Luxury goods

Wealth, taste and cachet at bargain prices

Clare Dowdy looks at whether ‘exclusive’ brands can be discounted without compromising their desirability as prestige items.

Discarded luxury can be an opportunity. Now, so-called “exclusive” brands sell lines off cheaply, it is often to the detriment of their carefully honed image. They need to be more clear that off-loads excess product at the end of the season without giving its positioning due consideration. As Tyler Brûlé, founder of the style bible Wallpaper, puts it, heavy discounting can play havoc with a brand’s reputation if it is “embraced by the wrong visitors.”

Lancôme launched the pitfalls of discounting on the high street to its cost in the US. Selling off merchandise cheaply seemed to be the answer to having produced too much to sell at the original price. But when wealthy consumers saw their chauffeur sporting the alligator maroon, the brand lost cachet in a flash, says Nirmala Sitaraman, professor of marketing at London Business School. Lancôme has since been reintroduced to the US market.

“When you discount a brand on a frequent basis without a good reason, such as end of season, that cheapens the brand,” says Mr. Kumar. Luxury is all about exclusivity. Once a brand becomes attainable, it is in trouble. A lot of luxury brand companies are posting losses because of that.

A Gucci keyring is within the budget of many people and Mr. Hall assures Gucci, along with Chanel and Christian Dior, of downgrading itself.

Many brands have used the factory outlet to offload end-of-line products, though that environment can seem unglamorous – one step up from a service station. But there is another way. Outside Lagado all the shopping mall Forte, where luxury goods are discounted with more luxury. This environment seems to work for both the brands and their customers. “Gucci and Prada and Ralph Lauren are all together and they love it,” says Mr. Brûlé, now CEO of creative agency Winkreative.

It works for the brands so they are far enough removed from their expensive retail outlets, where they are often sold at full price, and they appreciate the safety in numbers. A sale can also be endowed with a bit of status. Many stores put on “invitation only” sales as a way of treating their best customers and boosting profits.

Private sales act as a filter, says Sam Gradman, director at Added Value, Paris. He cites the luxury chain L’opéra, which gets a lot of its unwanted Dolce & Gabbana, Isaac Mizan and Comme des Garçons in this way.

This is a controlled environment, adding perceived value to the experience of buying at a low price. Can luxury retailers pull the same trick at a virtual mall? The order books of Yoox seems to show there is considerable appetite on the internet for cheap chic, albeit old chic.

Yoox was set up three years ago in Italy by Federico Marchetti, its chief executive, previously in mergers and acquisitions and luxury goods with Lehman Brothers. He model is straightforward: take last season’s clothes and accessories from 200 exclusive brands and sell them online at a massive discount.

The company sells to more than 50 European countries and was launched in the US last autumn. Despite having little marketing support, this is now Yoox’s fastest-growing market, already representing 10 per cent of its monthly turnover. It hit break-even in the fourth quarter of 2003 and turnover doubled to €42m (51.7m) in the first six months of 2004. Recently, it secured a further €4m in investment from Benchmark Capital, the global venture capital firm behind ecommerce operators eBay, Betfair and eBay.

Mr. Marchetti believes he avoids the most damaging discounting pitfalls through a combination of choice of merchandise, stylish presentation and careful selection of brands. As a cheaper, online-only offer, it is distancing itself from the value-added boutique experience and appealing to a different audience. These are younger, less well off consumers – two-thirds of them under 25 years old – who are being introduced to luxury brands. The website has had more than 7m visitors and more than 15,000 orders, 70 per cent of orders made by repeat business.

All this means that the brands featured on Yoox are benefiting almost as much as its customers. Costume National’s designs are stock in Barts and Harrods as well as on Yoox.

Antonio Pedale, Costume International’s general manager, is relaxed about this method of appearing online. “The Yoox channel is not competitive with our traditional channels. It accounts for less than 3 per cent of our sales, and not the previous year’s.”

Although it is discounted, Yoox keeps its end up in terms of quality. A piece is carefully selected by Marchetti and delivery is in line with the luxuriousness of the purchase. “The internet is the perfect medium,” says Mr. Marchetti, “allowing the purchase to arrive from the sky in a beautiful box.”