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MARKETING

US politics, market softening lead to luxury uncertainty

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Michael Kors is one of the U.S. companies still posting declining sales. Image courtesy of Michael Kors, spring/summer 2017

By STAFF REPORTS

The Savigny Luxury Index fell 0.7 percent, showing that the industry is far from fully recovered.

Between Bain's recent boost to its predicted luxury growth for the year and positive financial results from Kering and LVMH, the luxury industry appeared to be back on track. However, while some may be recovering, others are still waiting to regain their footing on a path to growth amid a challenging market.

Mixed results

The Savigny Luxury Index charts the market capitalization of luxury brands against the MSCI World Index, a benchmark that measures global equity across 23 countries. While the SLI dipped slightly in May, the MSCI dropped 1.5 percent.

Despite positive news, such as Moncler's 16 percent sales growth in the first quarter, the U.S. market has proven a challenge for both domestic and international labels. Both Burberry and Tod's noted softness in the U.S. market as a contributor to their respective sales declines.

The SLI partly attributes this to continued turbulence in U.S. politics, as uncertainty surrounding the probe into the Trump administration's Russian ties continues.

Most U.S. labels measured in the index, including Ralph Lauren, Michael Kors, Tiffany & Co. and Coach, also noted decreased sales. Due to its acquisitions, Este Lauder was the one U.S.-based company in the SLI to see growth.

Pyper America Smith outside Tiffany's flagship. Image credit: Tiffany & Co.

In response to the market challenges, some brands are changing their strategies. Michael Kors is closing about 100 stores, while Richemont is regrouping following industry buy-backs last year by pulling back on production.

While some luxury houses are still posting declines, recent research has projected growth for the overall industry this year.

The global luxury market is expected to bounce back this year with predicted growth of 2 to 4 percent, according to a new joint report from Altagamma and Bain & Company.

This growth can be attributed to a healthy desire for luxury goods from Chinese consumers, many of whom buy their luxury products internationally. Additionally, increased consumer confidence in Europe is also driving luxury's growth (see story).

Savigny Partners' newsletter suggests that those in the industry may want to focus on long-term profitability rather than quarterly growth, future proofing themselves.