National Jeweler June 16, 2005 p. 1

# Luxury market cruises through shaky economy

By Beth Braverman

NEW YORK—As rising gas prices, lingering concern over the conflict in Iraq and a shaky stock market have begun to slow consumer spending overall, one segment of the market keeps chugging along: the luxury market.

High-end retailers have managed to dart past the other retail sectors over the last few years, and analysts say they show no sign of slipping back. That's good news for luxury retailers like Mayors Jewelers, Tiffany & Co., Neiman Marcus and LVMH Moët Hennessy Louis Vuitton, all of which have

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posted extraordinary growth for 2004 and in the first few months of 2005.

A number of factors contribute to the growing market for luxury goods, including more dual-income households; baby boomers reaching their prime earning age, yet opting not to retire; and an increased social emphasis on the prestige of luxury brands.

"The rich are getting richer, and they're willing to spend the best money on the best stuff," says Greg Furman, founder and chairman of the Luxury Marketing Council.

Analysts estimate that the luxury market amounts to between $400 billion and $525 billion annually. With a growth rate of 15 percent per year, it is expected to reach $1 trillion by 2010. Even more vital to retailers is that the most affluent consumers remain insulated from economic ups and downs.

"During the last recession, the new luxury market grew unscathed," says Michael Silverstein, who co-wrote *Trading Up* and is senior vice president with Boston Consulting Group. "The consumers fueling this purchase wave were not hurt much during the recession. They experienced slight loss of equity wealth, but their biggest assets—their homes—continued to appreciate. We believe a moderate recession will not hurt the growth of new luxury goods. It's quite recession-proof."

Once tapped into, the luxury market's buying power is nearly limitless, says Furman, and price is far less an issue than quality for the most affluent consumers.

"One cannot underestimate the depth of pocket of one's own consumer," he says.

By net worth, the top 10 percent of households earn 40 percent of the income in the United States says Ron Kurtz, a senior partner at the American Affluence Research Center. And, as baby boomers reach their 50s and 60s, their spending power will grow as their children become independent and the boomers find more time and money available for leisure.

"It's an attractive market because of its spending power, and it has an orientation to stay in style and buy for quality," Kurtz adds.

### Skip the hard sell

In addition to quality, luxury consumers seek one important ingredient when shopping: a good experience. This means informative sales representatives, a comfortable retail environment and a special relationship with the customer.

"Customer service is so important," Kurtz says of luxury shoppers. "Product knowledge is important and, in the jewelry industry, credibility is very important...They don't appreciate the hard sell. They tend to be more knowledgeable shoppers and have confidence. Word-of-mouth is very important to this group."

The demand for quality above all else has led to an "unprecedented" demand for platinum jewelry in the designer and bridal fields, says Huw Daniel, president of Platinum Guild International-USA.

"When it comes to a significant purchase, consumers are prepared to pay more and trade up," he says. "Don't judge down your consumer. Offer them the top first and then, if that's too expensive, trade down."

The idea of "trading up" was the focus of a 2003 book of the same name that Silverstein and Neil Fiske wrote, exploring how middle-market consumers have shown a growing interest in luxury goods, along with a greater ability to buy them. These shoppers have added another boon to the luxury market, as the rise of discount stores like Wal-Mart and Target have freed up income they can use to splurge on luxury items.

Silverstein says the growth of the discount market has saved middle class consumers almost $100 billion that they can now spend on luxury goods and education.

For the aspirational consumer, luxury brands take on a deeper meaning, as these shoppers are more likely than others to buy on the basis of name alone.

"In America, we don't have a lot of family pedigree, so when we get wealth, we look to our brands to give us social status and a sense of self-worth," says Milton Pedraza, chief executive officer of the Luxury Institute.

Luxury fashion and car brands have capitalized on their name recognition, but the jewelry industry has lagged in this respect.

"Brand is important to invest in, and that's one of the things jewelry is missing," says Pam Danziger, founder of luxury marketing firm Unity Marketing and author of *Let them Eat Cake: Marketing Luxury to the Masses as well as the Classes*. "Jewelry manufacturers should invest in branding."

Such investments have led to the success of brands like David Yurman, Cartier, Tiffany & Co., Van Cleef & Arpels, analysts say. Retailers can capitalize on that success by investing in co-op advertising, and playing up the well-known brands that they carry in their store, says Danziger.