WORK IN PROGRESS
THE RECESSION AND ITS IMPACT ON LUXURY

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EXECUTIVE SUMMARY

Pre-recession, luxury was big, bold and blingy. Now, the sector is shrinking—not only because consumers can't afford the luxe life but because attitudes toward conspicuous consumption have shifted dramatically, especially in North America and Europe. Corporate misdeeds have cast the new rich as the new villains, and their luxury lifestyles are no longer an aspirational fantasy.

Luxury manufacturers are rethinking their strategies, shifting away from fast fashion and masstige. They're returning to their roots—producing the ultimate that money can buy—and they're responding to new definitions of what luxury is, emphasizing green credentials or playing up health and wellness benefits.

While the appetite for luxury goods is waning in the developed world, however, emerging markets are just getting started. In fast-growing countries like China, India and Brazil, the new meritocracy want to show off their success, and they're doing so by embracing Western luxury brands.

Key Questions

- How has the recession affected consumer attitudes toward luxury? What is "luxury shame," and why is it relevant for marketers?
- How do prospects for the luxury industry differ between developed and emerging markets?
- How are luxury marketers responding to consumers' new appreciation for modesty?
- How can luxury brands that became commoditized regain their cachet?

Key Findings

The luxury market is in for a bumpy ride. The rich are spending significantly less, and there are far fewer of them around (high-net-worth individuals have lost $10 trillion since the financial crisis started last fall). The past six months have also ignited a populism that won't soon die down. In these times, it seems vulgar to flaunt one's financial success. So the ultra-rich are embracing a new frugality, or they're shopping more quietly.

By contrast, in developing markets, especially in the East, Old World European brands are the ultimate symbols of power and success. Luxury brands are hungrily eyeing markets like China (where Gucci saw sales soar 42 percent last year) as the new engines of growth.

Elsewhere, the muted, logo-free look is gaining traction as the standard-bearer for a new kind of luxury: subtle, long-lasting and recession-proof. Luxury shoppers are turning toward "investment" pieces, and luxury marketers are playing up quality and authenticity over novelty. Luxury is moving away from masstige, going back upmarket and beyond the reach of the masses.

The recession is also prompting consumers to redefine luxury altogether. Today it can mean spending more for products that conform to the highest sustainability standards or for things that enhance health and well-being. Rather than encouraging shoppers to "treat yourself," luxury marketers are telling them to help change the world.

Traffic on the Silk Road has hit a pothole. Not the ancient oriental trade route, but the new Silk Road that luxury makers began forging about 30 years ago—a marketing causeway to move their products into the hands of as many global citizens as possible. They looked beyond the bluebloods, bet big on the masses, and won. Aristocracy waned, meritocracy waxed, the world flattened. Everyone from hotel heiresses to Wall Street tycoons and even their plumbers was able to pay for a piece of the good life. Luxury was big, bold and blingy.

Now, thanks to the Great Recession, the traffic is drying up. Worldwide, the luxury sector saw a 20 percent year-over-year decline in sales revenue during the second quarter, shrinking from $220 billion in 2008 to $198 billion, according to Bain & Company. Bain estimates an overall net decline of 10 percent for 2009.

Consumers with pension plans and real estate equity are tightening their belts. Cable television feels like a luxury, and that $600 handbag is looking ripe for eBay. And while few tears are shed for the truly rich, the caviar crowd has been paring back. At Monaco's Le Metropole shopping mall, for instance, luxury retailers extended winter sales through February, with prices at Lacoste and Christian Lacroix slashed by 50 percent. As *The Economist* wrote, "Even the wealthy Monaco burghers are feeling the pinch."

In the United States, one of the world's biggest luxury markets, upscale department stores are in dire straits. Nordstrom reported a 14 percent drop in March sales compared with the previous year—a better performance than both Saks and Neiman Marcus, down 24 percent and 30 percent, respectively.

