The opinions are those of 832 wealthy Americans (average household income $316,000, average net worth $3.1 million) recently surveyed by the Luxury Institute, and the simplified version of their message across sales channels is consistent: "Give me all of the information I need to make an informed purchase and respect me as a human being."

Best Practices – Sales Associates

When interacting face-to-face in a luxury retail setting, a knowledgeable sales force can help create happy customers. On a 0-10 scale ("10" = most important, "0" = least important), wealthy shoppers rate knowledge of products and services 9.13, making this far and away the most important consideration on the floor. Other highly ranked practices are that the salesperson be trustworthy (8.95), polite and courteous (8.94), and that they be "considerate of my time" (8.83). Ranked high, but relatively less so: well-groomed salespeople (7.83), prompt acknowledgement by the salesperson when a customer enters the store (8.20), and an attentive and enthusiastic sales force (8.33).

Nordstrom sales associates are indisputably pleasers of the wealthy crowd. Nearly ten percent (80 out of 832) of wealthy consumers volunteer the Nordstrom name (unaided) when asked for a company with sales associates who are tops in their respective category; by comparison, 17 cite Neiman Marcus, 11 name Macy's, and 10 offer up Saks Fifth Avenue.

Best Practices – Online

Being upfront about delivery charges and making sales quick and easy to complete are key to pleasing wealthy customers online. Delivery charges that are clearly stated prior to entering personal information earn the highest (8.93) overall importance rank among online shopping considerations. Quick and easy transactions are nearly as important

(8.92). Other factors that wealthy customers care about strongly: an email notice when the order is shipped (8.75), ability to return items purchased online via mail or to retail stores (8.73), and easy order tracking (8.71). Of comparatively minor importance (6.87) is the ability to save a credit card number in the shopping cart function and that the privacy policy be easy to find on the site (7.98).

Luxury goods firms could probably learn a lot from a company that is not even a dedicated player in luxury: Amazon.com. The online retailing pioneer garners favorable mentions from 28 of the wealthy respondents for providing the best online transactions in luxury goods. Nordstrom follows with 19, and Neiman Marcus with 10.

Best Practices – Catalog Shopping

Call it a powerful backlash against junk mail. The biggest consideration for a successful luxury mail order operation has nothing to do with order fulfillment. What wealthy consumers care about ferociously (9.14) is that their address not be sold to other companies. Similar to the online experience, clearly stated delivery charges (9.00) and a quick and easy ordering process (8.90) are also crucial considerations with mail order, as are getting an order confirmation (8.86), the ability to return products through the mail or to the store (8.76), and a tracking process that's simple (8.64).

Who does mail order right? Deep roots in the catalog business continue to pay dividends for Neiman Marcus, L.L. Bean, and Nordstrom – all three earn 18 mentions from the wealthy for providing the best mail order experiences in luxury goods. Land's End gets 16, while niche household furnishings company Frontgate earns 10.

Best Practices – Telephone Customer Service

Wealthy consumers demand informed human interaction, whether it's on the retail floor or on the phone. Knowledgeable customer service representatives are the most critical factor (9.17) for the wealthy when they call a luxury firm's customer service number. A related concern, getting accurate product and service information, is almost as important at 9.10. Not calling with special offers unless given specific permission to do so (8.99) also ranks near the top, along with a small touch that resonates strongly – immediately making clear how to bypass the automated telephone menu (8.95). Customer service representatives who are polite, trustworthy, and focus on meeting the customer's needs also win high praise from the wealthy.

Over the phone, too, Nordstrom is a proven leader in service. The retailer earns mentions from 17 wealthy respondents when asked for a company that offers the best telephone service in luxury goods. American Express leads in services with 16 mentions.

Brand Status – Luxury Watches

Venerable Swiss brands convey the most prestige to wealthy consumers. Richemont's Vacheron Constantin, a 253-year old Swiss watchmaker earns the highest overall score from wealthy consumers in the 2008 Luxury Brand Status Index (LBSI) for luxury watches. Fellow Swiss makes Patek Philippe and Piaget finish a respective second and third in the field of 31 luxury watch brands. Vacheron Constantin earns praise for being "one of the best" in skeleton movements and the wealthy call its finishing "dependable" and "unique." Those surveyed for the LBSI have an average income of $789,000 and an average net worth of $15.1 million.

