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Brands Bracing for a Slowdown

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The better bauble bubble could be ready to burst — or at least deflate a little and cause a shakeout of brands.

After years where accessories helped make unknown designers household names and boosted sales in otherwise down times for fashion, industry analysts predict the turbulent U.S. economy is likely to result in a slowdown in the category, from midmarket to super luxury. But industry executives said in the long run the strong will survive and creativity will flourish.

"When you look back to the Seventies, if we do go into a more profound recession, there will be a cultural shift where displaying wealth is not socially acceptable, but that takes time," said Suzanne Hader, principal of 400twin Luxury Brand Consulting. "For that aspirational segment, you're going to see the economic effects taking place. It already started this past Christmas and it will slowly creep up to the middle section of the luxury market this year."

The accessories and fine jewelry categories have been raising eyebrows in the past decade with the inception of "super luxury" and indulgent lines. The bigger-is-better bling diamond jewelry look sported by musicians such as Pharrell Williams and Sean Combs was proliferated by jewelers like Jacob & Co. and Chris Aire.

More recently, the "It" bag phenomenon rose to entirely new heights. Having a popular designer handbag in the \$1,000 price range lost its exclusivity among top luxury consumers, making way for a proliferation of exotic skin bags done in alligator, ostrich and snakeskin from big and small brands at price points above \$15,000. Some designers such as Chanel and Hermès even added diamonds and gold to the bag equation. Eyewear makers also have begun to include precious metals and gemstones into their designs, as a point of differentiation.

Not quite a volume business, the super luxury strategy was intended to influence the upper middle class to buy items like a designer key fob or a pair of sunglasses. Due to the influx of consumers gravitating toward the category, myriad handbag and jewelry brands emerged onto the scene, while international brands such as the British brand Mulberry and Samsonite made entry in the U.S. with luxe boutiques.

"The mood isn't good for spending," said Cathy Leonhardt, managing director at Peter J. Solomon Co. "All levels of luxury spending are being affected — even the really affluent customer seems to be tightening up."

Robert Burke of Robert Burke Associates, a fashion consultancy based in New York, concurred, "Where you're going to see a big impact is the aspirational customer. The midmarket is definitely the area that's going to be most affected."

A recession is likely to lead to a shakeout of brands, which many retailers would applaud. Stores often lament on how many brands there are and that there is a lot of sameness.

"[Recession] separates the companies that should be there from the companies that shouldn't," said an executive, who requested anonymity. "There will be fallout because there are always too many brands. This is a period that really shakes the ground. Ultimately, it's good for business."

Hader believes it will be more challenging for brands that are new, or new to U.S. Coach Inc., a bellwether for the sector, contends it will thrive in this trying economic period because of its "diversified" business model.

"Accessories have a leading role in updating a woman's wardrobe," Coach chief executive officer Lew Frankfort said last week. "Even when she reduces her apparel spending, she has at the same time increased her accessories spending. But Coach is also channeling more energy into creating a broader range of smaller-size bags at "compelling entry price points."

Frankfort was one of the first industry executives to admit on record that the U.S. economy is already in a recession. He said it started last month and it probably won't be until the second half that things start to turn around, economic stimulus package regardless.

For the three months ended Dec. 29, Coach's net income climbed to \$252.3 million from \$227.5 million.

Marchon ceo Al Berg also is braced for tougher times ahead.

"The nature of the capitalist is that any perceived void will be expanded until it is overexpanded," he said. "It means that we just have to stand harder to stand out through product and pricing. Are we overbranded? Yes. Will that stop people from getting into the business? No. Better companies should be able to weather it."

In addition to producing eyewear for brands such as Michael Kors, Coach and Fendi, Marchon is bullish about acquiring new designer licenses. This year the brand will introduce Karl Lagerfeld and Pucci eyewear.

Tiffany & Co. chairman and ceo Michael J. Kowalski acknowledged sales flattened a bit in the \$1,000 to \$10,000 price range, but sees the situation as an opportunity for the 171-year-old brand.

"Traditionally, when customers face different choices in terms of consumption, they come back to familiar places and spaces," he said. "The demand may be repressed, but there is opportunity. Tiffany is about longevity."

David Yurman ceo Paul Blum said, "In a recessionary period, all segments are more challenged. That being said, there are opportunities for growth in all of those segments if you create exciting products. There's always something to compel consumers to buy, something that's going to make them feel better. It just becomes more critical and competitive to give the consumers what they want."

There is an upside, though: Burke said while the market will be tough, there still should be plenty of design innovations coming out of this period. "It's going to make designers better in general," he predicted.

"Having a really well-balanced distribution around the world is crucial," said Cartier North America president and ceo Frédéric de Narp. The company is no longer focusing on Japan and has moved its concentration to China. "You may have one continent doing well and one suffering. Asia is booming, compensating for a slowdown in Europe and America."

High jewelry, which is priced up to the millions of dollars, has been one of Cartier's profitable categories, but the brand is still keen on offering a broad product range — from \$500 to over \$5 million — in its 270 worldwide stores.

"We are accessible and we're extremely high-end, that will not change," added de Narp.

Cartier parent Compagnie Financière Richemont, which also owns Montblanc, Dunhill, IWC, Chloé and Van Cleef & Arpels, reported an 8 percent increase in third-quarter sales to 1.67 billion euros, or \$2.42 billion. But its stock hit a 52-week low last week on a poor outlook for the U.S. and Japan.

Also, concerns over the economy does not mean brands are retreating from the accessories category. For example, Oscar de la Renta is increasing its handbag offering in its own stores this year. Company ceo Alex Bolen said, "Knock on wood, we've seen no softening. We have high expectations....We think [handbags] will be very strong this year."

The crux of the problem, however, is the mood of the country.

"Although people may want to splurge here and there, they're going to splurge on experiential luxuries instead of more things," said consultant Hader. "Money that used to go into Coach handbags are going instead into little aspirational getaways with family and friends. When money gets tight, guilt becomes a factor again — one way to disarm the guilt is to share the indulgence with others."