It's not only that consumers can't afford the luxe life—it's that many have lost interest in it. Attitudes toward conspicuous consumption have shifted dramatically. For thousands of years, luxury adornment has set the upper crust apart. Prehistoric man did it with feathers and bits of fur. The Chinese enriched their appearance with silk as far back as 12,000 years ago. The ancient Greeks were downright flashy, using gold and fancy togs to fire up the plebes and inspire thousands of wannabes. European royalty, Hollywood royalty, Russian debutantes have all done the same.

There is a populist tenor to this economic downturn, an "eat the rich" mentality that makes it different from the two that came before. Corporate misdeeds have cast the new rich as the new villains. Their luxury lifestyles are no longer an aspirational fantasy. It makes sense that flashy logos and diamond-encrusted cell phones seem crass, even criminal—an offense to the times.

Where, then, is the next stop on the Silk Road? After many boom years, luxury manufacturers are having to rethink their strategies, shifting away from fast fashion and masstige. The conspicuous logos that appealed to the lower tax brackets—and the brands that hawked them—have been marked déclassé. Luxury brands will have to work hard to regain their cachet. And the catwalk world may have to trade in its "here today, gone tomorrow" approach to design for something more "sustainable."

Is this the "End of Excess," as essayist Kurt Andersen has tagged it? Or is excess simply on hiatus? In this *Work in Progress*, we examine how the luxury industry fits into the new economy.

BROTHER, CAN YOU SPARE A DIME?

"It doesn't matter, 'cause I'm packin' plastic, and that's what makes my life so fucking fantastic." British pop star Lily Allen's song about losing her way in the material world came out in late 2008, just as years of packing plastic caught up with consumers worldwide. Credit dried up, real estate values tanked, and foreclosure rates spiked.

In the U.S., where spending has seemed like a patriotic duty, the recession has now officially spanned 17 months and taken more than 5 million jobs. In China, factories have shuttered due to lack of demand, leaving workers out in the cold. Japan is paying Latin American construction workers to go home. Laid-off foreign workers are abandoning luxury cars at the airport in Dubai before fleeing debtors prison. In Great Britain, where the economy rests heavily on big banks, unemployment is projected to reach 8 percent, and about 23 percent of Britons say their debt is unmanageable, according to *Foreign Policy* magazine.

No longer are middle-class consumers funding their caviar dreams with a Visa and a prayer. After decades of gambling and winning on the stock market, real estate and Internet, "the party is finally, definitely over," writes Kurt Andersen in his *Time* magazine essay "The End of Excess: Is This Crisis Good for America?" Anecdotally at least, there has been a "return to common sense," a coldly comforting pride in living more simply, doing it yourself and pulling up your bootstraps.

Coupon-cutting has again become the subject of wash-line banter. Canning and jarring supply sales in the U.S. rose by 15 percent in the first quarter compared with the same period last year, according to *Time*. "We're channeling our grandparents, who were taught, like a mantra, to use it up, wear it out, make it do, do without," observed *Time* columnist Nancy Gibbs.

The Brits are on board too: "Humble and threadbare is what the English do best," Peter York, co-author of *The Official Sloane Ranger Handbook*, told *The Telegraph*. "This recession has given us a lovely excuse to behave in a way that comes quite naturally to us. The boom times went against the grain of our national character. Now there is a delight in rediscovering poverty. It's good old Marie Antoinette again."

The past six months have ignited a populism that won't soon die down. The people and their politicians couldn't be more disgusted with the rich and their lifestyles. "The public may have been willing to tolerate extremes of wealth and pay when the economy was producing growth and jobs, but now it has become more suspicious," notes *The Economist.* "Why did bankers enjoy bonuses during the boom years but leave taxpayers to foot the bill during the bust?"

