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How luxury marketer H1 profit numbers can be knocked off-track

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[1]

Louis Vuitton Express

Most luxury marketers have reported tremendous profits during the first half of this year, but there are a number of factors including the economy, the presidential elections and recurring debt crises that could hinder this progress.

Luxury marketers ultimately have no control over the aforementioned factors that determine consumers' mood and desire to spend. Therefore, they must keep cultivating relationships and keeping the brand going through plausible marketing.

"There could be a trend reversal if there was a major political, diplomatic or financial crisis that caused a large downturn in the stock markets around the world," said Ron Kurtz, president of American Affluence Research Center [2], Atlanta, GA.

"Such results might be prompted by the sovereign and bank debt problems in various European countries, a military conflict with Iran or elsewhere in the Middle East, substantially-reduced economic growth in China or a double-dip recession in the United States," he said.

Half-empty or half-full?

Luxury labels from conglomerates to independent brands have been posting high sales and revenue for the first half of 2012.

For example, LVMH Moët Hennessy Louis Vuitton – which owns Louis Vuitton, Marc Jacobs, Christian Dior, Hennessy, Moët & Chandon, Zenith and Fendi – recorded revenue of approximately $16 billion, a 26-percent increase.


[3]

Mila Kunis for Dior

Meanwhile, Richemont – with labels Cartier, Van Cleef & Arpels, Jaeger-LeCoultre, Alfred Dunhill, Montblanc, IWC, Net-A-Porter and Piaget – had an increase of 24 percent on a reported basis and 13 percent on a constant currency basis.

Conglomerate PPR – owner of Gucci, Brioni, Bottega Veneta, Alexander McQueen, Stella McCartney, Yves Saint Laurent and Girard-Perregaux – reported an increase of 17 percent to approximately $7.9 billion.


[4]

Gucci

In addition, Prada and Miu Miu-owned Prada Group posted a $1.9 billion increase.

However, this could all be thwarted with the upcoming U.S. Presidential Elections, the continuing debt crises and global conflicts that could scare customers out of spending, according to experts.

"The reason for the big numbers is not because the economy has improved," said Al Ries, chairman of marketing consultancy Ries & Ries [5], Roswell, GA. "In the past when the economy was bad, many luxury-product buyers put off spending a lot of money because they just felt it was not patriotic.

"With no improvement in sight, I believe many luxury-product buyers decided not to wait," he said. "As long as they have the money to spend, they decided to spend it.

"What is money for anyway, except to spend?"

Looking up
Although half-one numbers are positive, there are some reports that spending has been down already in the second quarter.

For example, U.S. consumers cut back their level of luxury spending during the second quarter by 26.9 percent year over year, according to a report from Forbes [6]. This is a further decrease from the decline of 8.2 percent in the first quarter.

Indeed, luxury is a cyclical industry. After all, there is always going to be some money somewhere in the world.

"It is important to distinguish between the changes in sales and profits, with the latter typically showing a larger increase," Affluence Research's Mr. Kurtz said. "Also, with the Euro down versus Asian currencies, this could inflate the sales numbers of the European-based luxury companies."

However, despite these caveats, research for the past couple of years has shown that the truly affluent U.S. consumers, those among the wealthiest 1 percent of households who are the foundation of the true luxury market, have been willing and able to spend, according to Mr. Kurtz.

Luxury brands will also want to keep their eyes on China, which will continue to play a roll in second-half sales.

"For the first time, the Chinese are buying mid-line watches rather than high-end," said Chris Ramey, president of Affluent Insights [7], Miami. Adding that "luxury has depended upon emerging markets for many years.

"Any global economic change affects the category and China is slowing, not maturing," he said. "It is a natural cycle."

Therefore, brands should keep forming relationships with customers and making themselves seem like good corporate citizens, even when times are tough and consumers are wary about spending.

"Luxury marketers have virtually no influence over the type of potential environmental challenges," Affluence Research's Mr. Kurtz said. "Luxury marketers can insulate themselves to a certain extent by staying focused on the truly-affluent consumers and doing what is necessary to protect and increase sales to this all-important market segment.

"Luxury brands must also keep good control over inventory levels so that supply does not get out of balance with demand," he said. "This will help profit margins and offset the need to discount."

Final Take
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