

## Affluent shoppers may bring about recession's end

By: Bonna Johnson

Published: September 27, 2009

On one hand, Kim Koster is putting off buying a new SUV for a year in hopes that the economy improves. On the other, the recession hasn't stopped the Brentwood mom from buying luxury brands like Coach and road tripping to Atlanta to shop at Nordstrom.

That split personality illustrates a key economic point. A financial turnaround for the country may be driven largely by affluent shoppers' attitudes and whether their desire for the good life outweighs lingering worries about money and jobs, many analysts and retailers say.

Store owners, for their part, are attempting multiple strategies — from redesigning stores to slashing prices to, yes, even raising prices — to get wealthy shoppers to open up their Birkin bags and start spending more again.

Although the affluent make up just 20 percent of the nation's households, they typically account for 40 percent of all spending, making them crucial to any kind of rebound.

But not everyone agrees that the richer classes will go back to their pre-recession levels of spending in the foreseeable future and make up for the penny-pinching rest of us who have a new-found fondness for saving rather than maxing out credit cards.

They've got the new frugality bug too, said Pam Danziger, president of <http://www.unitymarketingonline.com/> Unity Marketing and a consultant on the luxury market.

"They've definitely changed their spending habits now to live much more within their financial means," agreed Milton Pedraza, CEO of the <http://www.luxuryinstitute.com/> Luxury Institute.

The luxury market was expected to feel at least a 15 percent decline in sales the first half of this year, according to a semiannual luxury goods survey by Bain & Co. consultants.

But all is not lost for Armani and Gucci.

Another recent survey showed that concerns about the U.S. economy are easing, and optimism about the future is rising among the wealthy. They aren't buying as many cars, taking as many trips or redecorating as many rooms as they did in 2008, but conspicuous consumption isn't dead, according to the survey by <http://www.ipsosmediact.com/media/mendelsohn.aspx> Ipsos Mendelsohn, a market research firm that studies affluent consumers.

Koster said it's a matter of making choices.

"I think some people will always be able to afford and want to pay for better quality," said Koster, who had just bought two blouses from high-end retailer <http://www.jigsaw-online.com/> Jigsaw in Green Hills.

Still, the mother of a teen and pre-teen isn't immune to the pressures of the faltering economy and has pulled back on some spending.

Koster keeps an eye out for sales at her favorite high-end stores, which rarely sported "sale" signs in their front windows pre-recession, and she started trimming the coats of her Wheaten terriers instead of sending them to the groomer.

To update the kitchen she opted for less-expensive granite resurfacing rather than installing granite counters. And Koster, who once taught hearing-impaired children in Williamson County, has bartered baby-sitting a friend's toddler for minor car repairs.

## **America turns frugal**

Today, some observers with keen business insight say there's been a huge shift in consumer behavior akin to the impact of the Great Depression, which made the generation of the 1950s into feverish savers who'd make big purchases only with hard-earned cash stockpiled over years.

Recent economic statistics back up the idea that 21st-century adults may copy that conservative behavior. More Americans are paying down debt, perhaps because they're preparing for or coping with the loss of a job. Nashville-area unemployment rates are flirting with 10 percent, and the U.S. rate is even higher.

The volume of revolving credit outstanding or credit card debt has declined at double-digit annualized rates for two consecutive quarters.

Put in perspective, there have been individual months in the decades since World War II in which credit volumes actually declined but never even one full quarter of "less" before this, said economist Donald Ratajczak, a consultant and professor emeritus from Georgia State University.

"Banks are tightening credit, people are losing their jobs, and more people are becoming convinced there's a benefit to saving rather than creating more debt," Ratajczak said.

At <http://thecurtainexchange.com/>>The Curtain Exchange, a high-end drapery shop in Green Hills, owner Kip Meyer knew the nation's economic misery was affecting his customers when they started taking longer to decide on purchases.

They didn't stop buying in the past year, they just bought less, said Meyer, who also owns a store in Memphis.

"If they want to redo the living room with new rugs, a new sofa, paint the walls and do their windows, they may just do the windows and paint the walls and get the other pieces for the room later," he said.

And, instead of spending \$20,000 to buy drapes for three rooms, they may spend half as much to redo just a room or two.

