The Wealth Report

Leading Edge Insights into the World of the Wealthy

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Sales Rebound Continues For Luxury

Luxury retailers get off to a good start in 2010, but sustaining the uptrend depends on cultivating even smarter marketing and customer relationship skills.

The rebound from recessionary depths continues as luxury purveyors post cheery year-over-year comparisons. Nordstrom was a standout in January, reporting a 14% jump in sales compared to January 2008 at stores open at least a year. Same-store sales at Neiman Marcus popped 6.8% higher, led by a 16% spike in its catalog and Web sales. Saks maintained its positive momentum coming out of the holidays with a 7% increase as women and men both stepped up their buying of designer shoes and apparel, as well as fashion jewelry. Luxury retailers solidly outperformed the average 3.3% rise in comparable sales posted by retailers tracked by the International Council of Shopping Centers, marking the third consecutive month of luxury leading the retail pack.

Economic headlines have improved resoundingly, although unemployment and the slow pace of new wealth creation present headwinds for luxury firms. Even though the U.S. economy grew at a 5.7% annualized pace in the final quarter of 2009 and the unemployment rate dipped to 9.7% in January, the economy still lost 20,000 jobs last month. Long gone are the days not long ago during the housing bubble when luxury retailers could count on buying binges from newly "rich" consumers flush with home equity lines of credit. To their credit, luxury firms have shown adroitness in adapting to the new market and exceeding expectations. Even as she adjusted near-term profit forecasts higher, a Goldman Sachs' retail analyst downgraded Coach and Nordstrom earlier this month. Triple-digit percentage gains from lows for both stocks have priced in a continuation of positive trends. Smart management can keep sales growing by engaging employees and customers in ways that increase the value of both.

White Paper: Ten Critical Steps for Creating a Powerful Luxury CRM Culture, A Guide for Luxury CEOs

The best programs for maintaining and expanding relationships with luxury consumers integrate closely with all phases of the business.

With cautious optimism for the remainder of 2010, luxury executives are looking for the Holy Grail of business solutions to drive profitable growth again. They could do worse than to read the chapter entitled "The Talent Myth" in Malcolm Gladwell's recently published book ***What the Dog Saw***. In it, he describes how so many corporations worship the myth of hiring the best talent--the "stars." Yet, as Gladwell proves with vivid examples, the reality is that corporations that significantly outperform their competition over long periods of time such as Procter & Gamble and Southwest Airlines are entities where the system is the star.

According to Gladwell, “The talent myth assumes that people make organizations smart. More often than not, it’s the other way around.” In luxury, many brands also worship at the altar of the “Talent Myth,” believing that star designers or CEOs alone create great long-term business success. What they fail to understand is that even the best talent cannot deliver extraordinary customer experiences consistently without a powerful Luxury CRM Culture.

Customer Relationship Management (CRM) is now a top priority for luxury brands. The term was abandoned for dead years ago by many brands in the mainstream world that crashed and burned trying to achieve its lofty customer promises. The problem was simple; naïve brand executives tried to impose customer data warehouses, customer analytics and technology on a product-centric environment, with predictable failure.

The technology-centric consultants who drove the clients into wasting their resources also failed to understand that analytical CRM will dramatically underperform, at best, and fail miserably, at worst, without a strong customer-centric culture. Unless today’s luxury leaders are willing to learn the lessons of the mainstream, they risk repeating the same mistakes. For luxury, it may be mainstream déjà vu all over again.

There are successful Luxury CRM Culture case studies out there. Steadily, luxury brands such as The Ritz-Carlton Hotel Company, Tiffany & Co., and Lexus, whose cultures are highly customer-centric, have found that analytical CRM, although challenging to implement, significantly enhances the results of a customer-centric corporate culture. In the ideal and perfect world, Luxury CRM Culture should always come first. However, as you build the analytical CRM infrastructure you must also build a Luxury CRM culture, specific to your brand DNA, in order to achieve maximum results.

Many executives believe that Luxury CRM Culture is a philosophical concept that has no overall impact on the bottom line. For many luxury executives there is only art, but no science, to creating a Luxury CRM Culture in an enterprise. Here are ten critical steps to building a CRM Culture that debunk that popular myth.

