

The Frugal Consumer: When Shoppers Lose the Urge to Splurge

Americans are cutting back on spending and becoming more careful about what they buy. Experts explain how to navigate the new consumer psychology.

By Rob Bates, Senior Editor -- JCK-Jewelers Circular Keystone, 3/1/2009

It was only last summer that the *Wall Street Journal* was repeating the conventional wisdom that luxury items had not been affected by the recession. But once the financial crisis hit, that changed.

“The recession is impacting affluent consumers just as hard as ordinary consumers,” says Pam Danziger of Unity Marketing, which tracks the luxury market. “It's hitting them where their wealth is, in their homes and their investments.”

After years of conspicuous consumption, thrift is in.

The luxury consumer hasn't disappeared, but she's thinking about things differently from before and is no longer on an “extended shopping spree,” Danziger says.

“Luxury consumers used to go out and buy a whole new outfit, with new jewelry and new shoes,” she explains. “Today that shopper is just buying one of those things.”

Marketing experts offer the following advice to help retailers deal with this environment:

Stress value. “Luxury consumers still have money to spend and are willing to spend it,” Danziger notes. “But they are now value shoppers and asking harder questions. They are doing due diligence to make sure what they are buying is really worth the money.”

She advises: “Be very clear with the consumer about the value of what they're looking for. Make sure they know they are not wasting their money.”

De Beers is embracing the value message and recently put out a report about the new trend toward “considered luxury.” It argues that the products that will do well with today's luxury consumers “are the ones that are special and truly justify their high price point.”

David Lamb, De Beers marketing's chief strategic officer, says the company's research uncovered two key facts: There is a \$20 billion storage facility business that didn't exist 20 years ago; and households with \$100,000-plus incomes throw out an average of 68 pounds of clothing a year.

“Those statistics suggest that we have all bought too much stuff with money that we didn't need,” he says. He sees an end to “this whole phenomenon of shopping when you're bored.”

These insights led to De Beers' “Enduring Value” ad campaign, which premiered last Christmas and continues this year.

De Beers external and corporate affairs director Stephen Lussier says company research shows that 87 percent of consumers would buy a more expensive item that keeps its value rather than a

less expensive item whose value will diminish. De Beers' campaign tells consumers that diamonds hold their value better than other products.

“We want people to think about diamonds as something lasting,” Lussier says. “The idea is that, if diamonds hold a value, that makes them a smart thing to buy in this environment.”

De-emphasize ostentation. Women used to be proud to walk down the street lugging shopping bags from posh stores. No more.

Eve Goldberg, of William Goldberg Diamond Corp., told *The New York Times* she's had customers say, “I don't want to be out there making an announcement with a big bag that says 'Harry Winston.'”

This shift away from extravagance is not necessarily good news for the industry, since many people buy expensive jewelry as a status symbol. Lamb says it means the industry has to be careful how it presents itself. “The days of mindless bling are over,” he says. “That kind of flamboyant display may be seen as boring and insensitive. We don't want diamonds to be seen as a statement of ostentation but rather a statement of cleverness or intimacy or love.”

Go back to the classics, and avoid the trendy. “Jewelers need to be more thoughtful in their purchases today,” argues Jewelers of America director of education David Peters. “They should not buy things that have a narrow appeal, but things with more of a feeling of permanence.”

That “doesn't always mean old-fashioned,” Peters adds, “but there is a fine line between contemporary and trendy. The flash-in-the-pan stuff isn't good in an environment when people are cutting back.”

Lamb puts it this way: “The ideal product for consumers is a classic with a slight twist. You are seeing high consumer interest in slight variations on traditional themes.”

Quality will be crucial. De Beers' research predicts that consumers will have a “greater appreciation of artisanship and fine craftsmanship.”

Focus on loyal customers. “Relationships are more critical now than ever before,” Peters says. “Success is going to be sustained by creating loyalty.”

He notes that, according to one survey, salespeople in recessions reduce consumer contacts by some 38 percent. But this is actually a time to increase outreach to both regular and prospective customers. “Traffic has to be generated, because people aren't just going out shopping,” Peters explains. “The jeweler that does well during tough times is the jeweler that increases his contact with more phone calls and more handwritten letters.”

He advises salespeople to make a list of their best customers, research their buying patterns, and use the information to provide the best service possible.

John Rittenhouse, chairman of Cavallino Capital, an equity and consulting firm that specializes in retail, agrees that loyalty is becoming critical, but he says stores need to understand what creates faithful customers. According to his surveys, helpful people, merchandise in stock, a pleasant atmosphere, and everyday low prices generate more loyalty than sales, coupons, and reward programs.

