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LUXURY MEMO SPECIAL REPORTS

Government – Luxury Memo special report

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Luxury brands must negotiate tricky political waters in today's climate. Image credit: Gage Skidmore via Flickr

By DANNY PARISI

The past two years have seen some incredibly tumultuous times for the governments of some of the largest luxury markets in the world.

From Brexit in the United Kingdom to the elections of Emmanuel Macron in France and Donald Trump in the United States, these countries have gone through major changes. With those major changes have come large shakeups for the luxury world.

Trade wars, tariffs, populist upset, invasions of privacy by private companies and changing regulations have all altered the way luxury brands advertise and sell to consumers around the globe. For those brands, understanding their new realities and how best to navigate them is crucial to survival in an increasingly competitive world.

"We encourage all brands and retailers doing business in the United States from luxury brands to fast-fashion retailers and everything in between to get involved in the policy process, either through your trade association or on your own, or both," said Samantha Sault, vice president of communications at the United States Fashion Industry Association, Washington, D.C. "In addition to advocating for brands' and retailers' interests in front of the Trump administration and Congress, the United States Fashion Industry Association provides opportunities throughout the year for companies to meet with policymakers and voice their concerns.

"With regards to the Section 301 tariff proposals, keep an eye out for opportunities to file comments on how tariff increases will affect your business and your ability to create jobs in the United States, and when the time comes, file for product exclusions," she said.

Top 5 trends in government

- Trade war

  One of the key tenets of President Trump's campaign was that America is not getting a fair deal from its many trade partners and needs to act to harshly punish other countries for doing so. Whether this claim is true or not, Mr. Trump has ignited trade wars with countries such as China, Turkey and even the entire European Union, taxing or threatening to tax goods incoming from countries that were otherwise valuable trade partners for luxury goods.

- GDPR and privacy

  The European Union's General Data Protection Regulation introduced sweeping changes to how advertisers could collect and use information. While ultimately better for consumers, the GDPR forced many brands to switch strategies when it came to advertising. Other notable data breaches such as the Cambridge Analytica scandal at Facebook have made data and privacy a hot-button issue in seats of government and in the luxury business.

- Working conditions

  One of the most important but overlooked elements of how luxury brands deal with the government is with the importance of maintaining proper working conditions for those brand's employees. Whether that means the artisans that make the goods or the models that help sell them, luxury brands must adhere to strict rules about how to protect those workers and ensure that they are being compensated and treated fairly.

- Brexit

  No issue has divided Europe in the last few years more than Brexit. When the U.K. voted by popular referendum to leave the E.U., it caused a major rift that sent shockwaves throughout the region. Even now, businesses and brands are still sorting through what the decision will actually mean in the long run, but seeing as Europe is one of the largest producers of luxury goods, Brexit will undoubtedly have a major effect on luxury production and sales regardless of what form it ultimately takes.

- Political tensions

  One of the biggest trends in government and politics right now is the growing tensions between the U.S. and other countries. President Trump's nationalist agenda and penchant for aggressive saber-rattling has increased tensions with a number of countries across the world, including China, North Korea and Iran. The luxury business as a whole is a global trade and the increased tensions have had a deleterious effect on luxury brands.

Trade wars

Luxury is an inherently international business. Brands from France or England or Spain routinely do business with consumers in the U.S., Qatar and China, along with many other places around the world.

This international nature means that the trade regulations between countries have a major effect on the global luxury market.

For this reason, when trade is threatened, either by geopolitical tension or by hostile policies, luxury brands need to take notice.

Stoking this type of trade tension has been a major theme of the first year and half of President Trump's time in office. He initially proposed major taxes on aluminum and steel, something that would put high pressure on valuable trade partners in China and Europe.

Much of the president's rhetoric has focused on vilifying China and claims that the country is profiting greatly off trade imbalances between China and the U.S.

In retaliation, the president has suggested that heavy tariffs on imported goods from China will help boost the American economy, but many experts disagree.

China has become an important market for China. Image credit: The Luxury Conversation

The latest voice to join the chorus of criticism is the National Retail Federation, which has issued a harsh statement against the tariffs. The NRF cites inflating prices and difficulty of operations as major downsides of potential tariffs (see story).

