

COMMERCE

Will the European debt crises affect American luxury spending?

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By RACHEL LAMB

All luxury marketers will be hit by the debt crises plaguing European countries such as Italy and Spain, but diversified brands that practice customer retention have the best shot of surviving.

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Since many luxury brands are headquartered in Italy and Spain, there is a chance that the productivity will be hindered if the countries are not bailed out. Furthermore, affluent consumers in Europe, as well as around the world, could take this as a sign to slow down luxury spending.

“I have one term: customer retention,” said Milton Pedraza, CEO of the **Luxury Institute**, New York. “The luxury industry loses customers who will not purchase again in the next 10 months.

“Brands need to gear up for a dramatic effort to make sure customers who buy continue to buy,” he said. “Marketers have been negligent in terms of customer retention and they need to get more serious because it may help them thrive in recessions.

“The debts will definitely have some impact, because there is not a question that there will be some economic repercussion not only for Italy and Spain directly, but for the

marketers in the European Union.

“Everyone will have to contribute to make sure that not only Spain and Italy, but Ireland, Portugal and Eastern Europe stabilize.”

Shock market

The current economic status of European countries, most notably Italy and Spain, have consumers worldwide worried about their stock portfolios.

This weekend, the European Central Bank indicated that it would intervene more aggressively in bond markets to protect the two countries and hoped to suppress some of the mounting stress that this is causing consumers.

Even though the affluent likely will not be as affected as mainstream consumers, the lack of money in luxury product-manufacturing companies in Italy and Spain could have a great impact on productivity as well as consumer spend.

“The affluent that are heavily invested in the stock market are likely to take an immediate hit to their personal wealth, which is likely to impact how they spend through the next quarter or so,” said Pam Danziger, president of Unity Marketing, Stephens, PA.

“The hit to wealth is going to have a powerful psychological effect, and that in turn is tied to their spending and indulging on luxury,” she said.

To twist the knife, stocks in the United States continue to slip, adding more worry as rumors of a double-dip recession are getting louder.

Overly-cautious consumers may stop spending to prepare for the hit, leaving luxury marketers with over-stocked stores and empty cash registers.

“The fact that nobody needs luxury means that it is the first place people can cut back,” Ms. Danziger said.

“Based upon our read of the luxury consumers’ confidence, which took a really strong dip in the third quarter, we expect spending on luxury to be off over the next months,” she said.

Haves and have lots

Since it is likely that the fickle economy will scare customers into safe spending, luxury brands need to work extra hard on holding on to the customers they already have.

“It will affect the luxury market somewhat, but what is important to note is whether or not it is fair, the world has bifurcated into two sections – one that is more affluent and one that is mainstream,” Luxury Institute’s Mr. Pedraza said.

“The very wealthy world is having a pretty good run,” he said. “The luxury market is not immune, but it is resilient and its customers will still demand luxury at a very fast pace.”

While all sectors will be affected, some will be more than others.

For instance, jewelry and watches may suffer more than apparel and handbags because they are less necessary. Travel will most likely remain resilient and gadgets will continue to boom through the entire process, per Mr. Pedraza.

However, experts believe that the damage will be minimal compared to what it could be.

“The brands that have the best chances are those with diversified lines,” Mr. Pedraza said.

“If you sell fragrances, jewelry, apparel, skincare and makeup, you shouldn’t have any problem holding onto consumers.

“With the full range of products, you can cross- and upsell customers into all categories,” he said.

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York