

Capitalize on Affordable Luxuries

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The scenario: Over-leveraged consumers have less disposable income now than they have in past recessions.

The tactic: Offer affordable and inconspicuous products that will give consumers a lift without making them feel guilty.

During recessions, consumers tend to give up big indulgences and turn to smaller ones for a boost. A well-worn bit of business history shows that sales of little luxuries tend to go up as the Dow goes down. During the Depression, the founders of **Revlon** staked their new company's fortunes on nail polish — and **cleared \$1 million in sales in six years**. Just before the downturn of 1991–92, **Gillette came out with the high-end Sensor line of razors**, and wound up **capturing 17 percent of the U.S. men's shaving market in three years**. After September 11, when **Estee Lauder** saw lipstick sales grow broadly across all its brands, chairman Leonard Lauder posited the "**lipstick theory**," which says increased lipstick sales can act as an indicator of economic downturn.

But in the current recession, says Suzanne Shu, a professor at UCLA's Anderson School of Management, even those who have spending money aren't keen to flaunt it. Shu blames this new modesty in part for recent financial disappointments at Starbucks, which just posted a 97 percent drop in fourth-quarter profits. "Brands like that may suffer a little more because they become a conspicuous luxury. If I'm walking around with that cup, everyone knows I spent 3 or 4 dollars at Starbucks this morning," she says. Brands with less lofty associations, however, may be ascendant. In the third quarter of 2008, beer giant Anheuser-Busch's sales rose 6.6 percent, to \$4.92 billion, while most other companies saw a decline in sales.

So what sorts of affordable luxuries should businesses be looking at most closely? The winners will likely fall into three basic categories:

1. Trade-downs. What economists call an inferior good, consumers call a bargain. Can't afford Cold Stone for dessert? Perhaps McDonald's soft serve, at half the price, will do. "We make these little exchanges in our mind — I'm going to have hamburger instead of steak," says Kit Yarrow, a professor of business psychology at San Francisco's Golden Gate University. Yarrow says that once consumers have traded down, they're usually satisfied with the cheaper purchase; hence, marketers shouldn't be afraid to emphasize bargains. Thrift-store sales are booming: The rest of the economy should take note.

2. Morale boosters. According to Yarrow, consumers will always favor an experiential pleasure over the simple thrill of ownership, if the price is right. Alcohol sales, for instance, are up because sipping cocktails at a bar carries a social dimension that consumers don't want to lose. The same goes for movies. Audiences still flock to the cinema when money is tight; 1939's *Gone With the Wind* remains **history's biggest blockbuster**. "You're spending a certain amount of money to be in an environment

that transports you," Yarrow says. "You're in a special place, and you're with someone else. That's bang for your buck."

Shu suggests that people will be most interested in buying inconspicuous pleasures, rather than pricey status symbols. "Cocooning is about to come back into fashion," she says. "People want to stay home and do their consumption of luxuries in private." And bigger luxuries will still be relevant for special occasions — a couple will still buy that \$25 bottle of wine for their wedding anniversary, if not for every day, says Shu.

3. Gender plays. In general, men and women tend to buy indulgences differently — an array of small items for her, something big for him. The pattern still holds during a downturn. Today's woman browses the same sale rack but sets her sights on smaller, cheaper purchases; men still want that Nintendo Wii but work harder to justify the \$250 price tag, rationalizing the game system as a replacement for gym memberships and movie tickets, as Yarrow explains. Shu cautions, however, that scrimping is still foremost on everyone's mind, male and female alike. "[People] are looking around and feeling the social pressure to cut back," she says.