

FEATURES

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

Discounted luxury is an oxymoron. When so called "exclusive" brands sell lines off cheaply, it is often to the detriment of their carefully honed image. Woe betide the brand owner that off-loads excess product at the end of the season without giving its positioning due consideration. As Tyler Brülé, 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 suburbs".

Lacoste learnt 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 But when wealthy consumers saw their chauffeur sporting the alligator marquee, "the brand lost cachet and had to be withdrawn", says Nirmalya Kumar, professor of marketing at London Business School. Lacoste 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 just that, says Nic Hall, director of consumer understanding at Research International. "My definition of luxury is unattainable, or attainable only with a great deal of effort." A Gucci key-ring is within the budget of many people

and Mr Hall accuses Gucci, along with Chanel and Christian Dior, of downgrading itself.

Many brands have used the factory outlet to off-load end-of-line products, though that environment can seem unglamorous - one step up from a service station.

But there is another way. Outside Lugano sits the

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shopping mall Foxtown, where luxury rubs shoulders 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 Brülé, now CEO of creative agency Winkreative.

It works for the brands as they are far enough removed from their expensive central outlets, where they are on sale 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 press contacts.

"Private sales act as a filter," says Sam Grange, associate director at Added Value, Paris. He cites the luxury chain L'Éclairer, which gets shot of its unwanted Dolce & Gabbana,

Issey Miyake 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 seem 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. Its model is straightforward: take last season's clothes and accessories from 300 exclusive brands and sell them online at a massive discount.

The company sells to more than 15 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 2002 and turnover doubled to €10m (\$11.7m) in the first six months of 2003. Recently, it secured a further €6.5m investment from Benchmark Capital, the global venture capital firm behind e-commerce operators eBay, Betfair and eBags.

Mr Marchetti believes he avoids the most damaging discounting pitfalls through a combination of choice of medium, stylish presentation and careful selection of merchandise. As a cheaper, online-only offer, it is distancing itself from the value-added boutique experience and appealing to a different audience. These



The high street is the wrong venue for luxury chains wishing to sell off old lines at low prices Jim Wirtle

younger, less well off consumers - two-thirds of them under 29 years old - are being introduced to luxury brands. The website has had more than 7m visitors and more than 70,000 orders, 70 per cent from repeat business.

All this means that the brands featured on Yoox are benefiting almost as much as its customers. Costume National's designs are

stocked in Barneys and Harrods as well as on Yoox.

Antonio Padula, 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 anyway it's the previous year's lines." Although it is discounted,

Yoox keeps its end up in terms of quality of experience. The website is stylish and does not scream discount, the pieces are 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."