Luxury Fashion And Accessories Shift Increasingly To The Middle Ground

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Diamond ringLuxury goods positioned at accessible price points are a key industry battleground, and increasingly the core revenue drivers of some of the fastest growing luxury goods players, including Mulberry, Jimmy Choo, Burberry, Coach and Michael Kors.

But, is this democratisation of luxury a good thing for the industry or is there a risk of diluting status consumption culture?

Affordable luxury is the post-financial crisis sweet spot

The resilience of the luxury goods industry over the past five years owes much to the development of brands positioned at accessible prices. This reflects a shift in middle income shopping culture in austerity hit developed markets, whereby consumers are treating themselves to what they perceive as quality products at affordable price points, or simply investing in products that they believe will retain longer-term value.

There is also a boom in affordable luxury goods consumption among the new cash-rich middle class of the emerging markets. A combination of stronger purchasing power and wider penetration of diffusion (or secondary) luxury branding has brought millions of Chinese and Brazilians into the luxury goods market , for example. They are enticed by the prestige value of luxury brands, and often identify with affordable luxury as a 'status' stepping stone in their upward social mobility.

Luxury retailers and manufacturers rebalance their portfolios

A number of high profile luxury goods companies have, in effect, repositioned their core portfolio to tap into the burgeoning global demand for affordable luxury goods . Trendsetting brands such as Jimmy Choo, Mulberry, Burberry, Ralph Lauren and Michael Kors have each developed a strong footprint in the middle ground of luxury goods, for example. And they are increasingly dependent on affordable luxury to supplement their bottom line.

If some companies have shifted down market, others have gone upmarket to cash in on the same demand. Coach, for example, drifted progressively into higher price points to make accessible luxury goods its core business. Victoria Secret, the lingerie retailer, is heading in the same direction, and it is probably only a matter of time before fast fashion retailers make a foray into the luxury goods middle ground too. H&M's new brand '& Other Stories', set for rollout next year, is perhaps a harbinger of what is to come.

The net result is that the middle ground of the luxury goods market is growing. Yet there are no signs of the growth slackening off. Prada is rumoured to be planning new discount outlets in China, Michael Kors - with its strong portfolio of secondary luxury lines - has just announced plans to double the number of its stores in China (to 15) by the end of the year, and add up to 100 more over the next three to five years, and Coach is developing its multi-channel model, with a new shop-in-shop in London's luxury department store, Liberty and a flagship store on Regent Street, for example.

Affordable luxury is developing as an industry in its own right

Is there a danger that too much affordable luxury branding could start to harm the luxury goods industry, though? After all, at its heart, the concept of luxury is inextricably linked to its rarity, or exclusivity.

The simple answer is, no, provided that companies do not blur the boundaries between their top end luxury brands and their lower end. What is more likely is that the luxury goods industry will become increasingly segmented, to the extent that affordable luxury begins to operate as a standalone industry in its own right.

Affordable luxury is primarily visible in designer clothing and accessories. The format sits less comfortably with luxury jewellery, for example. Crucially, there is room for a vibrant middle ground in designer clothing and accessories. And rather than undermine the higher end of luxury, the middle price tier has potential to act as a bridge between mass-market brands and high-end luxury brands.

Michael Kors and Coach embody the new middle ground of luxury goods

Michael Kors Holdings Ltd is currently one of the most influential forces in affordable luxury. At the end of 2011, the company issued a successful initial public offering (IPO), and sales for that year were up almost 60%.

Capital from the IPO is helping finance retail expansion into emerging Asian markets and with all probability into Latin America in the near future. Like its big rival in affordable luxury goods, Coach, Michael Kors is taking more control over the route to market. In 2011 43% of revenue came from retail, 51% from wholesale and 6% from licensing. That retail share is set to grow markedly as the company rolls out more stores.

With retail expansion, so the Michael Kors diffusion line (MICHAEL), launched in 2004 and consisting mainly of women's

clothing, footwear and handbags, will become increasingly visible. The company has branched into competitively positioned luxury fragrances and timepieces too; and across its core non-runway fashion collections, prices have come down over the past five years. The runway collections and high end products are critical to image, but the affordable segments are fuelling much of the new business.

New business, or rather new consumer bases, is at the root of why affordable luxury has become so strategically important, especially in apparel and accessories. It has democratised what was once the exclusive terrain of high net worth individuals (HNWIs), creating a vastly enlarged potential consumer base for the luxury goods industry. At the same time, it has built new consumer corridors connecting fast fashion, mass brands and luxury brands. Luxury remains aspirational, as a concept, but thanks to affordable luxury it is now more accessible too.

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