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How would Trump's proposed import tax affect the luxury world?

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Donald Trump's economic and trade policies may create challenges for luxury activities

By BRIELLE JAEKEL

With recently instated President Trump floating the idea of a 20 percent import tax on goods coming into the United States, an already hurting luxury market might be impacted even further.

While affluent consumers are thought to not worry about a price tag, growing research shows that practicality is a major part of the decision making process. Consumers do not think about the price tag before tax, therefore a significant rise in tax at once could mean many turn down products from overseas.

"Consumers care about the after-tax price, not the before-tax price," said Steve Allen, associate dean for Graduate Programs and Research, including the Global Luxury Management program, at NC State Poole College of Management. "This means that any tax is an additional expense that sellers have to cover, an expense that will have to be passed on to consumers.

"So expect prices of imported luxury goods to jump and sales to drop," he said. "Consumers and retailers beware."

Implications to luxury

In a surprise twist for high-end marketers, it turns out that the majority of sales for luxury products come from Americans whose household incomes are less than $100,000 a year, according to Shullman research.

Many luxury brands think of themselves as catering to the affluent consumer with yearly salaries over $100,000, but research is showing that average Americans make up the majority of customers. While those with higher incomes spend larger amounts and buy more frequently, the average customer still makes a big impact for these brands, as they outnumber the affluent (see more).

This means the tax could be detrimental for high-end brands that come from overseas. After a previous rocky year and a disappointing outlook for 2017, luxury brands will have to rely on their loyal consumers.

But all is not lost for these brands.

Hublot Football campaign in Mexico

"If the GOP tax reform includes a boarder adjustment tax, it hits the cost of goods level, and the 20 percent tax would result in a low single digit increase in the cost of most luxury goods products to the luxury shopper," said Marie Driscoll, CEO and chief consultant of Driscoll Advisors, New York. "Moreover, luxury shoppers are global.

"Look at how the recent decline in the value of the British currency has created a splurge in travel to Great Britain and luxury spending there," she said. "The world's flagship cities are destinations in themselves and luxury shoppers are smart and opportunistic, planning their purchases around the best global pricing.

"Over the course of 2017, luxury brands can strategically think about raising prices, by adding qualitative differentiation to product going forward that support a higher price, they can then include some portion of the tax in pricing. The truly desirable brands don't have to do anything but maintain and increase their covetable status. Price is a small component of the overall luxury equation."

Countries and goods
Luxury brands that come from Europe and Asian markets are already behind U.S. brands. The behavior of millennial men is driving the market, leading 7 out of 10 top performing fashion and luxury companies to hail from the U.S. and has put increased focus on apparel and footwear, according to a report from the Boston Consulting Group (see more).

While President Trump's tax is being discussed only for Mexico right now, it could very well be implemented for all outside goods.

Four Seasons resort in Mexico

But even a tax on Mexico goods could be a major impact on the luxury industry, as the country is rapidly climbing the ranks of the luxury goods market. Mexico is the number one luxury goods exporter of Latin America and saw the seventh fastest growth out of countries within the luxury sector last year.

"There are a number of ways that brands could try to overcome this now but amongst others they could assess their pricing to see if there is anyway that these costs can be absorbed by the brands themselves," said Fflur Roberts, head of luxury goods at Euromonitor International. "Look at examples from China and Brazil with their huge import duties how have brands managed this are there lessons to be learnt.

"Mexico was the world's seventh fastest growing luxury goods market last year and has clearly cemented its position as number one in Latin American. Much of this growth has come from the rise in the middle class consumer but also a wider offering in affordable' luxury goods. A 20 percent import tax on luxury goods could therefore be hugely detrimental to the industry, putting Mexico in the same position as Brazil in terms of pricing," she said.

"It will also only encourage consumers (who can) to shop abroad for luxury goods but at the same time could further encourage a rise in the grey market, which would spell further bad news for brands, especially in a market that has already been plagued by corruption and crime."

1 thought on "How would Trump's proposed import tax affect the luxury world?"

1. Giuliana Venerosi Peasciolini says:

   January 30, 2017 at 12:20 pm
   Good news for EU luxury brands selling in the USA is the exchange rate Euro/Dollar now. And the point, always: make a fabulous product!