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Time to Get Classy: Picking A Winning Luxury Brand

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Now comes the tough part.

The latest batch of monthly retail sales reports showed steep sales declines for high-end retailers like **Saks** [**SKS 6.01 0.14 (+2.39%)**] and **Nordstrom** [**JWN 29.27 -0.31 (-1.05%)**], but with signs the economy is beginning to turn around, it will pay for luxury brands to hold their ground.

As the recession eases and it becomes less painful for consumers to part with their cash, brands that maintained a prestigious image through the downturn will perform stronger than their counterparts who slashed prices.

"The biggest mistake a luxury brand marketer can make in an economic downturn is to abandon the premium brand positioning," said Gary Shansby, the CEO of Partida Tequila who has developed and marketed brands such as Vitamin Water and Famous Amos Cookies. "This will provide short-term sales relief but ultimately doom the brand."

Once a brand lowers its price, there is no going back up market, Shansby said. So when high-end retailers like **Lacoste**, which announced that it will lower prices on some of its signature items in the upcoming seasons, they dilute the value of their brand.

Retailers like **Neiman Marcus**, Saks and **Tiffany** [**TIF 35.94 -0.03 (-0.08%)**] have used more undercover methods to push out items, such as issuing invitations for in-store sales and holding two-hour online sales for select customers only. Brands such as **Dolce & Gabbana** and **Calvin Klein** have used **Gilt.com**, a members-only Web site that offers discounts of up to 70 percent on



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luxury items for only 36 hours.

By doing so, they've depleted excess inventory without devaluing their brand as badly. But no matter how it's done, cutting prices will always negatively affect a premium brand, Shansby said.

"If [the price is] not high for awhile, or it's on a special, then the perception is subtly, 'How can they do that? Maybe it's not that good,'" he said.

Coach [COH 29.46 0.52 (+1.8%)] is one luxury retailer that has handled the recession well, because instead of cutting prices on its traditional handbags, it introduced the "Poppy" collection — a contemporary line with lower opening price points, said Kimberly Greenberger, a retail analyst for Citigroup.

Although creating lower entry points sometimes has a negative effect on a brand's reputation, a decrease this modest — one that maintains prices similar to other luxury brands — most likely won't cause a decline in Coach's status, analysts said. Whereas the average price for a Coach bag through December 2008 was around \$340, the average price on Poppy bags will be between \$235 and \$240, according to Citigroup.

"It's alright to migrate price a little, [and] it's OK to appeal to consumers a little differently than you used to," said David Schick, a retail analyst at Stifel Nicolaus. "It's OK to adapt to the new norm."

Schick told CNBC he also expects Tiffany to perform strongly in the post-recession economy, pointing to its survival through other tough environments for high-end retail, including the Great Depression and both World Wars.

Although Tiffany reported a net sales decrease of about 16 percent in the most recent quarter, its stock has shot up above \$35 since hitting a bottom near \$17 in March. Similarly, Coach shares have soared toward \$30 after hitting a 2009 low near \$12, and on Tuesday, Bank of America-Merrill Lynch upgraded the designer handbag maker's status to "buy".

And despite the sales declines in Saks and Nordstrom, their shares are up significantly on the year.

"Marketers must learn that the growth path to success is not a straight line, and variances occur along the journey of life," Shansby said. "Brands that discount, offer lower 'deals' and change their



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direction for temporary gain will succumb to a form of suicide."

Ultra-luxury brands, such as **Chanel** and **Gucci**, will likely bounce back quicker than affordable luxury because they faced such a severe drop, Shick said. What's more, buyers of affordable luxury range among a wider economic spectrum, so their return to high-end spending will be on a more case-by-case basis. But in the long-term, affordable luxury brands that offer high-quality products will have more staying power, Greenberger said.

"We think value and expecting more out of every dollar that consumers spend is here to stay," she said. "Coach, given the heritage of quality and durability coupled with the more recent push into better design and greater innovation, we think does absolutely fit into the sweet spot of what Americans are likely to look for in their products going forward."



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