Brand Status – Luxury Jewelry

Still a girl's best friend, diamond specialist Harry Winston earns the highest regard from wealthy consumers when considering the prestige of jewelers. Winston takes to honors in the 2008 LBSI for the luxury jewelry category. The wealthy extol Winston's "great reputation," saying it is "the ultimate for diamond design" and give it stellar marks for quality and exclusivity. ." Buccellati earned the highest scores for being most unique and exclusive, and the Italian house known for its silver tied Van Cleef and Arpels for second place. London-based Graff finishes third in overall LBSI of the 20 brands under consideration.

Brand Status – Ultra-Luxury Automobiles

Calling it the "ultimate luxury" with "superior quality and uniqueness," wealthy consumers rank Maybach highest in prestige – yet again. In just five years, the super high-end Daimler brand has become a frequent winner in Luxury Institute LBSI ultra-luxury auto rankings. Finishing a close third in overall LBSI, Rolls Royce scores highest for self-enhancement of the buyer and for its worthiness of a price premium. Bentley finishes third in the field of 12 auto brands.

Brand Status – Premium Wines

Napa Valley's Far Niente may not be a household name, but the winery does earn top honors from wealthy consumers in the 2008 LBSI premium wine category. Wealthy wine drinkers with an average income of $346,000 and an average net worth of $3.8 million rank the producer of cabernets and chardonnays ahead of 20 competing brands of high-end wine. Those surveyed like it for its "high quality" and "excellent consistency."

Bottles of Far Niente range in price from about $40 to several hundred dollars apiece, lending more anecdotal evidence to research confirming that perceptions of quality and taste can be positively affected when a customer believes that he or she is drinking expensive wine. Researchers at Stanford and Caltech used brain imaging to show that perceptions of bottle price directly affect deep neural responses, causing subjects to prefer, for example a bottle that they are told costs $45 over one that costs $5, even if they were in fact the same wine. This means that wine "snobs" are not trying just to show off when they purchase expensive wines; their bodies actually enjoy the libations more when the drinker has to pay a premium price.

Brand Status – Champagne

Recognizing the French brand's "timelessness" and "superior quality," wealthy champagne drinkers again say that Dom Pérignon is the most prestigious brand in the champagne category. Also referencing Dom's importance in helping to celebrate "momentous and special occasions," the wealthy rank it ahead of 18 other champagnes.

Brand Status – Fractional Clubs

"Great service and nice amenities" along with "excellent quality" help secure the top spot for St. Regis Grand in the Luxury Institute's first LBSI for the fractional club category. The Ritz-Carlton Club finishes a close second, tying for exclusivity, and earning the highest ranking for quality and willingness of customers to recommend it to people they care about most.

The Influence Of Affluence

For some luxury firms looking to attract the right demographic to influence others to buy their goods or services, it may be wise to eschew celebrity spokespersons and instead to focus on the "working wealthy." In a book published this month, *The Middle-Class Millionaire: The Rise of the New Rich and How They Are Changing America* (Currency/Doubleday), wealth researchers Russ Alan Prince and Lewis Schiff use research to show that the 8.4 million American households with $1 million to $10 million in net worth are driving innovation in new and interesting ways in areas such as medicine, education, real estate, transportation, luxury goods, and travel. Prince and Schiff identify these wealthy households as the new "tastemakers" for the rest of the middle class, arguing that these are the people who tend to be more active and influential in their communities. Plus, peers tend to seek out their opinions. Nearly half (45 percent) of the working wealthy are asked "very or extremely often" about luxury products and services, compared to just one percent of middle class consumers. In-depth and thoughtful research makes this a compelling read for luxury marketers who seek a better understanding of their customers.

Individual Excellence in Luxury Leadership - Yachts

Born in Australia, Jillian Montgomery became the CEO of Camper & Nicholsons International, the world's leading yacht brokerage company, in 1998. She joined CNI in 1976 when she moved to Monaco, working in accounts and advancing to financial controller by 1994. With CNI offices worldwide, Jillian divides her time between Europe and the U.S., overseeing the groups' activities, including sales, new construction, charter and yacht management.

