MARKETING LUXURY BRANDING BELOW THE RADAR

How companies can benefit from "inconspicuous consumption"

For nearly a decade marketers have been talking about the rise of "inconspicuous consumption": elite consumers' growing affinity for discreet rather than traditionally branded luxuries. Giana Eckhardt, a professor of marketing at Royal Holloway, University of London, watched with interest as the trend developed in Europe and the United States. But it took a 2012 sabbatical in China to convince her that this was a global phenomenon to which she—and every chief marketing officer in the luxury sector—should devote full attention.

"China was supposed to be the land of conspicuousness, but all of a sudden people were making fun of overt wealth and even taking the labels off their clothes," Eckhardt recalls. To find out why, and what companies could do in response, she and two colleagues reviewed the research on the trend and investigated consumer behavior in markets around the world. Although the evidence is more anecdotal than scientific, they concluded that three factors are driving the change.

First, now that luxury brands have spread to the middle class through diffusion and accessory lines, services such as Rent the Runway, fast-fashion copycats, and high-quality counterfeits, logos don't signal wealth the way they once did. As Wharton's Jonah Berger pointed out in a 2010 study, "If most of the buyers are merely thousandaires, rather than millionaires, the [product becomes] a signal of the wannabe rich." Second, upper-class consumers have become intrinsically less drawn to overt status symbols. Eckhardt and her colleagues say that although this may have started with a reluctance to stand out during the economic downturn of the late 2000s, it has persisted.

Third, social media have enabled the rise of niche brands (Goat womenswear, Bottega Veneta leather goods, Kimpton hotels, and Blue Bottle Coffee, for example) through which like-minded people of any socioeconomic stratum can send what Berger calls "subtle signals" to one another. His lab studies have shown that "the educated elite"—say, fashion students choosing which bag to buy—have a significant preference for "discreetly marked products, subtle but distinct styles, or high-end brands that fly beneath the radar," which gives the providers of those offerings greater longevity than their "more blatant counterparts."

Of course, all this poses a big problem for companies that have bet the farm on conspicuous branding. "Eighty percent of the organizations we talk to are not on top of it," Eckhardt says. "Their reaction is, 'What are we going to do? Our entire strategy is based on people buying products to signal their social status to others.' That's what they learned in their MBA programs. But we think this is a long-term shift, not a cyclical one. Twenty years from now people will look back and say, 'I can't believe we ever used brands in that way.'"

So far executives, consultants, analysts, and academics have been slow to recognize the trend's momentum and develop a response. But some best practices are emerging. Eckhardt's team cites two they think can help companies get out in front.

Redesigning offerings to downplay brand names and luxury. Some companies, including Louis Vuitton, Michael Kors, Tesla, and Audi, have begun downsizing their logos, hiding them (putting them on the lining of a handbag rather than on the exterior, for example), or making them optional. Emirates airline has revamped its plane layouts and boarding system so that economy class passengers no longer see the perks afforded those in business and first class. Patrón has reduced the gilding on its tequila bottles, and Tiffany has dropped the spelled-out brand name from its fashion jewelry line in favor of a simple "T."

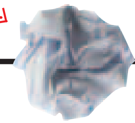
Subtle Signals
Some luxury brands have eschewed flashy logos and packaging in order to appeal to consumers' growing preference for inconspicuousness.

PATRÓN
Less gilding on its tequila bottles

BOTTEGA VENETA
No obvious branding on its leather bags

DENZA
Understated electric cars from Daimler in China

TOM FORD
A discreet shelf presence for its Private Blend fragrance collection



Surveys indicate that **55% of CFOs would not make an investment** with a positive net present value if it would mean missing the next quarter's consensus earnings.

"THE CITY AND CAPITALISM FOR THE LONG TERM," DOMINIC BARTON

Rebranding around experience, artistry, or utility. Eckhardt compares the Chinese luxury apparel brands Shanghai Tang (part of the Richemont group) and Shang Xia (owned by Hermès). She says that the former emits "very loud brand signals" and is "floundering," while the latter has a quieter presence—emphasizing the artisans behind its products, its tasteful stores, and its high-quality customer service—and is growing rapidly, especially in China.

Eckhardt also cites the hotel and resort chain Jumeirah, which markets the unique qualities of each of its properties—for example, tea service with honey collected from a rooftop hive (Frankfurt) and access to turtle rehabilitation projects (Dubai). Other examples include the UK department store Selfridges, which has created "intimate shopping spaces" that deemphasize brand and price; Apple, which competes with luxury watch manufacturers by highlighting the practical benefits of its iWatch, not its social-signaling power; and high-end farm-to-table restaurants that tout locally brewed ciders, free-range chicken, and organic heirloom tomatoes, not Dom Pérignon champagne, Kobe beef, and Almas caviar.