## **Look for bounce-back**

The 23.9 million U.S. households with annual incomes of at least \$100,000 have cut back in the past year, but millions of them are still planning to make big expenditures, and the economy hasn't throttled major life events for many, such as getting married or bringing babies into the world, according to the 2009 Mendelsohn Affluent Survey. Nearly a third purchased fine jewelry, and a fifth purchased artwork or collectibles in the past year.

Some 12.2 million of the wealthy plan to travel abroad this year, compared with 13.6 million last year; 7.3 million plan to redecorate their homes, compared with 8.8 million last year; and 6.3 million plan to buy or lease a new vehicle, down from 7.7 million the previous year, the survey showed.

"They are poised to lead us out of the recession," said Bob Shullman, president of Ipsos Mendelsohn.

On average, the wealthy are 2.4 times more likely to buy than those in lower income groups, and when they do buy, they spend 3.7 times more, he said.

Meyer acknowledges he has seen renewed hope in many consumers recently: "We're slammed. Things have really picked up.

"You can tell that confidence is up; you can feel a switch in people."

Also, some competing stores have closed, funneling more customers to Meyer's curtain shop.

For another high-end retailer, perhaps an anomaly, buyers' appetite for luxury never diminished during the recession.

At the [Jaguar Porsche Audi Nashville showroom, where vehicles range from \\$30,000 to \\$180,000, sales are up year-over-year, General Manager James Corlew said.](http://www.jpanashville.com/index.htm?hl=en&q=Jaguar+Porsche+Audi+Nashville&btnG=Search&aq=f&oq=&aqi=)

Porsche sales at the Franklin Pike dealership are up 3 percent for the fiscal year ending July 31, while dealers nationwide averaged a 40 percent dip in sales, Corlew said. Audi sales increased 177 percent over 2008, compared with a 10 percent drop at other dealers in the country.

"I know there's a recession, but we don't talk about it here," Corlew said.

## **Discount shopping**

Like the rest of us, though, many of the wealthy are changing behavior, with 80 percent choosing to shop more often at Walmart and 82 percent at Home Depot, according to the Mendelsohn survey.

C. Dowd Ritter, chairman, president and CEO of Regions Financial Corp., said the days are gone "where we borrowed whenever we needed to make consumer purchases; we were a nation that relied heavily on plastic. We found a way to get what we wanted, and we found a way to get it today."

Now, the nation has come full circle, and frugality will become the new norm for many years, Ritter said at an economic conference in Murfreesboro last week. "For now, until at least the year 2030, I think we're going to be a nation of savers.

"Instead of Starbucks, it will be coffee at McDonald's for \$1; for Christmas it will be Target and forget about Tiffany. Vintage clothing is in, and Nordstrom is out."

High-end retailers have responded in varied ways to this mind-set, trying to get consumers to return to their chic shops with new or tweaked strategies.

For

<http://www.tiffany.com/International.aspx?origref=http%3a%2f%2fwww.google.com%2fsearch%3fhl%3den%26q%3dTiffany%2b%2526%2bCo%26btnG%3dSearch%26aq%3df%26oq%3d%26aqi%3dq10>">Tiffany & Co., that has meant an actual change in its style of doors.

At a couple of recently opened stores, it replaced its customary stainless steel entryways with glass doors to make its shops more inviting.

At the same time, the jeweler plans to stick to its no-discount policy even as <http://www.bain.com/bainweb/home.asp>">Bain & Co. says sales of jewelry and watches have declined 12 percent.

"We're in a luxury drought," Unity Marketing's Danziger said. And it's not clear that retailers know how to respond.

Handbag-maker Coach introduced a budget-friendly line, called Poppy, for instance. And high-end department store Saks went through a season of markdown madness.

"We've definitely seen a lot of discounting, and we don't think it's a good thing," said the Luxury Institute's Pedraza, who worries some brands might be tarnishing their prestige. "But maybe it's a necessary thing."

In contrast, high-end furnishings chain <http://www.restorationhardware.com/rh/index.jsp>">Restoration Hardware announced last week it is raising prices an average of 20 percent to 30 percent to punctuate its move to a higher level of craftsmanship and design.

"It's a terrible misstep," a shocked Danziger said. The era of "he who dies with the most stuff wins" is over, she said. "Spending has gone down," she said. "There is a new normal for this market."