Share with us the evolution of your career and the critical steps to your role today.

I worked my way up. This is tremendously important, as I really was "in at the start." I have watched this business evolve over the last 30 years and have been able to get a feel for areas to target in order to best market our unique products. When I started with CNI, we were known as a British company with small offices in London, Spain and the South of France. Since then, we have opened three offices in Florida, one in Newport, R.I., and one in New York, giving us eleven offices worldwide and making us truly an international company.

How has the concept of luxury evolved during your career and how does its definition affect your clients?

Unlike the evolution of most luxury products and brands, yachting remains probably the most exclusive area of luxury, even more so than private aviation. Yachting does not answer a need for fast and easy travel, but instead is dedicated to pure fun and relaxation. Clients are increasingly looking for the top-of-the-range yachts with the latest products and amenities onboard.

Thanks to exponential growth in wealth worldwide, yachting is booming and the yachts are getting bigger. While 20 years ago, a 30-meter yacht was considered a super yacht, the average size now eclipses 40-meters. Mega yachts exceed 50 meters in length and their ranks are expected to have increased threefold between 2003 and 2010.

Although the traditional yachting markets of the U.S., the Middle East and Europe remain strong, especially the U.K. and Northern Europe, a number of new markets are developing fast, from Eastern Europe to further afield. We're keeping a close watch on China and India and expect wealthy consumers there to be the big players.

Based on your experiences, what are the critical factors that luxury brands need to know to create great customer experience for high net worth consumers?

Yachting brands such as CNI need to go beyond trendsetting. They need to be unattainable for aspiring or "only affluent" customers. Examples of this can also be found in luxury real estate, contemporary art, or even private aviation. There is a delicate balance between offering affordable luxury and remaining highly exclusive. Some brands do it well, but I find that many others tend to go downscale, and that hurts a brand. Factors like uniqueness of the product and experience are crucial, and this helps explain the success of limited editions goods. You also need the highest possible quality with strong emphasis on craftsmanship and talent, creativity and originality. Don't forget a dash of the extravagant.

What have you found to be the critical skills and attributes that luxury executives need to develop to lead their companies?

It is primarily about listening to what the clients want rather than trying to sell them products and services. The right product can often sell itself. In yachting we say that there is a yacht for every owner or charter client, but it takes a lot of experience, expertise and skill to make the right match of client and yacht. Personalized service with impeccable attention to detail is essential.

What has been one major challenge in your career and how did you overcome it?

It is fair to say that the biggest challenge of my career so far was keeping the dedicated team that is CNI together through periods of dramatic change. Although we have grown rapidly during the last few years and are now publicly owned, we remain a very close-knit group. Being the only woman CEO of a major yachting company is a challenge in itself. To ensure that we deliver consistently, I keep my finger on the pulse of what is happening on both sides of the Atlantic by traveling to meet our clients, partners and staff extensively.

Using Design To Drive Customer Perceptions

Bringing together elements of industrial design and interior decorating, St Louis-based Moosylvania Marketing has coined a new term that describes the interaction of marketing and architecture: "Marketecture." It combines design savvy, experience and structure to create branded spaces that surround the consumer with connective experiences, working with brands to deliver the most effective use of space for reaching core consumers. LBSI winners from the premium spirits group – Grey Goose Vodka and Bombay Sapphire Gin – both use Moosylvania's services. For more details on their work and concepts, visit www.moosylvania.com.

Luxury On Display

In what is being dubbed the "Masters of Haute Couture Gala," luxury fashion goods will be on display in Florida and New York with extravagant festivals and dinners to accompany. Designers including Thierry Mugler, Christian Dior, Jean-Paul Gautier and Valentino will have wares on display, as will Chopard, Harry Winston, Lalique, and Hublot. The gala series kicks off at the New York Public Library, where it runs from March 10-13, moving to Villa Vizcaya in Miami from March 16-17, and wrapping up March 19-20 at the Flagler Museum in Palm Beach. Expect to see celebrities, fashion collectors and possibly even royalty.

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About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings, reviews and research institution that is the trusted and respected voice of the high net-worth consumer globally. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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