Don't lose sight of social issues. With the recession, social issues seem to have largely fallen off the industry's radar. But Lamb argues we should pay more attention to them. “Recessions are particularly dangerous environments for reputational risk,” he says. “When you have far less

money than you have choices available, people start to look for reasons why they not do things. That puts reputational issues under the microscope.”

Indeed, his company's report says consumers, particularly younger ones, have “a heightened awareness of social and environmental responsibility.”

The report continues, “Luxury consumers have a growing interest in the details of the story behind their purchase—where the product was sourced, how it was made, and what materials were used in its construction. [They] are not only interested in the products themselves, but also whether the brand is upholding the luxury philosophy of excellence throughout the whole of its operations.”

This means not only complying with industry dictates on conflict diamonds and rubies but also offering fair trade products and items whose proceeds go to charity. Last Christmas, Saks Fifth Avenue, sensing a change in the public mood, donated half the proceeds of some gift packages to charity. The retailer's vice president told the *Los Angeles Times*, “We need to be careful with the over-the-top message,” because it no longer feels “relevant.”

How Retailers Cope

Here's how some jewelers are coping with the new frugality:

“We picked eight items—they were all moderately priced, from \$35 to \$150—and put them in the ads, which ran several times in the local newspaper. They brought in a lot of traffic, and we sold very well on everything we advertised.”

—*Carl Carstens, C.G., owner, C. A. Schnack Jewelry Co., Alexandria, La.*

“We made personal contact with our top customers and informed them of new merchandise. We phoned them. We did a ladies' night wish list at the beginning of November, and that helped a lot.

—*Brad Hart, sales manager, Hauser's Jewelers, Newport News, Va.*

“More than anything, our repair department has been phenomenal. We do a lot of jewelry repairs and change a lot of batteries, and we follow up on every battery and repair. Those are the little things that separate us from other jewelers. Those are not easy things to do, and they are not fun, but we made many sales because of them.”

—*Chalo Luna, owner, Bianca's Fine Jewelry, Roseville, Calif.*

“We did several events featuring our designers. To our higher end is Lecil Henderson [The Henderson Collection by Lecil]. In numbers he was one of our biggest sellers. He helped to boost sales with his mix of bronze with 18k gold.”

—*Rejena Carreras, president, Carreras Ltd., Richmond, Va.*

“We brought in clearance items on consignment from a couple of vendors. People were looking for sales, and you had to give them a good sale.”

—*Ron Olsen, owner, Olsen and Son, Bellevue, Wash.*

“We advertised and we telephoned customers. We have wish lists that we accumulate throughout the year, and we call husbands and boyfriends and try our hardest to get them to buy. We start calling the week after Thanksgiving.”

—*Jeannie A. Phelan, C.G., co-manager, Dick Bundy's Regency Jewelers, Madison, Tenn.*

Staying Upbeat

David Peters, director of education at Jewelers of America, notes this isn't the first downtown the industry has lived through. "I got into the jewelry business in 1975," he says. "Since then we have had four recessions. I don't think this recession is really quite as bad as the one we had in the early 1980s. The industry is really young in its population of employees, and it is hard for people to relate to what happened in the 1980s."

He says that people should take the attitude "this too shall pass," and he cites a survey showing that optimistic salespeople sold 37 percent more than their neutral and negative counterparts.

To stay upbeat during downbeat times, Peters recommends the following:

- **View success** in the long term and failure in the short term.
- **Define success** based on the quality of your habits and the consistency of your behavior.
- **Stay focused** on your goals and concentrate on things you can control. Keep doing things right and good things will happen.
- **Commit** to fixing the problem, not fixing the blame.
- **Filter out** negative news, use humor, read positive books, and talk to positive people.

We're All Discounters Now

It certainly raises eyebrows when legendary retailer Tiffany slashes prices. But that's what happened last holiday. As spokeswoman Linda Buckley told *JCK*, the company "reduced prices on engagement rings on average 10 percent."

Tiffany is not alone. Media reports have talked about high-end retailers like Bergdorf's and Saks Fifth Avenue suddenly climbing aboard the discount bandwagon—to the surprise of their longtime customers.

Price slashing is now a fact of life, even if it makes retail experts cringe. "Discounting is not a way to create a relationship," says David Peters, of Jewelers of America. "It's a way to get people to walk across the street to save a dime. It's more important to compete on value and quality and not on discounting."

John Rittenhouse, chairman of Cavallino Capital, notes that more consumers are listing price as the No. 1 factor in purchasing, but he agrees that discounting doesn't create lasting customers. "The big sales bring people in for a one-time shot," he says. "But people don't want to be tricked by all the sales. They want to know that they are getting consistent value—everyday low prices—as opposed to a one-time pop."