After walking back some of his more aggressive threats on tariffs, President Donald Trump has publicly contemplated placing heavy duties on imported cars.

While likely aimed at cars produced in China, a popular target for the president's ire, the proposed tariff would also affect luxury cars such as Rolls-Royce and Ferrari. The tariffs the president proposed would reach up to 25 percent, placing a significant toll on foreign exporters and the customers in the U.S. who desire foreign cars.

Brands such as Ferrari, Jaguar and Lamborghini would all be affected by the proposed tariffs, making an already expensive car even pricier.

For ultra-wealthy luxury consumers, price is not an object, especially when it comes to cars. However, for aspirational luxury consumers, those who save up for a few rare luxury purchases, any potential price increase could turn into a lost sale for these marques (see story).

"I would expect to see some minor negotiations going on to blunt the most dire possible effects of these tariffs, but foreign luxury products, such as one of President Trump's favorite recent targets in Mercedes-Benz, are high-visibility targets to his supporters," said John Kuzenski, professor at the department of management, innovation & entrepreneurship at NC State University, Raleigh, North Carolina.

"Even if many Mercedes products are made in the USA, it is a foreign company stuck in a nativist political mileau," he said. "As a high-ticket luxury product, it also garners little sympathy from those on the lower end of the socioeconomic spectrum who are the base of Trump's support.

"I think that environment, in this particular case, would suggest that luxury brands may well rethink their short-term marketing strategies, at least, to weather the storm-- pulling away from U.S. markets a bit and looking to increase awareness and sales in emerging markets such as Asia. There will be pressure to maintain or lower prices in some sectors as well. We're already seeing some luxury brands take that approach in Japan and China to maintain robust sales worldwide."

Automakers need to prepare for the impact that possible tariffs may have on sales in the U.S., as a new study finds prospective buyers could consider opting for used cars.

According to a report from Autolist, 65 percent of consumers expect car prices to climb if auto tariffs come to fruition. However, 45 percent of consumers also incorrectly believe that U.S. automakers would not be impacted by tariffs.

These tariffs would also impact United States automakers including General Motors, Ford and Fiat Chrysler. Many American-made vehicles include foreign parts, so tariffs would still cause production costs to rise stateside.

Mercedes' GLC would cost over 20 percent more if tariffs are implemented. Image credit: Mercedes

According to reports, if automakers choose to pass on increased costs to consumers, prices could rise by up to 20 percent a difference of thousands of dollars. More than half of respondents, 53 percent, expect carmakers to put the burden of higher production costs on buyers and raise prices (see story).

The purported increase on tariffs in the U.S. comes at a time when China has been doing quite the opposite.

The Chinese government is significantly cutting tariffs on imported beauty products including skin and hair cosmetics in a move expected to boost the growth of brands such as Este Lauder and Lancme.

Tariffs on imported beauty products will drop from 8.4 percent to 2.9 percent starting July 1. According to data from Kantar, as Chinese consumers continuously desire products from outside of the country, particularly luxury products in the cosmetics category, the lowering of tariffs will be a significant boon for brands targeting the lucrative market.

China is one of the largest consumers of luxury goods in the world, as numerous studies throughout the last year have confirmed (see story).

Chinese consumption of imported cosmetics grew by 40 percent last year. Image credit: Kantar

The U.S.-China trade war has become a major governmental issue for luxury brands, but some progress may soon be made.

In August, officials from the United States and China met to discuss the contentious trade negotiations between the two countries for the first time in months, continuing to negotiate tariffs that could have a major impact on two of the largest luxury-consuming nations in the world.

The discussion came amid tense talks that have gone on between the two countries, exacerbated by comments from President Donald Trump predicting that there would be little progress from the meeting (see story).

Privacy concerns

By far one of the most important issues facing consumers today is privacy and use of data.

Data and information are a currency on their own and what information customers are willing to give becomes valuable to brands and advertisers as it helps them market and sell their products better.

However, privacy comes with its own set of concerns regarding how that data is used.

One of the most notable events concerning data and privacy recently was the Cambridge Analytica scandal, in which the aforementioned company was found to have misused a vast amount of data unknowingly collected from users by Facebook.

