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GOVERNMENT

Planning for impact of tax reform on luxury

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Consumers will vote with their feet. Image credit: Prevedere and iStock

By Andrew Duguay

Since the beginning of the year, many U.S. businesses have been attempting to plan for the impact of the new tax reform law.

At the outset, many large U.S. corporations such as The Home Depot, FedEx, Walmart and Walt Disney Co. took the money that they saved as a result of the slash to the corporate tax rate and immediately distributed that savings to employees in the form of bonuses, wages and bumps to retirement plans.

While this initial influx of cash into consumers' pockets has received much attention, the impact of these bonuses will be short-lived and largely insignificant to the economy as a whole.

Changing consumer landscape

These bonuses were largely distributed to hourly, low-income earners and will likely be spent relatively quickly on splurge items with brands that these consumers already patronize.

However, over the long haul, this tax reform will have a larger impact on luxury brands, as the benefit it provides to the wealthiest U.S. consumers is no flash in the pan.

Tax cuts will consistently increase discretionary spending for high-income earners. In fact, it is projected that tax cuts will bump disposable income from 1 percent to 3 percent with this demographic, which is an extremely healthy level.

So while Big Box retailers might experience a short-term swell in sales, luxury brands that plan appropriately may actually reap the benefits for some time to come.

Relationship status

The first step for brands in investigating whether or not they should allocate their marketing dollars towards reaching wealthy consumers is to evaluate their existing relationship with this demographic.

So, are high-income earners an existing part of your brand's core demographic? If the answer is yes, then it makes sense to target them with marketing messages that appeal to the fact that they have more disposable income.

Perhaps now is the time to renovate a vacation home or charter a yacht in the Mediterranean.

If the answer to that question is no, than it is a waste of marketing dollars to try and reach a new, highly niche demographic whose loyalties already lie with luxury brands they know and trust.

Past as a future indicator

Brands should look to past income tax rate cuts of the Ronald Reagan and George W. Bush eras for the wealthy.

Acknowledging other political, cultural and social factors at play during these times, how did the wealthiest Americans' purchasing behavior change in the past during times of tax cuts?

This may offer perspective on how the ultra-rich might interact with brands during periods of increased wealth and could yield potential insight into consumer behavior that is still relevant today.

Adjust based on location

Wealthy consumers in states with low or no state income tax will benefit most from tax cuts, as they will see the most disposable income hit their bank accounts.

As such, brands should segment their marketing strategies accordingly.

For example, Herms might double down on reaching customers in Texas or Florida, as opposed to California or New York, given that wealthy consumers in the former no-income-tax states will have even more money to spend.

WHILE THE FIRST-QUARTER bonus season may be winding down, the wealthiest Americans will long feel the effects of President Donald Trump's tax.

Luxury brands that plan ahead will be best positioned to reap the benefits.

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