"Let me tell you about the very rich," wrote F. Scott Fitzgerald. "They are different from you and me. They possess and enjoy early, and it does something to them, makes them soft where we are hard, and cynical where we are trustful." The observation is particularly salient today, as the common man's natural misgivings about the wealthy—that they lack character and are all-around untrustworthy—seem to be reinforced by financial pirates like Bernard Madoff and corporate excesses that include private jets and antique commodes. As satirist Stephen Colbert joked, "Non-rich people just don't understand the convenience of a toilet that walks to you."

The ranks of the non-rich are growing, however. High-net-worth individuals lost $10 trillion dollars since the financial crisis started last fall, and last year the global number of billionaires fell from 1,125 to 793; the number of American millionaires dropped from 9.2 million to 6.7 million between 2007 and 2008.

A survey of wealthy individuals by the Harrison Group showed the rich are spending 30 percent less across the board. "It's not just that they've lost money," says Russ Prince of market research firm Prince & Associates. "They're not sure how much more they're going to lose."

Few would cry for the rich, but those that would surely include luxury manufacturers. Jewelry sales at Bulgari were down 17 percent in the fourth quarter; Tiffany's sales in its U.S. stores dropped 35 percent in November and December; Cartier parent Richemont suffered a 12 percent drop in the three months to December. Luxury anchor Saks Fifth Avenue slashed prices by up to 70 percent even before the start of the holiday season last November, prompting rivals Neiman Marcus and Barney's New York to do the same.

Corporate spending in the luxury arena is also in freefall, thanks in part to the "AIG Effect." (After receiving a hefty bailout from the U.S. government, AIG was widely derided for lavishing top employees with a $440,000 spa retreat at a St. Regis resort. Now other corporations are loathe to be seen in swank settings.) Conference bookings at the Ritz-Carlton are down, as are champagne exports, and the price of fine wines has dropped 18 percent since the collapse of Lehman Brothers.

LUXURY SHAME

With luxury goods looking more and more like the spoils of crime, high-net-worth shoppers can't afford to look like accomplices. Lavish spending and conspicuous consumption seem, if not corrupt, then at least in poor taste. "You don't want to pull up in your driveway with a new Mercedes when you know your neighbor is suffering," Jim Taylor of Harrison Research Group told *The Economist*.

The press has coined a phrase for it: "luxury shame." In these recessionary times, it seems vulgar to flaunt one's financial success. The ultra-rich have embraced a new frugality, adopting a lower profile and "showing off newfound contrition," according to *Newsweek*.

First lady Michelle Obama made headlines when she wore a $400 J. Crew ensemble on the *Tonight Show* last November instead of a designer outfit. At Disney, marketers reportedly considered reworking the ending of the film *Confessions of a Shopaholic*, to address today's harsh economic realities. In real life, sales of luxury yachts are down, as are sales nearly across the board of luxury labels.

The super-rich who are still shopping are doing so quietly. According to *The New York Times*, a coterie of shoppers are trawling for treasures at invitation-only shopping events or in the well-appointed homes of their peers, "the high-end equivalent of a Tupperware party," observed consumer psychologist Eric Spangenberg. Some shoppers at status retailers are choosing plain white bags over branded ones.

Some of the British elite are going so far as to pretend to be broke, wrote U.K. magazine *Tatler*. And an article *The Telegraph* observed: "As the country unites in Blitz spirit, you stand alone, a blushing figure with a disgracefully expensive It-bag. Unless, of course, you pretend ...." According to the article, the rich are laying off workers, canceling parties and downplaying their net worth. "I told people my tan was fake the other day," one Notting Hill princess confessed. "Well, I couldn't say it was from Verbier, could I? I didn't tell anyone I'd even been skiing this year."

Where once this kind of millionaire's lifestyle was an aspirational fantasy for the affluent and middle class, today conspicuous consumption doesn't just seem vulgar, it feels foolish. So many homebuyers sought loans for homes they couldn't afford, any evidence of overreaching—be it a five-bedroom house or a $1,200 pair of Louboutin pumps—carries a stigma.

"It's kind of like we all went overboard," an Atlanta housewife told *The New York Times*. "And we're trying to get back to where we should have been." So the affluent and middle class are once again "shopping their closets, downscaling their closets and holding off on trading in their cars."

