Have Luxury Goods Lost Their Immunity Card?

Once considered to be bullet proof, the top end of the market has taken an unexpected hit this year.

IT WASN’T LONG ago that pundits were claiming that the luxury sector was impervious to economic conditions. Luxury, they said, was set to continue to grow – on steep trajectory with only good times ahead. Yet in sharp contrast of their predictions, sales at many of the world’s biggest luxury goods companies have shown marked slowdown in growth, while some have even reported losses.

Life was good if you were a luxury goods brand. Brands were expanding around the world, especially in emerging markets, snapping up prized real estate with impunity. The consumer demand for ‘it’ bags and other status goods enabled brands to hike up prices by 30 percent or more each year, demonstrating that part of the ‘luxury’ was in the high margins they yielded for the brand owners.

“There’s been a ‘bubble’ in luxury goods since 2010 and at some point it was bound to explode.”

— Aude Bousser, managing director at LBB Asia

So when Burberry announced a 10 percent drop in pre-tax profit for the year ending March 31, 2016 and Prada reported an 8 percent drop in sales in Ex, 2015 and Kering (owner of Gucci, YSL, Bottega Veneta and others) said that luxury goods sales grew only 2.6 percent in Q1 2016, compared with 11 percent in Q1 2015 it appeared that the luxury train has somehow jumped its tracks.

The truth proved again that no industry, no matter how lofty, is exempt from market conditions. Luxury loses its glamour.

“According to the figures, for Q1, this year’s growth rate for the luxury industry will be around 2-3 percent definitely not the 12-13 percent growth we saw in the past few years,” said Thierry Nataf, President & CEO of The Luxury Consulting Company, a Paris based strategic and business consulting firm dedicated to the luxury industry.

“From 2016-17 will be the year of consolidation. Part of the job for luxury brands this year will be to re-adjust to the (market’s) new reality,” he told Inside Fashion.

Another Bubble Bursts

The luxury goods boom during the past few years was largely fueled by the Asia markets, especially China, where pent up demand fueled rapid sales growth. Increasingly wealthy middle class consumers were flocked to purchasing luxury goods at home to traveling around the world, scooping up luxury products along the way. The sheer size of the Chinese tourist market was mesmerizing. Brands figured that, with a market of that size, not to milked too much out of their brands. When a luxury goods retailer (as well as some retailers in other categories) who had a joy ride in new markets by jacking up prices to 30-70 percent above what they were selling the same products for in the more mature markets. This prompted Chinese consumers to head off shore to shop.

“Luxury brands haven’t been able to craft out a successful strategy around the social media and e-commerce platform. Some are slow to embrace selling online, but more of them simply don’t know what they should do. So they just keep repeating the same formula or the same branding story, and it gets very boring for consumers. What’s more, simply selling story and creating lots of content doesn’t guarantee that consumers will swipe their credit card and buy the product,” said Mr. Bianchi.

“Brands have to review their value - be beer and so forth, it is definitely not just about price points,” said Mr. Burke.

E-commerce: Blessing or Curse

“Global e-commerce has made everything available to everyone everywhere and this ironically has made luxury brands less relevant to the targeted customer. One must have second thoughts about price points,” said Mr. Burke.

Luxury goods, which like most brands, are banking on Millennials to drive future sales might be disappointed. Unlike previous generations, Millennials are not interested in luxury the way their parents were, nor do they have the financial means to spend on luxury.

“Millennials are more frugal than Boomers since they grew up in the shadow of the Great Recession (post Financial Crisis),” — Ken Hewes, President & Strategy Leader at Mod Advisors

“Top luxury brands should remain for super rich and should not try to reach middle class, they should be more aspirational,” said Ms. Bousser.

“In the new environment, brands should measure success other than just revenue growth. The short-term gain sometimes may demolish the brand. Making it less accessible sometimes helps attract brand longevity,” said Maureen Atkinson, Sr. partner at J.C. Williams Group. “On the other hand, they should always give their core customer due stop. Talking about Millennials all the time. Baby boomers and Generation X actually wield more financial powers than Millennials. They are the real buyer of luxury goods,” she said.

“Brands need to cater to different markets also made it much easier for consumers to find out the price that products sell for in different markets. This has blinded luxury goods retailers (as well as some retailers in other categories) who had a joy ride in new markets by jacking up prices to 30-70 percent above what they were selling the same products for in the more mature markets. This prompted Chinese consumers to head off shore to shop.

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