Eckhardt's team notes that some companies manage to have it both ways, however. Take Daimler, which still markets its conspicuously branded Mercedes line in China but has also launched the subtler, all-electric Denza brand there, or the fashion brand Tom Ford, which famously puts no logos on its clothes and packages its Private Blend fragrance collection in an equally plain way but sells the scent in oversized bottles in the Gulf region.

"The balance in a brand portfolio depends on the geographic market and the consumer the company is trying to reach today," Eckhardt says. "But we see inconspicuousness as an overarching global trend going forward. Luxury is becoming more personal than social."

ABOUT THE RESEARCH "The Rise of Inconspicuous Consumption," by Jonathan A.J. Wilson, Giana M. Eckhardt, and Russell W. Belk

COURTESY OF PATRÓN, BOTTEGA VENETA, DAIMLER, AND TOM FORD (*left to right*); ALVARO TAPIA HIDALGO (*Broadhead*)

THE IDEA IN PRACTICE

"WE FOCUS ON AN IMMERSIVE STRATEGY"

HBR spoke with Alison Broadhead, the chief commercial officer of Jumeirah Group, about the hotel chain's response to the rise of inconspicuous consumption. Edited excerpts follow.

How are you adapting to changing consumer tastes? Our ethos is "stay different." No hotel in our portfolio is like another. Our resort in the Maldives is very pared back; space is the luxury, which means you might have a 2,500-square-foot room. At Port Soller the views are what's luxurious. In Istanbul and Rome we're in historic buildings; the idea is to blend in and focus on local culture. Dubai is a more traditional luxury market, but we have a range of offerings, including boutique-style hotels and beachfront villas. There's something for everyone.

Do you think the backlash against conspicuous consumption will spread everywhere? People in developed economies have become a lot more focused on fulfilling emotional needs, and this includes travel and ensuring that their limited downtime is well spent. There's still an appetite for conspicuousness in emerging markets, but it's shifting quickly. Russian and Chinese people have really only been traveling for a generation, but they're already looking for more-curated experiences.

How have you shifted your marketing? We focus on a much more immersive strategy—we want to be visible and available when customers are looking for us, when they're dreaming and researching and of the mind to book travel. That's different from the big advertising splashes popular five or 10 years ago. We emphasize packages—food and beverage or spa and wellness, say—that offer extra value to different customer segments. And we've invested in online videos to create an emotional connection with current and potential guests. We're now the most-viewed hotel brand on YouTube.

Although **positive consumer reviews tweeted** on movies' opening weekends outnumber negative reviews by eight to one, it's the negative reviews that count: Box office sales are hurt by negative tweets but not helped by positive ones.

"DOES TWITTER MATTER? THE IMPACT OF MICROBLOGGING WORD OF MOUTH ON CONSUMERS' ADOPTION OF NEW MOVIES," BY THORSTEN HENNIG-THURAU, CAROLINE WIERTZ, AND FABIAN FELDHAUS

GOVERNANCE
THE SORRY STATE OF NONPROFIT BOARDS

Nonprofit directors often fall short in terms of knowledge and experience, and their boards as a whole need more-rigorous planning and procedures. Those are among the conclusions of Stanford researchers who recently surveyed 924 nonprofit directors. Some specific findings:

DIRECTORS LACK CRITICAL SKILLS	**27%** Directors who say that fellow board members lack a strong understanding of the organization's mission and strategy	**32%** Directors who are not satisfied with the board's ability to evaluate the organization's performance
BOARDS LACK FORMAL PROCESSES	**42%** Boards without an audit committee	**69%** Boards without a succession plan for the CEO or the executive director
FUNDRAISING IS OVER-EMPHASIZED	**90%** In organizations that require directors to fundraise, board members who say that task is at least as important as their other duties	**42%** In organizations that require directors to donate, boards with a "give or get" (donate or raise) minimum
UPHEAVAL IS COMMON	**69%** Organizations that have experienced at least one serious governance problem in the past decade	**23%** Boards that have asked the executive director to leave or have faced his or her unexpected resignation

SOURCE "2015 SURVEY ON BOARD OF DIRECTORS OF NONPROFIT ORGANIZATIONS," BY DAVID F. LARCKER, WILLIAM F. MEEHAN III, NICHOLAS DONATIELLO, AND BRIAN TAYAN

SHONAGH RAE

COLLABORATION
WHAT YOUR FIRM CAN LEARN FROM COWORKING SPACES

Coworking spaces—communal offices used by freelancers and remote workers for a fee—have never been more popular. They offer an appealing alternative for people who don't want to work at home, and they help companies reduce operational costs. New research shows another benefit: They may make people happier and more productive.