Recently, *Vogue* reinstated its "More Dash Than Cash" column, dolling out "40 Tips for Fabulous Frugality." And the pages of *Vogue* and other luxe-life magazines are no longer bulging with campaigns from upscale marketers: Ads in the December issues of major luxury magazines plunged 22 percent from 2007, *Media Industry Newsletter* reports. *Robb Report*, the bible of connoisseur tastes, has watched its advertising freeze. And at American Express Publishing, which owns *Travel + Leisure* and *Departures*, among others, "ad sales just hit a wall" after years of growth, says CEO Ed Kelly.

A CLOSER LOOK
THE LUXURY LAPSE IN JAPAN

When Louis Vuitton opened a mega-store in Tokyo's Omotesando district in 2002, hundreds queued patiently for its grand opening. The then-undisputed leviathan of Japan's luxury goods market took in more than $1 million at the store that day.

It seemed Japanese passion for the LVMH brand was insatiable. Between 1996 and 2007, Louis Vuitton's sales there almost tripled, to $1.7 billion. But it wasn't just Louis Vuitton that lured Japanese shoppers: There were more than 30 million luxury consumers in Japan in 2008—one-quarter of the country's population—according to Grail Research. (Globally, Japanese consumers have typically accounted for as much as half of the luxury goods market, according to *The Atlantic*.)

Now, as luxury loses its luster in the developed world, Japanese preferences are also changing. After contracting by 2 percent in 2007 and 7 percent in 2008, the country's luxury market is expected to shrink a further 10 percent in 2009, according to Bain & Company. LVMH saw sales fall 10 percent in 2008 even as sales rose 19 percent in the rest of Asia. Not surprisingly, last December, Louis Vuitton canceled plans to open a 12-floor, 130,000-square-foot flagship in Tokyo.

Japan's once-unparalleled market for luxury had much to do with the role these goods have played in its culture. As Grail notes, luxury brands have served as the "preferred mode to demonstrate

A CLOSER LOOK
THE LUXURY LAPSE IN JAPAN *(continued)*

wealth" in a nation where big homes and big cars, for example, are rarely an option. Whereas elsewhere in the world luxury brands have traded on the notions of exclusivity and differentiation from the herd, in Japan a handful of these brands—including Louis Vuitton, Gucci, Chanel and Prada—have acted as the arbiters of mainstream taste.

Buying these labels has meant fitting in with fashion—conformity and group harmony being particularly important to Japanese culture. As psychologist Toshio Yamagishi of Hokkaido University explained in concluding a study on the cultural differences and differing social restraints of Americans and Japanese: "By default, Japanese tend to view situations as ones in which they are under surveillance from others, whereas Americans tend to view the same situations as ones in which no one cares about their choices."

How could young Japanese consumers afford such luxuries? Because more than a third of twentysomethings in Japan are "parasite singles," a term coined by sociologist Masahiro Yamada to refer to the 10 million young adults who live with their parents and usually pay no living expenses. While this phenomenon has been occurring for some time in other wealthy countries—where this cohort is variously described as "adultescents," "kidults" and "boomerang kids"—nowhere is the trend more pervasive than in Japan. Yamada estimates that 60 percent of single men and 80 percent of single women in their twenties live with their parents.

These young adults have treated their income as entirely disposable; by paying credit card debt in installments, many have managed to keep up with the Takahashis. Luxury labels have become staples among this cohort: Grail Research reports that 94 percent of Japanese women in their twenties own a Louis Vuitton handbag and 92 percent own a Gucci product.

Now, however, the global recession is crimping the lifestyle of these parasite singles, greatly impeding their ability to maintain their expensive tastes. With full-time jobs hard to come by, many work as contractors, called "freeters," and move from one temporary position to the next. And in today's climate, the next gig can be hard to find.