The scandal was huge, prompting Mark Zuckerberg to testify in front of Congress.

Facebook's privacy scandals seem never to end as the company yet again was revealed to have given users' data away without their consent.

Just a few months after the Cambridge Analytica scandal, a new report from *The New York Times* has found that Facebook gave away years' worth of data on consumers to smartphone manufacturers including Apple and Samsung. While the partnership between Facebook and these companies has been public knowledge, the extent of the data given away, including that of customers who did not consent to this specific partnership, is only now being revealed.

According to the report, Facebook gave large amounts of personal user data to more than 60 creators of smartphones, including Apple, Samsung, Blackberry, Amazon and Microsoft. The report also found that those companies were able to access the data of users' friends, without their consent or even if they had barred the sharing of data through Facebook.

Facebook's latest data scandal further harms the platform's relationship with users. Image credit: CSPAN

Facebook had previously assured the public that the ability for third parties to access data from users' friends without their knowledge had been discontinued in 2014, but the company did not disclose that device makers were exempted from that ruling (see story).

These types of scandals have prompted governments to crack down harshly on how private companies can collect and user consumer data.

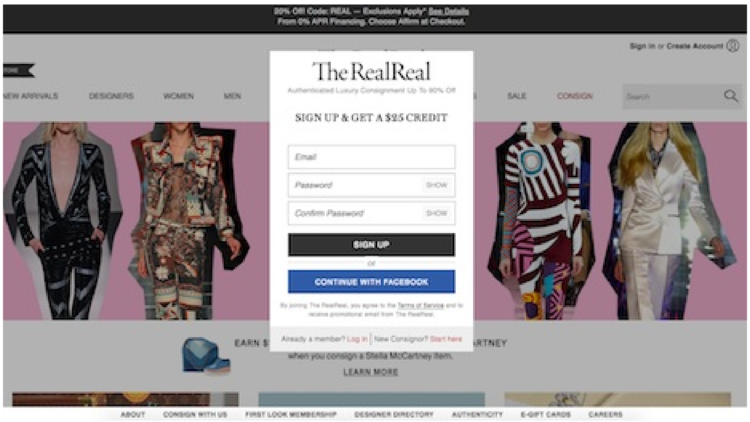
In June, California signed into law one of the toughest data privacy laws in the United States.

The law, which was signed on June 28, is on par with the European Union's General Data Protection Regulation in terms of the restrictions it places on the collection and use of customer data. While it is only a single state solution now, California policies are often used as a test for laws that will go into effect in the rest of the country.

The GDPR in the E.U. is one of the most stringent data regulations in the world.

When it came into effect, the collective shift in how companies use personal data had consumers throughout the world joking about the frequency of receiving updated privacy policy notifications.

Now, California has passed its own stringent data protections with a law called the California Consumer Privacy Act.



The RealReal asks for opt-in data immediately upon site entrance. Image credit: The RealReal

This bill proved extremely popular when it was introduced, passing unanimously through the Senate and the Assembly and being signed into law within hours (see story).

The GDPR itself is one of the biggest data protection laws ever passed and stands to have a major effect on how brands market through data.

This regulation has the potential for retailers and brands to lose significant amounts of customers' data.

GDPR requires companies to be much more transparent about what data they collect and what they do with it as well as requiring that consumers reiterate affirmative consent to being sent emails and targeted with other data measures. Even if the public's general sentiment finds these uses of data non-intrusive, brands stand to lose a lot simply through customer inaction in providing affirmative consent.

Brands will have to send messages to consumers asking them to actively opt-in to continue receiving updates, promotions and targeted marketing.

Experts warn that these brands stand to lose a sizable chunk of their database simply through users not having the time or conviction to go through all of their emails and actively opt in to all of them.

Additionally, even for customers that do see the option to opt in, they may take the opportunity to thin out the amount of messaging and marketing they receive by opting out.

The time and resources required to inform customers on the nuances of GDPR as well as the active participation it requires from them will be a challenge for retailers around the world (see story).

The E.U. has been working hard to crack down on large companies and strictly regulate their use of data outside of the GDPR.

Google was recently been hit with a massive $5.1 billion antitrust fine from the European Union over its Android operating system, putting pressure on one of the biggest advertising platforms in the world.

