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Despite recession talk, luxury buyers shop on

By Julia Scott, Staff Writer Article Last Updated: 03/15/2008 09:06:29 PM PDT

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As the Bargain Hunter, I try to live cheaply. I pack my lunch most weekdays, I avoid buying clothes at full price, and I save a chunk of my paycheck.

But there are certain items I don't hesitate to splurge on, such as comfortable leather shoes and an occasional massage. That makes me an "accessible" luxury customer who has traded up from mass-market retailers such as Mervyns and Target, experts say.

But with dark clouds covering the economic horizon, I'm considering scaling back my bigger-ticket items and sticking to blue-light specials.

That scares retailers that cater to low-end luxury customers like yours truly. (Ultra-luxury retailers that sell to the top 4 percent couldn't care less, but more on that later.)

At a gathering of luxury retailers earlier this month in Beverly Hills, the question on everybody's well-pampered mind was how the luxury market, from accessible to ultra, would be affected by an uncertain economy. The Luxury Summit was sponsored by the Beverly Hills Chamber of Commerce and held at the Beverly Hilton.

Why all the fuss about luxury shoppers?

They spend way more than bargain hunters.

A five-person panel moderated by Donald Straszheim, vice chairman of the investment banking firm Roth Capital Partners LLC, debated the future of the luxury retail market.

"No retailer enjoys looking at a recession coming up," said Emmanuel Perrin, CEO and president of Van Cleef & Arpels North

America. "But it's a great opportunity to make a big difference."

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Historically, Perrin pointed out, fortunes have been made during recession. And many luxury shoppers won't be hurting unless things get really bad.

Meantime, luxury retailers can set themselves apart by emphasizing their exclusivity. In other words, they should appeal to their rich core customers and not worry about how the economy is affecting regular folks like us.

The upper echelon of shoppers, the ultra-luxury set that can drop \$600,000 without blinking, want to feel the brand speaks directly - and only - to them.

"That confidence in this time of uncertainty is what people look to in a luxury brand," said Suzanne Hader, a principal at the consulting and research firm 400twin.

Retailers that lower their prices to appeal to a broader audience will see a flood of sales, but the brand will lose its stature among the creme de la creme.

Rebuilding a brand that has been diluted is possible, but it can only be done so many times. Each time you test a customer's trust - an important factor for luxury shoppers - you risk losing it.

Ultra-luxury shoppers are "willing to spend the money" but need to know they are getting quality products that the brand will stand behind, said Judith Murphy, the associate publisher of the American Express magazines Departures and Black Ink.

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What may tide over some luxury brands are overseas tourists. A weak dollar means foreign currency buys more in the States, and many tourists come just to shop. Retailers such as Macy's give foreign tourists an additional incentive - 11percent off.

Growing fortunes in China could be a boon to luxury brands, though it is too soon to tell how big of an effect the developing nation will have.

Certain brands have already seen an impact, however. The berluxury jeweler Van Cleef & Arpels Inc. recently opened a store in Macau, China, and met its sales goal for the year in less than two weeks, Perrin said.

At home, some local business owners who attended the summit said they are already feeling the pinch.

That's the case at the high-end auto rentals division of Enterprise in Los Angeles.

"Previous years, it has been really booming," said Tzuriel Avila, assistant manager of the Exotic Car Collection at Enterprise. "This year has been mellow."

Customers are still forking over \$400 a day to drive the midsize Range Rover Sport, but rentals of the two-door Cadillac XLR for \$250 a day have slowed.

Other businesses are thriving.

Mojie Amini exports anti-aging vitamin supplements to the Middle East from Woodland Hills. Business at her company, Parsmed Trading, has not slowed.

"There is a demand for this, so I don't have to do much marketing," Amini said.

The big picture for luxury retailers is less clear. Will the entire industry eventually feel the effect of a slowing economy, and if so, to what extent? It's too soon to tell, panelists agreed.

What many agreed upon at the summit was that those at the very, very top are more insulated from downturns than, say, me.

There's only so much a bargain hunter can save.

Those at the top, however, have deeper reserves, according to a survey of American Express platinum and centurion card holders. The vast majority of those big spenders don't expect the economy to affect their buying, said Murphy, the magazine publisher.

As long as the brand sticks by them.

"The luxury brands have to listen to what this customer wants," Murphy said.

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