Indeed, Japan's export economy has been hit especially hard by the crisis. As the recession unfolded, many investors moved from high-yield currencies such as the pound and the euro to the yen, which in turn saw astronomical value gains. The higher cost of Japanese goods on the international market negatively impacted demand, and the Japanese stock market plummeted 42 percent in October 2008.

The bigger problem is that Japan is now well-versed in economic woe, with today's recession coming on the back of two decades of stagnation caused by the Asian financial crisis and the burst of the tech bubble. Now, says *Time* magazine, "Analysts see a deep-rooted pessimism" in the Japanese public, "evidenced by abysmally low consumer confidence and the subsequent shuttering of thousands of small- and medium-sized businesses this year." *Time* notes that while Japan's recession may prove less severe than the American and European downturns, a "grim consumer outlook" could delay recovery.

Finally, hand in hand with lighter wallets, there's been a sea change in the attitudes of young Japanese toward luxury brands, which are seen as having grown fat, happy and old with their loyal clientele. *The Atlantic* quotes a 26-year-old advertising executive as saying he doesn't buy luxury labels even though he can afford them, because brands like Armani are "for rich old dandies." At the same time, there's a new emphasis on self-expression: "It's not about how much money you have," Chanel's Keiko Sakurai told *The Atlantic*. "It's about expressing your own personal style."

Many luxury brands are struggling to respond. Salvatore Ferragamo's Japanese outlets put items on sale for the first time in 2008. Others, including Chanel and Bally, followed suit. Typically late adopters, luxury brands have also begun expanding into new channels. Cartier, Gucci and Ralph Lauren have all implemented QR (quick response) codes into their advertising in Japan—these can be photographed on a mobile phone and submitted for more information or purchasing options. Some brands, including Louis Vuitton, are expanding their presence online with e-commerce sites.

The future for the luxury industry in Japan may be as an international hub for experiential marketing. In Tokyo, luxury brands are expanding vertically: Armani, Bulgari and Gucci have all opened branded restaurants and spas to cater to international luxury travelers. And there are plenty of these still around—the luxury markets in the BRIC countries (Brazil, Russia, India and China) continue to show strong growth. ("Things have been so good," reports *The Economist*, "that perfume-makers face a new product-liability problem in Russia, where oligarchs' girlfriends buy dozens of bottles in order to bathe in a fragrance, unaware that this can be deadly.")

Meanwhile, on the streets of Tokyo, shoppers have been queuing by the thousands again—as *The Atlantic* noted, this time it was for the September grand opening of Swedish low-priced fashion retailer H&M.

THE NEW FACE OF LUXURY

The Silk Road has come full circle. While hand-wringing has become a favorite pastime in the West, the millennia-old romance with luxury has not died in the East, the birthplace of silk embroidery, bejeweled frocks and the Taj Mahal. The original Silk Road began in China around 221 B.C., long before French aristocrats peppered their cheeks with fake moles. There are no Puritanical guilt trips here, where consumers have long been accustomed to vast discrepancies in wealth. Luxury is happily at home in the East.

More important, this is a part of the world where millions were lifted into the middle and upper classes only a few years ago. Remember the flattening of the world? This was the part of the world that did the flattening. And like America in the '80s, the new meritocracy wants to show off their success. They're doing so by embracing luxury products, primarily Western luxury products. In China, for example, businessmen grease the wheels of power with gifts such as Gucci handbags, Hermes scarves, Montblanc pens and $30,000 diamond-studded Swiss watches, according to a *New York Times* report.

Old World European brands are the ultimate symbols of power and success in Asia, with French brands at the apex, according to a recent survey by Ipsos Marketing. That survey, fielded in emerging economies like China, India and Russia, included four French names among 20 most popular "top of mind" luxury brands: Louis Vuitton, Chanel, Cartier and Hermes. German car brands—Porsche, Mercedes (No. 1 in Russia) and BMW—made a strong showing. And car brands like Ferrari and Mercedes topped the list in Brazil. (In India, however, sports and technology brands like Adidas, Sony and Reebok are more top-of-mind than traditional luxury names.)