The ten steps described for achieving this Culture are individually powerful; they can be used on a stand-alone basis. When implemented together as a system, however, they reinforce each other to deliver the customer-centric behaviors that drive long-term, profitable results.

10 Critical Steps to Creating a Powerful Luxury CRM Culture

Step #1: Continuously Develop and Support Vision & Values of the Enterprise

When it comes to creating and perpetuating brand culture, few brands can rival Ritz-Carlton. The company has been refining its customer-centric culture for over two decades, winning the coveted Malcolm Baldrige award in 1992 and 1999, and receiving numerous independent consumer awards throughout the years. Other accolades include superior rankings in the Luxury Institute's Luxury Brand Status Index (LBSI) survey.

Ritz is very clear and assertive about achieving its vision to be the premier worldwide provider of luxury experiences. It has identified 12 service values that serve as the daily guideposts for its more than 35,000 employees. For example, "I am empowered to create unique, memorable experiences for our guests," is one of Ritz's service values. Accordingly, every single employee is empowered with the ability to spend up to $2,000 to resolve a guest issue, if required. There is nothing theoretical about that policy. Although the policy is rarely used, it is there to remind employees that the vision and values are living concepts, backed by serious financial commitment. This is not merely another forgotten corporate initiative.

Step #2: Select and Hire Scientifically as well as Intuitively

Many companies use the interview process to screen new hires. In most cases, a few executives interview candidates and use a standard structured interview process. Executives will pose questions on skills and experience, recycle, repeat, and move the candidate to the next level of the interview process. The irony is that for employees who will be facing the customer, and who usually are among the least compensated, the company spends very limited time in the selection process, using the intuition of a few field managers as the deciding factor. Many luxury brands are even willing to live with employee turnover rates of 50% to 100% per year, if that is the industry standard.

There is a far more effective way to select associates. Testing candidates for natural talents--customer-centricity, sales ability and even for optimism--with reasonable certainty is possible today and there are several ways this can be done cost effectively. There are scientific studies that show that selecting and hiring optimistic salespeople can mean an increase of 20% to 40% in sales over hiring pessimistic salespeople. Yet, the only way to know you are hiring people with certain talents required by your customer-centric culture is to test scientifically.

Employee selection will never be completely scientific. Intuition and judgment will always play an important role, thank God, but testing-based employee selection, especially for customer-facing associates, has proven to be effective and profitable for luxury brands by increasing the probability that the brand is hiring people with natural talents that fit the culture and values and who have the emotional intelligence and resilience to create extraordinary experiences for valued customers. Rather than just being a fanciful theory, empirical studies show that when executed rigorously, testing-based employee selection will dramatically improve your top and bottom lines.

Step #3: Train and Certify on Culture as well as Policies and Procedures

Once you have selected people who fit your values you must provide solid orientation and training. New Ritz-Carlton employees spend the first two days on the job learning as much about the company culture and values as they do about policies and procedures. No one can start employment unless they have completed the orientation process, which is conducted by senior executives. Ritz understands that most learning occurs on the daily shift, so while they provide online tools and manuals for employees, the certification process occurs on day 21, when employees have had an opportunity to prove they can do the job while living the values. Employees receive many hours of training during their first year, and have a recertification on day 365. This detailed and dedicated cultural and operational training and certification process is a critical part of building a Luxury CRM Culture. Consider how training and certification processes work for your luxury brand and the associated successes and failures you have experienced. Is there room for improvement in this area?

Step #4: Objectively Measure Customer Experience Locally and Frequently

Many companies will go through the first three steps described above and yet fail to measure the customer experience at each location scientifically and often. In contrast, whenever a guest stays at a Ritz-Carlton, he or she will almost immediately receive an email requesting that they fill out a survey rating their experience. While only a certain percentage of customers will fill out the survey, Ritz is still able to achieve enough statistically valid and reliable responses such that it is able to measure each hotel's customer experience monthly. The company then provides detailed results, feedback and rankings to all of its internal constituencies so that strong and decisive corrective action can be taken.

