

## CHAPTER 1: THE LUXURY DROUGHT

### *Businesses Serving the Luxury Market Are Experiencing a Luxury Drought*

The luxury goods and services market is experiencing an unprecedented period of declining demand and revenues. The total size of the global luxury goods market was estimated to be about \$225.2 billion in 2008, but due to the worldwide economic crisis it is expected to decline by 10 percent in 2009, according to Bain & Company. This contraction in the luxury market follows years of dynamic growth. For example, the global luxury market grew 9 percent in 2006 and 6.5 percent in 2007.



***"Nothing will be the same again. It would be illusory to think it will be the same again." -- Bernard Arnault, LVMH Moet Hennessey Louis Vuitton Chairman***

This decline in fortunes in the luxury sector is having an unprecedented impact on the U.S. economy overall. That is because the affluent households in the U.S. economy – defined as the top 20 percent of households based upon income -- are its 'heavy lifters' in terms of consumer spending. These 24 millions households account for a disproportionate share of the entire economy's consumer spending. The affluent make up only 20 percent of U.S. households, but account for about 40 percent of total consumer spending, based upon Bureau of Labor Statistics Consumer Expenditure Survey.

American affluents have been hard hit by the current recession and as a result are changing their luxury lifestyles. They have sharply reduced their spending on purchases both big and small, but most especially they have withheld spending on purchases deemed luxurious and not needed. In a recent Unity Marketing's quarterly survey of over 1,000 luxury consumers nearly two-thirds report that their personal financial situation has declined in the current economic crisis (see Figure 1). This has caused a dramatic cut back in terms of how much people spend on luxuries. This shift in affluent's priorities is having significant impact across all categories of luxury goods and services. It is the rare luxury brand which is weathering the current 'luxury drought' without feeling the pain.

## STUDY'S OBJECTIVES: HOW LUXURY CONSUMERS HAVE CHANGED IN THE CURRENT ECONOMY

*How are their attitudes, motivations and aspirations as luxury consumers changed in the face of the recession?*

The primary objective of this report is to understand how the current recession is impacting the luxury shopper. It examines both luxury consumers attitudes directly related to the current economic crisis in particular, as well as their overall feelings, attitudes and motivations that drive them to pursue a luxury lifestyle in general. The goal is to understand how the affluent consumers' mindset and psychology is making over the luxury market and creating a new normal for luxury marketers in the future.

Specifically, the research goals of this study are to:

- Understand what luxury means to affluent shoppers today and whether their concept of luxury has changed since the recession began;



- Explore consumers' perception of their favorite luxury brands and whether they are trading down to less expensive brands;
- Define what 'value' means in the consumers' shopping psychology and how affluents interpret 'value' when considering a particular purchase;
- Understand how sale prices and discounts influence luxury consumers in purchases of both luxury goods and services
- Learn how the recession is changing these luxury consumers' lifestyles;
- Compare luxury consumers' overall attitudes about their luxury lifestyles today with how they felt in 2007, prior to the recession and economic crisis; and
- Identify the personalities that make up the current luxury market; and
- What the changes in luxury consumers' attitudes and motivations mean for the future of the luxury market.

## **Qualitative and quantitative research methodologies**

This research investigation included both qualitative and quantitative research methodologies. A series of focus groups were held in Beverly Hills, California in March 2009 among highly affluent and highly-engaged luxury consumers to discuss how the recession had impacted their luxury lifestyles. Focus groups were held with both men and women consumers, with an average age of 42.3 years and an average income of \$239,100 among the married respondents and \$150,000 among those who were single. A detailed report of the complete focus group findings are available separately upon request.

Insights and hypotheses arising from the focus groups were then translated into questions and attitudes statements that were asked in the first and second quarter 2009 luxury tracking surveys among 2,049 luxury consumers (average income \$196,974; male 39 percent/female 61 percent; average age 45.7 years, with 62 percent of the sample over 40 years old and 38 percent 40 years and under).

The following report provides an analysis of the quantitative survey findings and highlights of comments gleaned from the focus groups.