Google's software dominance has led to its success in the hardware sector as well. Image credit: Google

The fine is an incredibly aggressive regulatory action demanding that Google changes its business practices with regards to Android, the most popular mobile operating system in the world. The E.U.'s actions are consistent with its larger move to curtail the power of major American tech companies, which could have a major impact on advertising and search results for brands across the globe (see story).

Brexit woes

In 2016 when the U.K. voted to leave the European Union, it sent the region into a prolonged chaos as politicians, business leaders and regular citizens came to terms with what Brexit would mean.

The U.K. is a large part of the European economy and produced and consumes a significant portion of the region's luxury goods.

When the United Kingdom has just begun its negotiations to leave the European Union, a report from Walpole found that about half of the luxury organization's members were already experiencing some negative effects from the split.

Now that the U.K. has triggered article 50, Walpole is making policy recommendations that will support the luxury industry's needs, including trade, talent and tourism. A valuable part of Britain's economy, the luxury sector represents 2.2 percent of the nation's total GDP.

Walpole stressed the need to allow brands the resources they need from the rest of Europe, whether materials or talent.

Between 30 to 40 percent of workers in Britain's luxury industry come from other parts of the E.U., and this statistic is even higher in hospitality companies. While citizens can move freely between E.U. member states, the U.K. is expected to take back control on immigration.

In addition to protecting British residency for current employees, the report also asks for the continued free movement of labor, something that 83 percent of members agree on (see story).

Walpole made an additional statement the next year urging the U.K. government to protect jobs in the nation post-Brexit.

Helen Brocklebank CEO of Walpole makes a statement. Image credit: Walpole

The group is hoping to see a pro-business Brexit to protect the country's luxury business, which it says contributes 32.2 billion pounds, or $42 billion, to its economy. Walpole states that British luxury brands are committed to keeping their businesses within the country despite fears of a hard Brexit (see story).

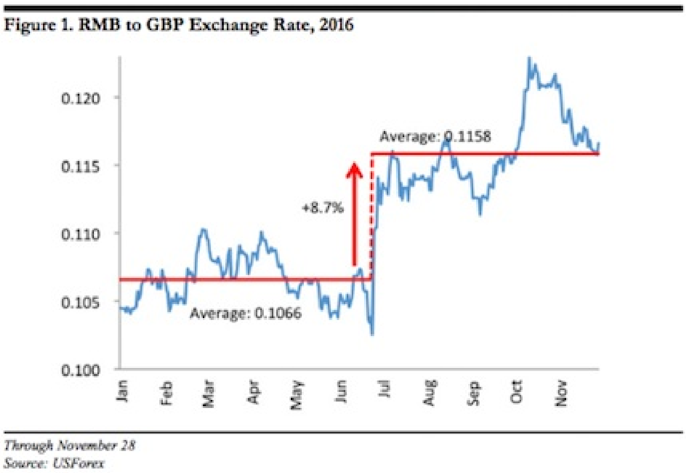
However, not all of luxury was shaken by Brexit.

Chinese travelers' spending on luxury goods in the United Kingdom rose significantly after the country voted to leave the European Union.

This data comes from Fung Global's report on Chinese travelers in the U.K. The report found that the number of visitors from China to the U.K. has steadily increased over the years and Chinese spending on luxury goods while abroad saw a sharp increase in the wake of the Brexit vote and the subsequent depreciation of the British pound.

After the U.K. voted to leave the European Union, uncertainty sent the British pound spiraling.

While the citizens of the U.K. were still reeling over the surprise win for the Leave campaign, international travelers seized on the opportunity, with the depreciated currency making the country a more attractive destination for tourists.



Favorable exchange rates are fueling the surge in travel. Image credit: Fung Global

Additionally, the depreciated pound has meant that spending while abroad in Britain has become more appealing as well. Among no group is this more prevalent than the Chinese traveler, a frequently studied group in luxury research given their propensity for making large purchases while abroad (see story).

Negotiations between the U.K. and the E.U. surrounding Brexit are still ongoing but have caused concern among some luxury brands.

British automaker Aston Martin has joined the throngs of brands in the United Kingdom requesting clarity surrounding Brexit.