When it comes to customer experience metrics, many companies in luxury use mystery shopping as the tool of choice. This is a good initial step, but if you really want to have credible data upon which to take action, you must undertake to measure the customer experience in a scientific way at least quarterly, and once per month, if possible. Companies waste many resources during the year on useless programs. Measuring the customer experience quantitatively and qualitatively at each location frequently is a fantastic resource for improvement.

Today, the only thing holding back most luxury executives from taking this bold and critical step is the fear that customers will provide very negative feedback. However, you need to know exactly what your customers are saying about your experience scientifically, directly, and in real time. With this feedback, you will be able to scientifically address all elements of the customer experience and create detailed action plans to address both cultural and operational issues. Having your agency monitor blogs and social sites for customer feedback is not enough.

Step #5: Let Customer Feedback Help Redesign Cross-Channel Customer Experiences

Many luxury brands create rigid, impersonal policies and procedures that their customer-facing employees must follow. Often these policies are channel-specific and can create negative consequences for the multi-channel consumer--a highly profitable rising star for your luxury brand today. Most commonly, these policies favor the company over the customer. For example, in luxury retail, the customer return or exchange policy is often rigid and punitive, intended to discourage wrongdoing. In sharp contrast, Nordstrom has a completely unconditional return policy that is lauded by its customers and that provides a goodwill premium that translates into higher customer experience ratings and customer loyalty.

Even a top-rated brand such as Nordstrom has an opportunity to improve its customer experience periodically. Every luxury brand should undertake a customer experience redesign project at least twice a year where multi-functional, cross-channel teams, including the customer-facing members and e-commerce team, gather in a location for several days and methodically fix the obvious and glaring problems based on customer quantitative and qualitative feedback--and then, they must go far beyond reactive issue management and dream up redesigned functionality, dialogue, behaviors and policies that create extraordinary and relevant experiences that their customers may or may not have expressed as needs, but which are worthy of testing in vivo. Often brands will find that the improvements also save money. There are some highly efficient and effective ways of mapping and facilitating the customer experience redesign process and this is a labor of love exercise for brands that wish to deliver extraordinary customer experiences.

Step #6: Redesign Employee Compensation to Reward Values-Based Behaviors

Employee compensation is broken in most luxury companies. In the customer-facing functions, most luxury brands have created a toxic culture of salespeople who are lone rangers, prowling to close transactions at any cost while treating team members and marginal clients, even great clients, in brand-destructive ways. These hunters are incented by counterproductive compensation schemes to work in their self-interests only, to hoard customer data and to own their customers, physically taking them with them in their "black books" as they switch jobs.

Once a luxury brand has aligned the culture, values and customer experience deliverables, it is critical to develop compensation systems that seamlessly reinforce the policies and behaviors required to deliver extraordinary customer experiences consistently. Compensation must have incentives for individual performance, team performance and critical behaviors such as customer data collection and customer data use.

There are no perfect sales compensation systems. Some produce unintended consequences. There are many ways to test and learn your way through the process such that customer-facing associates, and those who support them, are rewarded for the right behaviors and for generating sales in ways that create long-term value for customers and for luxury brands alike. Through rigorous piloting, testing and learning, luxury compensation becomes part science, rather than pure haphazard art.

Step #7: Redesign Employee Recognition Programs to Celebrate Values-Based Behaviors

If employee compensation is broken, then employee recognition is usually non-existent in the luxury industry. At best, there are highly arbitrary "employee of the month" programs that encourage employees to compete with one another rather than cooperate on behalf of the company or customers. Few companies have developed or tested effective recognition programs that truly inspire and motivate the right values-based behaviors. Luxury brands need to identify top performers and celebrate them, but they also need to find ways to celebrate team players who provide “assists” to their colleagues although they may not close the sale. One critical area, data collection and usage, requires not only compensation, but also recognition, in ways that reinforce positive data management behaviors throughout the organization, and especially at the front lines.