This is not to say the global slowdown hasn't affected India, China and its neighbors. The World Bank expects the East Asian economy to grow by only 5.3 percent this year, down from 8 percent in 2008 and 11.4 percent in 2007. The value of exports in Taiwan and the Philippines plummeted 40 percent in January compared to a year earlier. Japan may be on the brink of another lost decade. And India's government has announced three stimulus packages aimed at lifting the economy and building infrastructure.

But what's most important is the attitude toward luxury. Sure, the number of Russian billionaire oligarchs has halved, according to *Finans* magazine, but their Armani suits are still status symbols. In Asia, power players still display their success via luxury items, a fine way to avoid breaching the cultural taboo against boasting. And emerging markets remain young markets, ripe for growth. The median age in China is 34.1, in Brazil it's 28.6, and in India it's 25.3 according to the CIA's World Factbook. That's much younger than established economies like Germany, where the median age is 43.8, or the U.K., where it's 40.2.

Luxury brands have been investing in emerging markets for some time, but now, with established markets tanking, they're looking abroad with hungry eyes. Porsche, for example, debuted its new sedan, the Panamera, at the Shanghai auto show in April (its starting price is $89,000). Salvatore Ferragamo is adding seven stores in China this year, and Gucci is adding four.

China currently accounts for just 3 percent of the luxury market, but along with Brazil, it's projected to be one of the two fastest-growing luxury markets through 2012, according to Bain. And last year, while luxury sales were flat worldwide, they shot up 25 percent in China. Some brands are seeing even bigger rises: Gucci, for example, saw sales there soar 42 percent last year, 10 times its global growth rate.

In India, whose luxury market is much less developed—it consumes just 0.4 percent of global luxury goods—the market is growing at the same fast clip: 25 percent a year, according to Bain & Company. For evidence, look no further than the new Emporio Mall in New Delhi, which houses dozens of designer boutiques and charges an entry fee just to goggle at its gold-plated ceilings and exotic fountains.

Gaining entree into India, however, might prove more difficult than in cultures that value uniformity, like China and South Korea. There is no shortage of local designers, for one thing. "India is not brand obsessed like the rest of the world," native designer Sabyasachi Mukherjee told the *International Herald Tribune* in March. Red tape and tariffs have been another barrier. "Costs have been much heavier than we expected," said Patrick Chalhoub, co-chief executive of luxury goods distributor The Chalhoub Group, in the *IHT*.

India is also home to a pervasive "gray market," where luxury goods are sold illegally, without taxes. Still, a number of luxury brands have opened retail stores in the largest cities in India in recent months.

While the past six months have proved that no economy is immune from this downturn, demand remains strongest in countries where conspicuous consumption is a newfound pastime. The appetite for luxury goods has been sated by decades of excess in the developed world, but in emerging markets they're just getting started.

THE NEW MODESTY

"The days of gilded crocodile coats snapped up by oligarchs are over, and personally, I am not sorry to see bling and glitter slink away," fashion editor Suzy Menkes told her audience at the March opening of the *International Herald Tribune*'s Luxury Conference in New Delhi.

The global slowdown has forced a sea change in luxury consumption habits. Not only are luxury shoppers buying less, they're shying away from conspicuous, logo-cluttered objects, the ones that used to scream "new money." ("New money," pronounced by the upper strata through the nose and with some disdain, was once shorthand for vulgar, showy displays of wealth. But that was before the "new money" aesthetic was everywhere.)

Fashion designer Tomas Maier's muted, logo-free look is gaining traction as the standard-bearer for a new kind of luxury: subtle, long-lasting and recession-proof. Brands are taking note and offering an array of subdued designs for a more sober world. Bottega Veneta, for example, sells signature products devoid of initials for $1,200 on up to as much as $4,500.