Gretchen Spreitzer, a professor at the University of Michigan's Ross School of Business, studies how people thrive. She and two colleagues discovered that people who use coworking spaces score nearly 6, on average, on a 7-point scale that measures thriving—a level so high they rechecked the data. Intrigued, they surveyed hundreds of people in coworking spaces across the United States and interviewed spaces' founders and managers. They identified three reasons people do so well in these settings.

First, people who use coworking spaces are more likely than others to find their work meaningful—not just for the work itself but also for the lack of competition and internal politics, the chance to use their skills to help others, and the social mission of some coworking spaces. Second, they have considerable control over when and where they work, yet more structure and motivation than many who work at home. Third, they report a strong sense of community, but one that isn't compulsory and doesn't feel forced.

What can traditional companies learn from this model? They can start with simple measures, the researchers say, such as having equal amounts of desk seats and other seating (couches, for example) in areas that can be used for either collaborative or quiet work. Some companies, looking to foster connections among their employees, have also taken guidance from the social and networking events often sponsored by coworking spaces.

Others, including Visa and the *Chicago Tribune*, have gone further, encouraging employees to use coworking spaces for a change of scenery or to inspire new ideas. For example, Ricoh's innovation team was based in NextSpace Santa Cruz for several months to see how people there worked and what obstacles they encountered—a process that led it to develop Smart Presenter, an app that facilitates paperless meetings.

"Our research…suggests that the combination of a well-designed work environment and a well-curated work experience are part of the reason people who cowork demonstrate higher levels of thriving," Spreitzer's team writes. Those results may lead more companies to reverse-engineer the benefits.

ABOUT THE RESEARCH "Co-constructing a Sense of Community at Work: The Emergence of Community in Coworking Spaces" by Lyndon Earl Garrett, Gretchen M. Spreitzer, and Peter Bacevice

COMPENSATION
CEO PAY CAN DRIVE CONSUMERS' DECISIONS

Despite widespread media coverage of high CEO pay, research shows that the public drastically underestimates the compensation differences between CEOs and their employees. A global study found that people think the CEO-to-worker pay ratio is, on average, 10 to one (and believe it should be about five to one)—but in most countries it's at least 50 to one, and in the United States it's 354 to one.

Would knowing the ratios change consumers' behavior? The answer, according to new research by Bhavya Mohan and two Harvard Business School colleagues, is yes. Consumers say they are likelier to buy from companies with CEO-to-worker ratios close to what they deem fair.

In several experiments, the researchers asked respondents about their willingness to buy a set of towels. In one study, some subjects were told the retailer's CEO-to-worker pay ratio was 1,000 to one (the estimated ratio at Walmart); others were told it was 60 to one (the estimated ratio at Costco); still others were told it was five to one. In another study, respondents could choose between retailers with different ratios. Across the board, people were more willing to buy when the pay ratio was low. And when asked to choose between companies with different ratios *and* different prices, about 30% said they would pay more for the same towels in order to support a more equitable company. The results held for other products, too. "We were surprised by how steep a price discount [50%] it took to make the products offered by a high pay-ratio firm as appealing to consumers as those from a low pay-ratio firm," Mohan says.

Companies with lower pay ratios than their competitors might consider disclosing that information to garner favorable consumer perceptions. (At some point U.S. companies may not have a choice: Congress has passed legislation requiring disclosure, although a timetable for implementation has not yet been set.) The researchers also suggest that boards keep these results in mind when setting CEO pay.

ABOUT THE RESEARCH "Paying Up for Fair Pay: Consumers Prefer Firms with Lower CEO-to-Worker Pay Ratios," by Bhavya Mohan, Michael I. Norton, and Rohit Deshpandé

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FROM THE ARCHIVE / 1963

"Some critics are concerned that the moon race will harm science; others feel that space research spin-off has not been what was so highly promised. For still others the problem is in the cost—the fact that **the price of going to the moon could buy a great many earthly goods and services."**

"BUSINESSMEN REVIEW THE SPACE EFFORT," BY THE EDITORS (HBR, SEPTEMBER–OCTOBER 1963)

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