Nordstrom has one of the best employee recognition programs in retail. Nordstrom has monthly recognition meetings where associates gather to celebrate sales performance, innovative ideas, and teamwork. Employee family members are invited to come to the celebrations. This generates personal meaning and goodwill for employees and their loved ones beyond the store. The company also has “Make Nordstrom Special” contests that reward innovation and rewards accepted suggestions with cash. Although seen as unnecessary by many luxury executives, companies such as Mandarin Oriental, Ritz-Carlton, and Nordstrom use high-energy employee recognition programs as a vital and precise tool in reinforcing the corporate values and in delivering extraordinary customer experiences.

Step #8: Reinforce the Culture and Values with Fun Daily Rituals

Once you have created a true Luxury CRM Culture that is unique to your brand, you must reinforce it and celebrate it with employees every day. Ritz-Carlton and Mandarin Oriental have borrowed the concept of the lineup that has been a tradition in top restaurants and have created their own versions of a daily lineup. At Ritz, the lineup occurs at the beginning of every shift at every hotel and at corporate headquarters. Teams or departments form a circle, hear announcements, hear about anniversaries, discuss one of the service values, hear examples of the Wow customer experience story of the day from somewhere in the world, and discuss how they can use this as way to create great customer experiences in their own locations. Although not every daily lineup is inspirational to everyone who participates, the message is sent that people are important, the values are important and that extraordinary service is paramount. While some may think it is a bit over the top, this type of tangible, fun and purposeful ritual is essential for customer-centric corporate cultures. Done with consistency, sincerity, and substance, a daily ritual such as the lineup demonstrates care for employees and customers in a powerful way that reinforces your Luxury CRM Culture.

Step #9: Make the Customer Experience Measurement Results Transparent Within the Organization

Using powerful metrics in a Luxury CRM Culture becomes even more powerful if you publish the results internally and if you use the metrics to compensate and reward desired results. At Ritz-Carlton, monthly reports let every property know their customer experience and other key performance scores along with the scores of every other Ritz property around that world. As one senior executive told me “No one, and I mean no one, wants to be at the bottom tier of that report. It is not only a question of reputation, but also compensation, and long-term career prospects.”

Experience in the medical field proves that when doctors and other medical services providers receive periodic report cards that are available to other doctors, insurers and patients, patient care results go up. Doctors, as it turns out, are very competitive. The same can be said for other professionals whose reputations are at stake with peers and other constituents. This customer-centric, fair and scientific approach to Luxury CRM Culture measurement has a profound and almost immediate effect on an organization. As long as the process is fair, accurate, and people have the resources to achieve the desired results, people will welcome the public feedback. Again, this is an issue of fear or courage for luxury executives to publish customer experience results internally. The tools for implementing such a process are readily available.

Step #10: Test and Learn by Using Pilots to Roll Out the New Culture, Values and Customer Experience

This last rule is designed to keep you from experiencing organizational breakage or betting the company on the first nine rules based on faith alone. All systems have a natural absorption rate. Even though Ritz-Carlton, Mandarin Oriental, Lexus, Nordstrom, and a few other great luxury brands use most, or all, of these techniques, no one but YOU can guarantee your own success. It may take a few years to achieve the desired state of Luxury CRM. The companies that the Luxury Institute is working with currently are all piloting these techniques in whole, or in part, and are testing and learning their way to success. Pilots are a critical part of the scientific process that guarantees successful implementation of a Luxury CRM Culture. Test early, test often.

In “The Talent Myth” chapter of his book Malcolm Gladwell goes on to describe how at Enron, the Talent Myth and misguided policies about what makes an organization great led to the demise of the company and even the prosecution of the best and the brightest of its senior executives. As he describes it, “It never occurred to them (McKinsey) that, if everybody (at Enron) had to think outside the box, maybe it was the box that needed fixing.”

So it is with most luxury organizations. Talent is important. But more importantly, it is the box that needs fixing. Leaders in luxury are out there looking for the Holy Grail of success, thinking that it will be found primarily in finding the right talent. Reality is that what makes luxury companies flexible, adaptable and sustainable over centuries is not individuals, but as Malcolm Gladwell states, a powerful system; in Luxury Institute lexicon, a Luxury CRM Culture.

