

The Luxury Brand market today faces continued challenges as Goldman Sachs indicated¹ yesterday that 2003 would see a decline of 6% in Sales compared with 2002 and a decline of 15% in earnings.

The key factor in driving this decline in sales is the drop in travel purchases

Travel purchases make up a significant proportion of total sales (33%) – for example, Japan sales by region represent 27% of sales, but sales by Japanese customers represent 40%, with the difference being travel spend. In Europe, by contrast, sales by region are much higher than sales by customers, as travel spend by non-Europeans needs to be deducted.

This is a serious issue for European based Luxury Groups. Goldman Sachs have identified that four key factors creating negative impact are SARS, terrorism, the Iraq war and the economic environment.

What drives Travel Spend?

Attractive pricing: Prices are typically lower in the country in which the brand is located. This is necessary to attract demand from the local customer base, as brands cannot charge a premium for “foreign appeal”. Duty-free shopping also makes travel shopping more attractive.

Custom: In some countries, it is the custom to bring back gifts from your holiday for friends and family. In Japan, this practice is known as Omiyage.

Greater authenticity: Many people enjoy buying a product in its local market as they believe it has more authenticity.

Higher propensity to spend: Most people are less concerned about how much money they spend when on holiday. They also tend to set a larger budget for luxury-type products.

Can tactical new media activity provide part of a solution to address the decline?

Luxury brands have not traditionally been very tactical about using new media to communicate their brand values let alone in driving business (see PSFK paper on *Sustainability and keeping the luxury brand promise using eCommunication*). In their paper Goldman Sachs identify that the existing business development strategies which luxury brands are following may provide the anchors needed to address the decline:

- Expanding the local focus
- Moving into new markets
- Shifting product mix
- Diversification into new segments / New brands acquisition

PSFK would argue that new media should play a vital role in supporting these strategies especially during a market downturn where tactical new media activity provides the possibility of testing new markets and new product segments without the time and financial investment traditional methods require.

¹ Source of data for this paper: Goldman Sachs European Equity Research: “Four Horsemen” dent travel flows. May 7, 2003

Expanding the local focus

Over the last five years luxury brands have expanded their local store networks to focus on local clientele. Tactical eCommunications exercises can provide support two key ways:

1. Supporting the local store(s)
With the development of local customer databases which feed into national and international customer databases the luxury brands would populate their database with information gathered directly from the customers. This data would then be used to drive eCommunication and below the line campaigns at a local and international level.
2. Supporting key local influencers
Supporting key influencers: It will be important to keep luxury products front of mind in the market and it is therefore essential to keep a dialogue with key local influencers such as journalists, editors and stylists. Luxury brands could email electronic press kits to support PR and advertising activity.

Moving Into New Markets

Where the brand has little or no local presence or is scaling back expansion plans (e.g. Dunhill's plans for the US market), eCommunications should be used to both seed and enter markets:

1. Seeding the market
Local tactical marketing activity can be used to identify consumer segments and local market partners in order to gather data and test brand propositions prior to market entry.
2. Entering the market
Local internet sites can provide selling opportunities. Specially designed website can showcase product in the style the local culture dictates (e.g. Japan and Chinese may favour gift sites). A proprietary or partner-driven ecommerce system could support direct sales to the local customers.

A shift in product mix

Leather goods are naturally a key category for travellers and this sector has seen a significant downturn in sales. Luxury brands have diversified their product offering to watches, apparel and accessories. In order to support this expanding product range a Luxury Brand could either support local online dealers or launch their own special microsities to sell particular brand lines. The main benefit of sales coming from the understanding which is generated about which product line sells that can be fed back into the store product supply chain. (Although only through proper segmentation and understanding of the online customer is this possible) PSFK questions if the eCommerce purchaser is the same as the store purchaser.

Diversification into new segments

Luxury groups have been adding new product categories to achieve greater diversification and reduce risk (such as cosmetics) and to capitalise on growth opportunities (such as jewellery). Taking advantage of this diversity by creating a cross-group sales programme through the web. The luxury group could target customer segments by, say, lifestage to lifestyle with a range of products from their family through email marketing.

About PSFK

PSFK provides eCommunication consultancy services for luxury brands and have developed a framework for the formulation of marketing led strategies taking into account the complex and delicate relationships that luxury brands have with both market influencers, marketing partners and their customers.

Prior to establishing PSFK the founders Piers Fawkes and Simon King concepted and led eCommunication strategies for a number of international consumer brands including Georgio Beverly Hills and Hugo Boss fragrances.

For more information please visit our website at www.psfk.com