Aston Martin is seeking clearer responses in regards to planning in the auto industry when it comes to Brexit. However, the automaker has stated that many questions have been answered this week, thanks to a decision made by the prime minister and her cabinet.

Officials in the United Kingdom have come to an agreement on its future trade regulations with the European Union.

The decision answers many concerns the auto industry has raised in regards to the U.K. leaving the E.U.

Aston Martin had hoped to see little to no tariffs introduced that could cause issues for businesses in the U.K. and the E.U., as well as regulatory divergence and "other barriers" (see story).

Turmoil in the government of the United Kingdom has made the possibility of no deal on Brexit with the European Union a likely reality.

Two of the main architects of Brexit, Boris Johnson and David Davis, have resigned from their posts, citing disagreement with the handling of negotiations by Prime Minister Theresa May. With a firm deadline of March 29, 2019, the possibility that the U.K. may get no deal with the E.U. is looking all the more likely.

The public resignation of two major Brexit architects is putting a significant damper on the process of negotiation, further stalling an already slow process.

Regardless of whether or not negotiations follow through, the deadline for Brexit is firmly set for the end of March next year. If the U.K. is unable to negotiate a satisfactory deal by that time, the country will have to live with no deal (see story).

"Whenever you have an economy as large as the United Kingdom's leave an economic alliance such as the European Union, there will be an impact we are already seeing an increase in 'grey market' activity in parts of Europe, supply and vending operations that are not authorized by the luxury producers themselves but they take advantage of the kinds of fluctuations in currency values and political uncertainty that events like an increasingly likely 'hard Brexit' tend to produce," NC State's Mr. Kuzenski said. "That, of course, is bad for the brands involved which would often rather cut back and destroy excess inventory than have it selling at a discount somewhere to protect the rarity and price of their goods in circulation.

"I suspect the greatest impact will be felt by British luxury consumers with respect to the larger luxury market across the rest of Europe than by other countries trying to make do with less of, for example, Burberry although its interesting to note that Burberry has seen substantial growth in U.K. sales in the last few years, so they've made out reasonably well in the short term with the current uncertainty about Brexit," he said.

Working conditions

Luxury brands also must contend with another set of challenges: ensuring that their employees are fairly compensated and treated well.

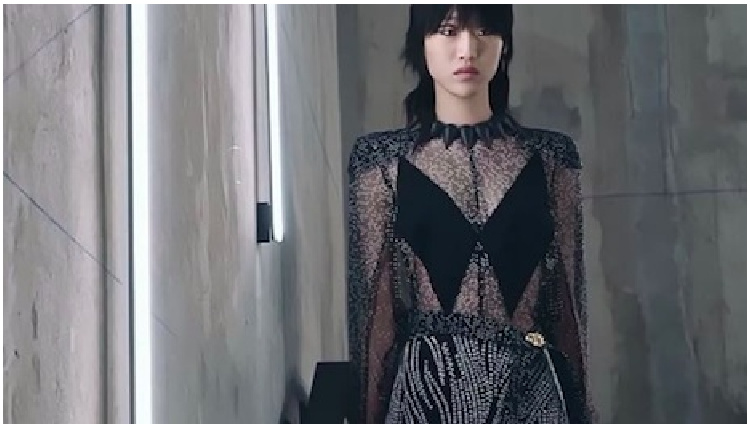
Labor laws are an important part of running a business, but some members of the luxury industry do not have the same protections as others.

The luxury industry is built on the work of women in modeling and manufacturing, but too often their problems are waylaid by the men who hold all the power.

With the flurry of stories of sexual harassment and assault from powerful men that have emerged in the weeks since the allegations against Harvey Weinstein, the luxury world is thinking about the ways that its own vulnerable members are treated. Speaking at The New York Times' International Luxury Conference Nov. 14 last year, Sara Ziff, former model and founder of Model Alliance, spoke about the ways in which models are overlooked now and what the #MeToo campaign means for luxury.

Despite being the most visible members of the fashion world, models have relatively little power or protection in an industry that can be incredibly hard on them.

For instance, until recently, models were not technically protected by child labor laws in New York. Ms. Ziff's organization worked to correct that, yet similar problems persist.



