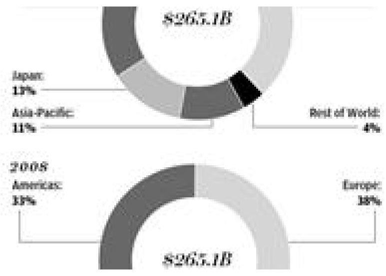
NATIONAL POST

Saturday, October 10, 2009

Presented by

High end polishes its image

Janet Whitman, Financial Post



Bain & Company, Mike Faille, National Post

Restoration Hardware Inc., the upscale home-furnishing chain, has a novel approach to coping with the recession: higher prices.

The U.S. company, which operates a handful of stores in Canada, has introduced a pricier line based on the theory that even in the worst economic downturn since the Great Depression, consumers are more willing to pay more for goods that emphasize value, craftsmanship and exclusivity.

Luxury branding experts say the idea is far from outlandish.

In the world of high-end shopping, Donald Trump and Paris Hilton-style glitz and "bling" are out. But the world's wealthy are willing to pay a bundle for goods and services they believe represent high quality and lasting value.

Putting a spotlight on the trend, sales of the British luxury car Rolls-Royce are revving up amid the downturn, while sales of Mercedes and BMW models are sputtering.

At Parisian luxury fashion brand Hermes, best-known for its leather bags that start at US$7,000, sales are up 10%, while demand for Coach's ubiquitous US$325 handbags has slumped. High-end New York City apartments may have seen their values plunge, but at Fifteen Central Park West, billed as the ultimate Manhattan luxury building, at least eight condos are reported to have sold for nearly 40% above what their owners paid for them in 2007.

Purveyors of luxury here and abroad are grappling with how to serve this new, more conscientious consumer.

"There's a lot of soul-searching and a lot of experimenting," says Milton Pedraza, chief executive of the Luxury Institute, a research firm that follows the industry. "It's a very turbulent period in the minds of executives. In the next few years, I think we're going to see some really dramatic innovations from people in the luxury industry."

Executives at Restoration Hardware came up with the idea to offer the high-end line of home furnishings almost by accident, after falling in love with a cast-aluminum searchlight lamp they saw in Australian Vogue.

The company decided to take a gamble and sell the lamp, which at US$1,600 was by no means a recession special. It was a surprise hit.

After testing a series of similarly high-end, limited-run products in the spring, the line now makes up 20% of Restoration Hardware's fall assortment.

Ian Sears, chief marketing officer of Restoration Hardware, says customers are especially interested in the value offered by the new items.

"They're finding our $3,000 dining room table for $8,000 or $10,000 somewhere else," he says. "Obviously, it's not for everybody. We're going after a very style-conscious and upscale consumer who's interested in value."

Restoration Hardware's move to tweak its product mix "is the kind of decision that a lot of high-end merchants are going to have to make," says Richard Baker, chief executive of Premium Knowledge Group, a Dallas, Tex.-based luxury-consulting firm.

"They are going to focus on the upper end and really focus on quality, service and exclusivity -- and charge more."

While the very wealthy -- those with assets of US$50-million or more -- may have lost a good chunk of their fortunes as the economy crumbled, they still have piles of cash to spend.

What's different is that many of them, particularly in the Western world, are now much more discriminating about what they buy.

"They're making sure they are getting things and experiences that really do provide them with some value," says Mr. Baker.

In another sign the world's richest still have plenty of buying power, Hermes recently unveiled a model of a 58-metre-long luxury yacht. With a price tag of as much as $155-million, the trophy vessel comes with a 25-metre swimming pool, a helicopter landing pad, a spa and a music hall, among other amenities.

Still, overall worldwide luxury sales -- which historically have been recession-proof -- are forecast to fall around 10% this year to US$225-billion, says a forecast from Boston consulting firm Bain & Co.

The decline is in large part due to the slowdown of so-called aspirational consumers. The largely mid-to upper-class buyers, a big driver of sales during the boom times, are tightening their purse strings.

The pullback is partly out of economic necessity, but also because of concern over looking extravagant while others are losing their jobs and homes.

"It's surprising how conscious really high spenders are of the misfortune of other people," says Pam Danziger, a luxury-industry consultant who recently conducted a focus group in Beverly Hills, the epicentre of conspicuous consumption. "They don't want to be ostentatious."

Now, when these aspirational consumers do buy, they're much less interested in the flashy goods and services they splurged on a few years ago.

"Now you've got to spell luxury with a 'V' and the 'V' is for value," says Ms. Danziger, who is president of Unity Marketing in Stevens, Pa. "And value doesn't mean cheap."

High-end retailers such as Saks and Neiman Marcus are learning this lesson the hard way. The 70% discounts they offered at the height of the economic crisis led many consumers to shun their brands, luxury experts say. The retailers also are asking their suppliers for more merchandise at lower price points.

"That's not a winning strategy, that's a survival strategy," says Mr. Pedraza of the Luxury Institute. "I don't think anyone who's reducing prices or offering cheaper products is looking at that as a long-term luxury strategy. The great brands are the ones like Hermes and Louis Vuitton that know how to justify their pedigree."

Not all parts of the world are embracing the new "cultural correctness" about luxury.

"In many parts of Asia, where it's absolutely new money, buying luxury is still about showing off," says Radha Chadha, author of The Cult of the Luxury Brand: Inside Asia's Love Affair with Luxury. "They may have put some of their shopping on hold because of the uncertain future, but when they do buy, especially in China where it's by and large new money, it's usually not about being discreet."

Bain & Co. predicts luxury-goods purveyors won't experience a full recovery until 2012.

It's not only luxury companies that have a big stake in how the rich spend. In the United States, consumer spending is the engine that drives 70% of the economy. Although the affluent make up only 20% of the nation's households, they account for 40% of all spending.

But the 23.9 million U.S. households with annual incomes topping US$100,000 are definitely spending less these days, this year's Mendelsohn Affluent Survey says.

Over the next 12 months, 6.3 million of the United States' most wealthy plan to buy a new vehicle, down from 7.7 million last year, the survey found. About 1.8 million intend to buy a new home, compared with 2.3 million a year ago.

"Clearly, affluent consumers are less conspicuous shoppers today," says Bob Shullman, President of the international research firm Ipsos Mendelsohn. "If you read the American press, you'd think affluent consumers were going to hell in a handbasket. Maybe it's just purgatory."