



BusinessWeek

June 1, 2009
New York, NY
Circulation: 935,820

BusinessWeek

Dreaming of Luxury Sales Amid Recession

Consumer spending on luxury goods has plunged. So why are some purveyors of high-end goods betting big?

By Christopher Palmeri

Fashion entrepreneur Hanna Rochelle Schmieder was experiencing her own market meltdown last fall. The clothing boutiques to which she sold her line of colorful scarves and T-shirts embellished with song lyrics were shutting down, slashing orders, or asking for extended payment terms that her small business, Lyric Culture, couldn't afford to meet. So did Schmieder fold her tent? To the contrary: The founder of the three-year-old Los Angeles-based company pitched to retail giant Bloomingdale's (M). It worked. Suddenly, like a small-town singer picked for American Idol, Schmieder had a shot at stardom.

In late May, Schmieder began rolling out her clothes in Bloomingdale's stores across the country. The line -- T-shirts start at \$63, hooded sweatshirts at \$150 -- will be featured in exclusive Lyric Culture areas, decorated with album covers and Gibson guitars. Schmieder thinks her clothes, which feature song titles such as "Give Peace a Chance" and "All You Need Is Love," will appeal to customers in these troubled times. "People are looking for something positive,



The True Spirit of Tequila
www.partidatequila.com





uplifting," she says. "There's always tons of opportunity when there's chaos."

As the economy reels, the luxury retail business is looking pretty chaotic. Tiffany & Co. (TIF) was just the latest high-end brand to take a hit, reporting on May 29 that its U.S. sales fell 32% in the first quarter. The day before that, in a clear sign of the times, ritzy toy [seller](#) FAO Schwarz said it would be acquired by discount chain Toys R Us. On May 27, Polo Ralph Lauren (RL) said it had taken a \$48 million charge in the fourth quarter to cover layoffs and store closings. The consulting firm Bain & Co. expects worldwide sales of luxury goods to fall as much as 20% in the first half of this year. "Luxury shoppers are spending less, traveling less, and feeling less confident," says Bain partner Claudia D'Arpizio.

Why the upsurge? Follow the money

So why are some high-end entrepreneurs doubling down on their bets? How can anyone think of opening a new \$2.4 billion resort -- as Lawrence Ho and James Packer will do with their City of Dreams casino in Macau on Monday, June 1 -- or any of the new fashion boutiques and exclusive restaurants that are still popping up in Miami and New York?

Partly it's explained by the old line from bank robber William "Willie" Sutton: You go where the money is -- or in this case, what's left of it. Some of the activity also reflects the endless optimism of entrepreneurs. After all, luxury ventures are also closing down every day, with less fanfare.



The True Spirit of Tequila
www.partidatequila.com





But a number of purveyors of higher-end goods also believe the recession offers fresh opportunities as customers rethink their brand loyalties. This means businesses must take bigger risks, accept lower returns -- even eat some losses. But particularly for small companies with little to lose, expanding now may offer the best chance at longer-term survival.

"Many brands are trying to figure out what's next, how do I reinvent myself, how can I serve the people that can afford me?" says Milton Pedraza, chief executive of the Luxury Institute, a consulting firm. "There's a lot of soul-searching going on." Adds customer researcher Pam Danzinger: "When the recession ends, there will still be some fundamental changes. The luxury consumer is off the treadmill now. They're thinking about 'what do I need, what do I really want?'"

lux growth: "We won't cut corners"

Some manufacturers are continuing to introduce top-shelf products, down economy or not. In December, Gary Shansby, founder of high-end spirits label Partida Tequila, unveiled his most expensive offering yet, the \$350-a-bottle Extra Anejo. The San Francisco-based entrepreneur admits he won't make any profit on sales of the new product itself, but the hand-blown glass bottle serves as a calling card for the 20 bartenders he's hired as salespeople in the largest tequila markets in the U.S.

Shansby says sales at his eight-year-old company doubled in California and are up 11% in Las Vegas in the past year. "A mistake some brands



The True Spirit of Tequila
www.partidatequila.com





make is they reduce costs and increase price promotion," says Shansby, whose lowest-priced tequila costs \$50. "The Extra Anejo makes a statement about the brand: We won't cut corners."

Canadian transportation giant Bombardier makes high-end private jets, but these days it is heavily promoting its Jet Cards, a three-year old product that seems a better fit with budget-conscious times than the company's Flexjet fractional ownership business. Instead of spending \$560,000 on a 1/16th interest in a Learjet -- good for 50 hours a year of flight time for five years -- clients can purchase a \$53,000 card that allows them just 12 1/2 hours in the air. Jet Card sales hit a record in January, after soaring 30% last year, the company says.

Test walks and premium specials

Any high-end brand is under heightened pressure these days to prove it's worth extra money. Swiss shoe company MBT, whose thick, curved arches provide more support than typical sneakers and sandals, was just gaining a toehold in the U.S. when the economy turned. The shoes, which retail for \$250 a pair, aren't an easy sell. So the company has been providing sample shoes to retailers so customers can take them for test walks. Retailer Fleet Feet, for example, set up kiosks at the entrance to Costco (COST) stores so customers could try on a pair as they walked through the store. Mall based retailer Naturalizer (BWS) has been allowing customers who put down a deposit to take the shoes home for three days. Rebecca Kotch, vice-president of



The True Spirit of Tequila
www.partidatequila.com





marketing for MBT, says about half of the customers who took home a pair ended up buying them. "You can talk about them all day long," Kotch says of the shoes, "until you try on them on, then the light bulb goes off."

Other high-end brands are finding subtle ways of offering value. At the Montage Beverly Hills, a new \$300 million luxury hotel that opened in December, founder Alan Fuerstman isn't slashing room rates like many hoteliers. Instead he's hoping to compete with small flourishes. Book a \$595 room for two nights and you get two free spa treatments, daily breakfast, and a welcoming fruit basket. Upgrade to an \$800-a-night suite and you get your choice of Mercedes cars to tool around town in.

Fuerstman says the average occupancy rate at Beverly Hills hotels has fallen from 80% to 50% in the past year. But he's pleased that his six-month-old property is performing at least as well as his more established rivals. "We're not worried about a few tough months," says Fuerstman, whose [financial](#) backer is eBay (EBAY) founder Pierre Omidyar. "A hotel like this was built for generations."

Copyright © 2009 The McGraw-Hill Companies Inc. All rights reserved.



The True Spirit of Tequila
www.partidatequila.com

