

COLUMNS

Luxury brands are struggling as evidenced by their permanent discounting of products

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By A LUXURY DAILY COLUMNIST

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There is a mystique around luxury.

The wealthy enjoy luxury products and experiences. HENRYs save enough to enjoy as much luxury as they can, and the middle class likely go into debt to purchase luxury products.

Various schools of thought argue passionately about whether luxury brands should discount their products, lower MSRP or create lower-priced introductory products.

New normal

Regardless of the debate, sharp price increases became the new normal over the past two years.

For example, handbags that cost upwards of \$10,000 were reserved for Herms. However, now a consumer can easily spend \$10,000 and more at Louis Vuitton or Chanel.

With the economy in its current shape, many luxury brands such as Burberry and Saint Laurent slashed their prices. These price cuts seem to be permanent and are not discounts or specials.

According to the *Wall Street Journal*, these companies are focusing on the middle class, 330 million of whom spend less than \$2,180 per year on luxury products. According to the *WSJ*, they account for more than 50 percent of all luxury products and that American consumers who make less than \$50,000 a year have reduced spending most sharply.

On average, Burberry and Saint Laurent hiked their prices in lock step with their counterparts at Louis Vuitton and Chanel.

Herms also increased their prices but kept on their trend of annual, smaller price increases. Burberry, however, raised their prices by more than 50 percent.

The resulting market spend loss for them and others may be as a result of their price increased, customer's declining disposable income, the poor economy and other factors. Regardless, luxury brands must take a position.

The position of Burberry and Saint Laurent is a seemingly permanent price reduction. Several questions remain:

- Is the price reduction sufficient or will there be additional decreases?
- If further price drops occur will consumers see the brands as luxury brands?
- Even without further price drops, what does the consumer now think of these brands now that the delta between their prices and other luxury brand prices is greater.
- Which consumers are these brands targeting and do these brands desire to grow with these customers or is this a play only for the middle class?
- At what price point will these brands be dubbed as prestige rather than luxury?

Regardless, consumers vote with their wallets. Let's see what tomorrow brings.

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