

FINANCIAL SERVICES

Luxury stocks stumble after warning from Apple

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European luxury stocks took a hit following concerning news from Apple. Image credit: Prada

By SARAH RAMIREZ

Luxury brands have seen their stock prices stumble amid concerns that weakening sales of iPhones in China could foreshadow slowed consumer spending in the world's second largest economy.

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Technology giant Apple announced that its \$84 billion in revenues for the quarter ending Dec. 31 would fall short of the company's projections of up to \$93 billion. Since CEO Tim Cook specifically mentioned slumping sales of its high-priced smartphones in China, many investors are worried that sales of luxury goods may further slip amid other economic tensions.

"The fall-off in demand for Apple iPhones in China results from multiple factors converging that are specific to Apple," said Marie Driscoll, managing director for luxury and fashion at **Coresight Research**, New York. "Tim Cook has pinned the weaker demand for iPhones, Macs and iPads in China on several factors, including a slowing economy worsened by trade tensions and high prices tied to U.S. dollar strength.

"For the past 10-plus years, carrying an iPhone was social currency, the equivalent of a high-priced watch or handbag," she said. "Without the mandatory innovation to wow consumers, consumers could move on to another product to communicate cool, such as sneakers, as they already have.

"This is the warning to luxury brands: your heritage and past success means you will be part of the consumer's consideration set, to be chosen demands something more every day," she said.

Luxury slowdown

Among the luxury companies that saw their European stocks fall following Apple's announcement were conglomerates Kering and LVMH, British fashion house Burberry and Swiss watchmaker Swatch.

With its upscale electronic offerings, Apple has long had ties to the luxury business. Over the years, a number of luxury brands have embraced Apple's technology with companion products.

The biggest and most robust iPhone in Apple's current arsenal is the iPhone XS Max. Both this device and its smaller counterpart the iPhone XS come with a price tag of more than \$1,000 ([see story](#)).



The Apple Watch and iPhones have been associated with luxury goods for years. Image credit: Herms

A year ago, the consumer electronics maker reduced production of its iPhone X by 50 percent. The model did not perform as strongly as Apple had hoped, with slow sales in Europe, the United States and China ([see story](#)).

The global luxury industry has been propelled by exponential growth from China, making a long-term slowdown all the more foreboding.

Luxury sales in mainland China alone grew 18 percent in 2018, according to the 17th edition of Bain & Company's Luxury Study, produced in partnership with Altagamma.

Currently, Chinese consumers account for about a third of the luxury market, but Bain expects this to grow to 45 percent by 2025.

While luxury shopping is a popular activity for many Chinese traveling abroad, it is also becoming much more common on the mainland. Mainland China's share of global luxury spend is now at 9 percent, compared to a 33 percent share while out of the country ([see story](#)).



Burberry saw its stock dip amid concerns over Chinese consumer spending. Image courtesy of Burberry

Luxury stocks have already been impacted by the ongoing trade war between the United States and China, as well as crackdowns on the daigou market. The business' biggest public companies saw their share price slide in November.

In November, the Savigny Luxury Index that tracks the stock trajectory of 18 firms fell 11.3 percent, putting the average share price below where it started in January. With uncertainty surrounding China, the luxury business is in turn facing a slowdown in both sales growth and stock performance ([see story](#)).

U.S. jeweler Tiffany & Co. is among the brands that experienced a decline in international tourist spending in the latter half of 2018, including that of Chinese travelers ([see story](#)). Meanwhile, Swiss watch sales in China grew by 15.1 percent in November, helping the industry's income surpass 2 billion francs for the first month since October 2015 ([see story](#)).

Drawing Chinese consumers

As luxury brands look to attract high-spending Chinese consumers, especially millennials, they must embrace cultural norms. A streamlined, mobile-first shopping experience and product recommendations should be two priorities.

Chinese shopping recommendation site Dealmoon has integrated cultural preferences, such as user reviews, luxe packaging and smaller size availability, into its ecommerce platform to draw in Chinese affluents.

Creating a special experience with elevated packaging is also crucial to make Chinese millennials and Gen Zers feel valued. Exclusive tokens of appreciation from luxury brands or an early product launch can also make a large impact on shoppers ([see story](#)).

Luxury labels also need to take stock of important touchstones in Chinese culture, including Chinese Valentine's Day, Singles Day and Lunar New Year ([see story](#)).

The potential slowdown comes a month out from Chinese New Year, as brands are already gearing up for the holiday.

This year, Burberry is sharing portraits of family togetherness in a marketing push for Chinese New Year, the brand's first advertising effort around the holiday. Along with the traditional trench coats and scarves, Burberry's campaign featured popular streetwear styles such as hoodies and joggers ([see story](#)).

"The Chinese love luxury products and brands, and as more Chinese enter the middle-class, demand for luxury products will benefit," Ms. Driscoll said. "The Chinese luxury shopper is increasingly sophisticated, therefore a mere logo product no longer appeals to many Chinese luxury shoppers.

"They expect a brand story they can relate to," she said. "Therefore, brands need to continue developing a sixth sense for the Chinese consumer and their domestic market."

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