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Commentary

Luxury Looks To Packaged Goods

Gregory J. Furman, Jun 09, 2009 05:00 AM

As the recession keeps depressing, luxury brands are experiencing a wake-up call from this nasty cycle and from chastened luxury buyers.

For the first time, it seems, even brands that have succeeded by pursuing strategies of "great product plus major investments in image advertising" are forced to rethink this approach, and many are exploring tactics more like the packaged goods approach.

Why?

The "aspirational" or "symbolic" buyer -- with household incomes of \$250 to \$500K -- is gone.

And, the definition of luxury is radically changing. Words that telegraph this shift include: experience, value, bespoke, heritage, story, discrete, buzz-generating, discovery, adventure, socially conscious, politically responsible, self-enriching, connecting, family-oriented, inner-directed, simplicity, the little things, and customer in charge.

True luxury will continue to be:

- Things or services distinguished by their inherent value, or by what Stanley Marcus called "the impact of the hand" (the best the mind can imagine and the hand create), will stand out.
- Now, more than ever, great experiences are high on the value scale: rare experiences, sensually orchestrated, that the memories are so precious they are actually luxury products. These include "time out"/vacations, exotic travel, sensual comforts, etc.

Educated consumers put a premium even on things or experiences that cost little or nothing but provide immense satisfaction: good water, knowing how to tie a bow tie, dry firewood, a hot bath, first press olive oil, fresh-caught fish, a smile, beautiful wrapping paper, elegant packaging, staying in shape, afternoon tea, museum visits, time alone or with family and friends. Did I mention time -- the ultimate luxury -- alongside health?

At no point in 15 years has the "best customer" (3.2 million with liquid portfolios of \$1 million+) better mirrored Milton Friedman's view: "Nobody spends somebody else's money as carefully as he spends his own."

Focus On The Best Customer

Every thinking luxury brand is obsessed with its best customers and is focusing marketing efforts on "surprising and delighting," winning greater share of wallet, loyalty and referral.

The bottom line: This "best customer" spends more, is more loyal, refers more *if* asked and rewarded, is willing to partner, wants favored brands to succeed, forgives more readily (*if* mistakes are corrected), offers stronger word of mouth, is not price- but *value*-sensitive, is cheaper to keep than to find and becomes more profitable over time.

This best customer -- self-made, with middle-class values -- is now more curious about the best of the best, wants brands to articulate why great things/services are worth the price, and demands high-touch, sophistication, intimacy, and intelligent courting.

They are more demanding than ever and see wealth as something to be enjoyed rather than displayed; are highly cynical about advertising so demand personalized approaches; desire connoisseurship; search for the unique and memorable and want to "tell the story of a great experience," and rely on friends' recommendations, social networks and buzz instead of traditional advertising.

What Smart Luxury Brands Do

- Increasingly, marketing is seen as the president's job, not just the marketing department's. Marketing, once seen as "great product, great location and major investment in advertising," is increasingly following a packaged goods model. Advertising spends are being cut, and ***the investment targeted to niche publications like Departures, Elite Traveler, The Robb Report, and Modern Luxury.***
- Marketing is seen by the smartest brands not as a cost, but as an investment. Those who continue to spend enjoy a significant competitive advantage. Luxury Marketing Council research shows that those who invest are putting their marketing dollars toward: improving customer service; heightening the quality of interaction with best customers; investing in "third-party-testimonial generating" public relations; engaging people/employees/sales folks "on the line," making direct customer contact as strategic partners and genuinely soliciting their insights into the changing customer and marketplace; and sharing with people/employees/sales associates insights into the bottom line in ways once deemed "for top management only."

While challenges remain, the prospects for a bright new world of luxury brand success are peeking through the clouds.