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How can luxury brands win in a hyper-competitive market?

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Government bureaucrats have been busy over the last week releasing the latest economic data. They gave a dismal view of the first-quarter 2017 GDP, reporting an advance of only 0.7 percent, following an increase of 2.1 percent in fourth-quarter 2016. Most economists expect the GDP to grow at a faster pace through the rest of the year, as it did in 2016 when in the first quarter 2016 it rose only 0.8 percent over fourth-quarter 2015.

And in more sobering news, personal disposable income rose only 1 percent, the worst showing since fourth-quarter 2013. This is the measure of personal income available for spending after taxes are paid, and it is not a measure of wealth. Yet it means that American consumers did not see their cash on hand to fund day-to-day spending rise as fast as it has done since the beginning of 2014.

Since the bulk of expenditures at retail, including luxury indulgences, is funded by income, not by wealth, the picture emerging from the first-quarter results signal caution for marketers looking for organic growth in the market. It means marketers are going to have to fight harder to meet the numbers in their sales plans. They must valiantly fight the competition to get ahead. It forecasts a hyper-competitive market for the rest of 2017. So the question is

How can luxury brands win in a hyper-competitive market?
Sergio Zyman, in his book "The End of Marketing as We Know It," defined the essential five goals of marketing as "selling more stuff to more people more often for more money more efficiently." The same five elements are also essential for growing a business:

In the best possible world, businesses can build on all five to generate growth and profits. But rarely does a marketer enjoy such a business environment. Rather, marketers have to build out on one or two of these specific goals to make up for short fall in the others.

In the current luxury market, I am afraid, we face endemic challenges in all these factors. Let us break them down:

More customers
While the wealthy with cash available to spend on luxury are getting wealthier, they are a very small segment of the

overall population, roughly the top 2 percent to 3 percent based on income. The numbers of the mass-affluent HENRYs (high-earners-not-rich-yet) are growing, but they simply do not have the discretionary income to make luxury more than an occasional indulgence.

More purchases
Individual brands and retailers face a marketplace where capturing the attention of potential customers with money to spend is extremely hard. The marketplace has fragmented, even fractured. Effective paths to market are blurred. Potential customers have too much choice and too many distractions. Marketers lack an effective way to entice shoppers to make even that first purchase, not to mention more purchases. Brand loyalty is all but forgotten.

More spending
Luxury brands have addressed this specifically by raising prices. But that can work only so long before the customers push back. And today they are pushing back hard, since new competitors with new pricing structures and new value propositions offer the same or near-comparable quality for less. Luxury brands have reached a tipping point where just increasing the asking price does not translate into more revenues.

More frequent purchases
Dream on, in the face of all these other factors. If a marketer cannot attract a customer in the first place, how can they expect to gain greater frequency of purchase?

More efficiency
Marketers have a herculean task today to attract new customers and entice them to spend. While the marketers' toolbox has grown with the advent of Internet marketing, social media and all the rest, they have a confusing array of options where to invest their resources to maximum effect. Sadly, just like the market place for luxury has fractured, so too has the media where marketing dollars are invested. Few marketers find they are getting sufficient return on investment, let alone any efficiency to get more for less.

It all boils down to an intensely competitive environment, complicated by the disruptive new competitors emerging offering luxury based upon a new value proposition: the best does not have to cost the most.

What is needed now: Competitive intelligence
With organic growth prospects slim in the luxury market this year, luxury brands' primary strategy is focused on beating the competition. That requires not just identifying the direct competitive set, complicated by the fact that new brands are emerging overnight mostly on the Internet.

But marketers must also look horizontally across the entire landscape of consumer expenditures, since many luxury goods marketers, in particular, are battling against marketers offering luxury experiences. Affluent customers increasingly are making do with the things they already have and indulging on experiences that offer a better return for their investment. It calls on marketers to do a thorough, in-depth competitive assessment.

A new study, "The State of Luxury 2017: The Insider View," is a powerful source of competitive intelligence revealing how other luxury marketers assess the current market and strategies that they are using to combat the challenges.

The competitive landscape for luxury has changed dramatically over the years. The industry started with a number of small, independent, privately held companies managed under the guidance and direction of a designer, artisan or craftsman who knew from up close and personal contact exactly what their customers wanted.

Then the big multinational corporations took over, with appropriately large marketing budgets and legions of professional business managers that exercised huge control of the luxury industry. Deloitte reports that, out of the $222 billion of luxury goods sales made by the top 100 companies in 2014, nearly one-half (47.9 percent) of the total were captured by only 10 companies.

But despite the marketing prowess of the major luxury companies, a growing list of new competitors is emerging that are taking advantage of the pace of change in the marketplace, while more tradition-bound companies remain fixed in the past, as this luxury insider says, "Too many traditional luxury companies are mired in the past."

Address concerns
The State of the Luxury study testifies to the recent emergence of new entrants to the luxury market, with a majority of luxury goods and services marketers surveyed having started in the luxury market since 2000, and the survey average being a mere 31 years in the luxury business.

But it is not the sheer numbers of new competitors that troubles many, but the way those competitors are stealing business, through unfair price competition, "Increased competition, changing consumer habits and price competition will continue to erode the value of luxury brands."

Another expresses this concern:

"Pressure to lower prices to increase volume; competition from lower priced mass-luxury' brands which are destroying value in the category."

Another says:

"Competition with mid-price lines and helping customer distinguish and identify the value of luxury item."

And another:

"Increased competition who like to knock off our designs and cut corners to make them cheaper. Of course this has been an issue with luxury brands for many years but it is getting worse in my opinion or perhaps the consumer is willing to settle for less quality if they save money more so now than before?"

The question, as this insider expresses it, is, "Too many brands, social media overloading consumers, how do you keep and grow your client base?"

THE STATE OF LUXURY report unravels seven key trends shaping the future of the luxury market based upon insights gleaned from more than 600 industry insiders. The survey results reveal that the past year has been a challenging one for luxury businesses. Yet the executives surveyed believe their companies have strategies to respond to the shifts in the market that will enable them to overcome the headwinds they have faced.

The insiders have ambitious goals for 2017 and expect to do better over the next 12 months. Time will tell.

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