Luxury Institute WealthSurvey

Sponsored & Paid Search Habits of the Wealthy

Paying for placement in search results is a popular strategy, but effectiveness is hardly assured. To grow sales in a recovering but still sluggish economy, luxury firms are rightly focusing on online marketing, with search engine strategies a key component. Understanding how to capture new customers and to build deeper relationships with existing ones is at the heart of any successful online strategy, and advertisers are trying to attract traffic to their sites by doing what they can to rank higher in Web searches, including paying search engines to elevate links to their brand or to place them strategically for particular search terms. To better understand the role of online searches in driving consumer behavior, the Luxury Institute surveyed wealthy Web surfers who earn at least $150,000 per year about their search engine habits. Respondents report an average income of $298,000 and average net worth of $2.9 million.

Most wealthy Web users (87%) are aware of the presence of sponsored or paid search results, and 69% have no problems clicking on a paid search result if it is relevant to their search. The troubling news for advertisers who spend money on paid search is that 52% of wealthy users say that paid results are not relevant and nearly-half (48%) report paying no attention to them. Two in five (41%) say they do not trust paid search results, with wealthy consumers younger than 50 much more likely not to trust paid searches than those who are older: 47% vs. 36%. Camouflage can be effective: 46% say that it is often hard to tell paid results from generic ones. One in four (26%) wealthy search engine users say that they often click on the accompanying paid results, a tendency more pronounced in individuals earning more than $200,000 than those earnings less: 30% vs. 20%.

Wealthy search engine users want to see relevant results quickly or they will modify their search. More than half (56%) don't last longer than the first page of results. One quarter (25%) needs to find what they want in the first few results or it's on to the next search, and another 31% make it to the bottom of the first page before changing their search terms. Women are more impatient than men, with just 50% of men gone after the first page while 62% of women redo a search before turning a page.

The overriding reason for not clicking on a result, cited by 78% of the wealthy, is a simple lack of relevance. More than half (52%) will shun a result because it doesn't have enough information visible; 26% will not click on a site that's unfamiliar to them, and 12% eschew a search result because it is listed too far down the page. When searching for merchandise, 51% avoid a site if it looks like a storefront for counterfeiters.

To tweak searches, more than half of the wealthy (56%) click on suggestions for similar searches provided by the search engine. Forty percent use the "did you mean" feature provided by Google and similar ones at other sites, and 34% use an advanced search function of some type, like narrowing the results to an area like "shopping" or "images." Almost one in three (31%) wealthy Web surfers uses quotation marks around search terms to cut down on stray results.

Placement location on the results page is a big driver of propensity to click and the reason why firms spend money on premium placement. Nearly two-thirds of the wealthy (63%) say that they will click first on a result at the top of the page not labeled "sponsored" or "paid." More than half (56%) will not even look at the results in the middle of the page or those placed lower. Search engine optimization is critical for growing a firm's online presence, but it's only one part of the puzzle along with CRM and, of course, solid execution of fundamentals in all facets of the customer experience.

*To purchase the complete Luxury Institute WealthSurvey "**Sponsored & Paid Search Habits of the Wealthy**," go to the "New WealthSurveys" section of our ONLINE STORE. Members of LuxuryBoard.com have free access to these reports via the Resource Center. Visit www.LuxuryBoard.com to join.*

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Handbags Europe	Men's Fashion Europe	Women's Fashion Europe
Handbags US	Men's Fashion US	Women's Fashion US
Hotels Europe	Men's Shoes Europe	Women's Shoes Europe
Make-Up	Skin Care	Women's Shoes US

2009 LBSI (Luxury Brand Status Index) Categories*

Automobiles	Gin	Rum
Automobiles Europe	Handbags Japan	Scotch
Automobiles Japan	Home Appliances	Table Wines
Bath Fixtures	Hotels	Ultra Luxury Autos
Business Publications	Jewelry	Vodka
Business Websites	Liqueur	Wealth Management Firms
Champagne & Sparkling Wines	Men's Fashion	Whiskey
	Men's Fashion Japan	Women's Fashion
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*All research is conducted with U.S. consumers, unless otherwise indicated

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