Models are often victim to nonexistent labor laws and sexual harassments. Image credit: Louis Vuitton

Models are still not protected against sexual harassment in the work place due to their status as freelancers (see story).

As the conversation surrounding sexual harassment, abuse and the issues plaguing women across industries continues, two new platforms have sprung up to advocate for models, who are among the most visible yet least protected members of the luxury business.

The newly-launched Humans of Fashion Foundation is a nonprofit group dedicated to addressing and preventing the issues of sexual harassment and abuse in the fashion industry, with a particular emphasis on the abuse suffered by models. Similarly, luxury conglomerates Kering and LVMH are building on their existing co-signed charter to improve models' working conditions with the launch of a model wellness site.

Together LVMH and Kering have launched Wecareformodels.com, a wellness site dedicated to models, serving as a resource for them to learn about their rights, how to deal with sexual abuse and harassment and empower themselves to fight back against abuse (see story).

Luxury brands in the jewelry sector are also working with governments in the nations where diamonds and gold are mined to improve working conditions.

Gold is one of the most important metals in the history of the human race, yet so much of how it is mined and sourced today is still rooted in cruelty and poverty.

At Initiatives in Art and Culture's Gold Conference on April 13, a panel of experts from the jewelry industry spoke about the troubles with the mining of gold and the path towards making it more sustainable and ethical. Panelists explored the working conditions of miners and how jewelry companies can positively effect change.

Gold is one of the most ethically fraught materials in the world. Image credit: Signet Jewelers

No magic bullets exist that will instantly purify a jewelry company's supply chain of ethical and environmental issues. Instead, those companies have to work hard to make that happen.

Integral to that change will be for brands to include representatives from the miners in the form of labor unions, from local governments in areas where gold is mined, suppliers and shipping companies and more.

Any person who is involved with the supply chain of gold mining needs to be brought onto the same page if progress is to be made (see story).

Looking forward

The relationship between luxury brands and the governments of the countries they operate in can be complicated.

When leaders squabble and laws change, those brands have to adapt to new realities, whether that be in the form of changing their privacy policies, transforming their international relations or rethinking their relationships with their own governments.

As the world continues into a politically volatile situation and tensions between formerly friendly trade partners increases, brands must be aware of how they fit into the world of geopolitics and how the decisions made at the highest level of power affect them.

"Anything that disrupts the supply chain can have consequences for businesses and consumers," USFIA's Ms. Sault said. "USFIA and our partner organizations in the European Union are keeping an eye on the implications of Brexit, including the potential for new tariffs and non-tariff barriers as well as the impact on consumer demand."

Best practices

- John Kuzenski, professor at the department of management, innovation & entrepreneurship at NC State University, Raleigh, North Carolina
  - "Always hire, use and interact regularly with the best lobbyists, attorneys and regulatory specialists in your key market countries, because as we see increasing pressure placed on large, formal international trade alliances and a continuation of nativist and nationalistic sentiment in our politics, weathering that storm in any given country is going to require a higher level of expertise to keep up with less predictable and probably more radical changes.
  - "Have a great Plan B, and a Plan C or D wouldn't hurt either a lot of 'What if?' and disaster scenarios worked out in the executive suite with plans to change manufacturing or supply chain locations if necessary and things of that nature would be critical for luxury brands to have all mapped out. I don't think they should be passive victims of 'tariff politics' either luxury producers have a lot of pull with some of the wealthiest and most influential people, their clientele, in some of the world's largest economies. As a protective measure, I would argue that the more they go on the attack reminding politicians of their impact on some national economies the more they'll get noticed as anything but a passive victim of these populist political waves."
- Samantha Sault, vice president of communications at the United States Fashion Industry Association, Washington, D.C.
  - "As companies on both sides of the Atlantic are grappling with trade protectionism, it's important to build

a network, both outside and inside your company. Join with other companies to amplify your voice on the key concerns. Trade associations, like USFIA, can help you navigate the policy process and developments, gather intelligence, train your employees on new regulations and even set up meetings with Administration officials and policymakers.

- "Share information within your company, too. It's important for your legal team and government affairs managers to have an understanding of your company's supply chain and the jobs you create, so you can have an even stronger message when you do speak to the government."