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EDITORIALS

Marketers should prepare for Plan B

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Hong Kong's protests have caused a dip in luxury sales. Image credit: Hong Kong Tourism

By MICKEY ALAM KHAN

While it is no time to send out a code red, luxury marketers should be prepared for a slowdown caused by geopolitical turmoil and trade wars in some of the wealthiest markets worldwide.

Luxury spenders are more resilient than most, but their patience and appetite are not unlimited.

Add to that combustible mix of politics and trade the generations-in-waiting who prefer experiencing ownership as opposed to outright ownership and you have a perfect storm for luxury brands and retailers.

Country bumping
Political unrest in Hong Kong is about to force the hand of the Chinese government to quell dissent with a military response. A repeat of Tiananmen Square is not out of the realm of possibility.

The tit-for-tat trade war between the United States and China is a futile zero-sum game. Both presidents Trump and Xi are standing their ground, not willing to lose face. Consumers and companies are the net losers.

Germany is about to tip into recession. Its industrial economy is caught in the crosshairs of the U.S.-China trade war.

The United Kingdom will find out how united it is after Parliament returns from its summer break. Prime Minister Johnson is as determined as they come to bounce the U.K. out of the European Union, deal or no deal, guns blazing as he goes along.

To top it all, stock markets and bond markets worldwide are jittery. There is a growing flight to safe assets.

So what's new, you say?

A lotfor luxury marketers.

Make the connection
The luxury ecosystem is one of the most connected and globally integrated.

Five European marketsFrance, Italy, Germany, Switzerland and the U.K.produce most luxury goods. The United States is the biggest consumer of luxury goods and also one of the biggest providers of luxury services.

These markets, bar Switzerland, are about to be embroiled in the next, more hazardous phase of tariff conflict.

Brexit will surely jeopardize flow of goods and services between the U.K. and its continental neighbors. There is no guarantee that the U.K. will secure favorable trade terms with the United States if it does not ink a deal with the E.U.

China is also one of the top consumers of luxury goods and services.

An angry China could easily convincenay, coerceits affluent population to boycott luxury brands either as a patriotic gesture or retaliatory weapon.

More frightening, China can restrict its citizens from traveling to key markets.

A ban on individual Chinese travelers to Taiwan is set to seriously dent that market's tourism industry. Something similar may be imposed on Hong Kong, thus affecting the region's tourism, retail, hospitality, real estate, cosmetics, watches and jewelry, and travel sectors.

Major luxury conglomerates such as LVMH, Kering, Richemont and Swatch Group are set to take a hit in Hong Kong.

Set in the city
Another casualty of the SinoU.S. trade war is the New York luxury real estate market. Chinese purchases of swish luxury apartments have slowed to a crawl. It is a matter of time before New York luxury retail also sees fewer Chinese customers.

Hong Kong and New York matter to luxury, the former accounting for between five and 10 percent of global luxury sales and the latter for an estimated 30 percent. Add London and Parisitself recently recovered from the yellow vest movementand that accounts for an estimated two-thirds of the global luxury spend.

Luxury marketers should, in their scenario planning, focus on shoring up their strategy to maintain sales in key cities such as New York, San Francisco, Los Angeles, London, Paris, Shanghai, Hong Kong, Beijing, Rome, Milan, Berlin, Singapore and Dubai.

Smaller cities and shopping malls in key markets worldwide benefit from the halo cast off from these large metropolitan regions.

Marketers should explore more buy-online, pick-up-in-store options. They should strengthen their ecommerce and mobile operations. They should implement a strong customer experience program across all channels.

Most important of all, luxury brands should focus on their merchandise, customers and prospects. Affluent customers' wealth is indexed to the stock market. Any gyration leads to spending rethink.

So, marketers should align themselves closer to their customer base and get to know them better. If experience is what customers want over product, then develop an oeuvre that resonates.

LUXURY IS ABOUT quality, elegance, creativity, rarity, sustainability and story. But it has to be this generation's quality, elegance, creativity, rarity, sustainability and story. Get out that message and merchandise.

In an environment of geopolitical instability, macho-man antics, trade wars and a slackening global economy, keeping your best customers at sword's length is a recipe for disaster.

To treat what is going on in key markets as business as usual will not work. Brands need to add some color to their efforts to woo and retain customers in times of uncertainty.

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