"This whole crisis is like a big spring housecleaning—both moral and physical," Karl Lagerfeld, the designer for Chanel, told *The New York Times*. "There is no creative evolution if you don't have dramatic moments like this. Bling is over. Red carpet covered with rhinestones is out. I call it 'the new modesty.'"

The new modesty also means that rather than dole out for the latest "It" bag and other temporarily trendy items, luxury shoppers are turning toward "investment" pieces, classics that will hold their own year after year. In turn, luxury designers are shunning "fast fashion." The hand-woven bags in Tomas Maier's Intrecciato line take two days to make (compared with about 80 minutes for a standard-issue designer bag).

"Among the very highest-end brands, we are seeing an appreciation for quality and the connoisseur, for pedigree and history over showiness," said William Curtis, CEO of the Robb Report's parent company, in a December issue of *Newsweek*. David Lamb, former chief strategic officer at De Beers, echoed this idea in the January issue of *Forbes*: "Instead of seeking out novelty, [wealthy consumers are] exploring authenticity."

Luxury marketers are playing up craftsmanship, heirloom appeal and the best materials. Cultured-pearl master Mikimoto, for example, is focusing on the authenticity of its materials with a new campaign called "The Original"; ads simply feature the image of a single cultured pearl in an open oyster shell. Land Rover's new pitch deemphasizes luxury as extravagance and redefines it as functionality and enduring value in U.S. and Western European pitches.

Perhaps most significant, the moral and physical housecleaning that Lagerfeld cites is having a bigger effect than moving consumers away from bling: People are re-evaluating luxury altogether. In some cases, this means redefining it in non-materialistic ways—time with family, doing good, being healthy. It can also mean spending more for products that conform to the highest green standards (discussed in the next section) or for things that enhance health and well-being.

"Fashion is looking good outside; wellness is feeling good inside. It's the new frontier of luxury," says Nerio Alessandri, owner of Technogym, in *The New York Times*. Technogym is an Italian exercise equipment manufacturer that's marketing its machines as a "necessary luxury" and courting celebrities like Madonna in the process. A Kinesis model workout machine plated in hammered gold, for markets in Russia and Dubai, sells for $15,000.

More basic health and wellness needs are also becoming luxuries for some. With food prices rising, fresh produce and meats are now a luxury for some in the middle class. And in the United States, where the health care industry may be in for an overhaul, paying for a doctor who will commit to even a half hour with a patient certainly can be a luxury.

Among the rich, there is more room to play in this sphere. A personal genome map, for example, comes with a price tag of $350,000. "As the cost of genome sequencing goes from stratospheric to merely very expensive, it is piquing the interest of a new clientele," notes *The New York Times.* In March 2008, a Swiss millionaire was the first to sign on for the service, offered by the biotech company Knome. "I'd rather spend my money on my genome than a Bentley or an airplane," said an intrigued 56-year-old retired biotechnology entrepreneur.

RESTORING LUXURY'S CACHET

In the past, luxury was beyond the reach of most. It was extravagant, ostentatious and available only to the elite. Then it became democratized, and "masstige" took hold. Louis Vuitton, for example, once made traveling trunks and laundry bags for European aristocracy. Now its logo-ridden handbags hang from the wrists of entitled teenagers in the suburbs of cities worldwide.

"What was once exclusive in Beverly Hills is now everywhere," observes Fred Hayman in Dana Thomas' 2007 book *Deluxe: How Luxury Lost Its Luster*. "It's lost its cachet. The Gucci store in Beverly Hills was one of the most extraordinary experiences in retailing. Now it is just another Gucci store. When you get greedy, that's what happens."

Some brands have become so ubiquitous, with shops in malls and airports, that they've undermined their exclusivity. In a January survey by the Luxury Institute, roughly half of high-net-worth consumers said luxury brands are becoming commoditized; almost two-thirds said they are overpriced. In many cases, status symbols have turned into stupidity symbols.

The recession might just hit the reset button for luxury retailers that have come to depend on masstige shoppers. "Let's go back to Stanley Marcus' definition of luxury," urges Gregory J. Furman, chairman of the Luxury Marketing Council, in a recent MediaPost editorial. "'The best that the mind of man can imagine and the most sophisticated hand of the virtuoso craftsman can achieve.'"

Returning to that standard will be difficult for some brands that stooped to improve their bottom line. But others are already retreating behind the line of exclusivity, moving upmarket and once again putting their products beyond the reach of many. In doing so, they may save their brands, their industry and even, perhaps, the Earth—for the new anti-consumption movement demands that luxury manufacturers move away from excess for its own sake and tap into the spirit of sustainability.

"Sustainability" has a dual meaning for the luxury industry, said *IHT* fashion editor Suzy Menkes at the *IHT* Luxury Conference in New Delhi last March: "It suggests not just the onerous task of selling enough high-end watches to keep a store afloat. But also the high cost to the planet of our wild ride of over-consumption."

Luxury products will have to become more green to earn bragging rights. French luxe giant PPR is working across brands to reduce energy consumption and enforce fair labor practices. Designer Stella McCartney, brought up on an organic farm, has been speaking publicly about her ecological perspective—no fur, no leather and wind-powered production. LVMH is said to have its eye on eco-luxury label Edun, the clothing company founded by Bono and wife Ali Hewson that hopes to drive sustainable employment in emerging economies through the production of organic fashion.

The sales pitch has evolved accordingly. Rather than encouraging shoppers to "treat yourself," luxury marketers are telling them to change the world by swiping their American Express Black Card. Watchmaker TAG Heuer, for example, has formed a partnership with the Natural Resources Defense Council;

the tagline for a campaign featuring celebrity environmentalist Leonardo DiCaprio reads, "What are you made of?"

These days, they're not made of money. But luxury shoppers still want to feel a cut above the Wal-Mart masses. Living in one of Morpheus Development's sustainable luxury homes—which include geothermic bore holes for hot water and heating, and rainwater irrigation—in the U.K. might do the trick, as would buying an eco-friendly home revamped by actor Adrian Grenier. And in wearing one of Edun's $70 T-shirts, the fashionable can feel they're also helping poverty-stricken workers in Africa, South America and India.

WHAT IT MEANS

In 2004, when Martha Stewart showed up at her insider-trading trial carrying a brown Hermes Birkin bag, the press and the public shook their heads. *The Washington Post* wrote that toting "a bag that is surrounded by such a thick coat of wealth and privilege was ill-advised." If she did the same today, Stewart might be dragged up to Capitol Hill and castigated for her audacity.

Yes, the luxury market is in for a bumpy ride. Public opinion has turned against conspicuous consumption, the bread and butter of the industry's growth for some 20 years. The middle and affluent classes that helped fuel that growth aren't just hurting financially, they've come to disdain luxury spending as foolish and symptomatic of the wrongdoing that sparked this global downturn.

"Aspirational" has become a dirty word that smacks of overreaching, confused priorities and, among the upper crust, stooping to the lowest common denominator. Indeed, with wealthy Brits pleading poverty just to avoid embarrassment, the whole notion of status has been turned on its head.

How long can a world accustomed to luxury keep its sobriety? Conventional wisdom seems to be that the longer the recession continues, the more ingrained these new habits will become. The longer we do without, writes Kurt Andersen in *Time*, "deciding to forgo that third car or fifth TV or imperial master bathroom or marginally cooler laptop will come more naturally." This effect may be far less apparent in emerging economies, however, particularly Asia, where luxury is a new pastime for millions.

To survive, luxury must return to its roots, producing the ultimate that money can buy. Those in the best position, like Hermes, never courted the masses on a large scale. They won't have to recover their reputation. Others will need to move back upmarket and convince customers that their products are not just novelties for now but enduring pieces for always. Luxury is now an investment—in oneself and, according to some brands, in the planet—one that's more secure than the stocks and bonds that have treated so many so badly.

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