

GOVERNMENT

Russia-Ukraine war most likely to affect aspirational consumers

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The Ukraine-Russia war is permeating various luxury sectors globally. Image credit: Max Kukurudziak/Unsplash

By KATIE TAMOLA

As the Russian invasion of Ukraine tolls on, the luxury sector continues to show great resiliency.

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During a *Luxury Daily* webinar on March 4, retail experts discussed the ripple effects of the Russian-Ukrainian war through a luxury lens, ostensibly anticipating no mammoth losses in the short term for brands. The war, however, is slated to affect the aspirational luxury consumers in Europe and may dice revenue numbers for luxury brands previously projected at the beginning of 2022.

"If this does not resolve itself in a month or two, I think the growth [of luxury markets] that we projected coming into the year is going to be muted," said Marie Driscoll, managing director for luxury and retail at [Coresight Research](#), New York.

"There are a lot of different factors many luxury brands have put through price increases, and these are strong brands that have pricing power," she said. "Additionally, just the mere fact that inflation is so high is going to impact the aspirational shopper it truly will."

The panel was moderated by Mickey Alam Khan, editor in chief at *Luxury Daily*.

Mixed implications

The war's global effects are vast, from inflation and oil to luxury real estate. Affluent consumers are also looking for brands to respond ethically, .

Russia and Ukraine account for a sizeable amount of oil and gas exports, but also account for sizable percentages of other commodities, like wheat. Thus, energy is not the only commodity at risk for massive price increases that are already coming to fruition.



Ukraine and Russia have been in a military conflict since 2014. Image credit: Fairmont Grand Hotel Kyiv

In terms of price increases, affluents most likely will not be ruffled since they have the means to pay higher prices.

Real estate specifically is not a sector that experts are worried about.

"Luxury real estate is one of the kind of safer long-term bets as is luxury," said Omar Saad, senior managing director and head of softlines, luxury and department stores team, [Evercore ISI](#), New York. "Our entire goal society in society is designed to create wealth.

"The entire thesis of Bernard Arnault and LVMH is unlimited demand over time and limited supply," he said. "Even in an ecommerce era, we know that retail experience, especially in luxury is super important [and] the stores aren't going away."

Russian consumers are left in an uncomfortable position, as many innocent citizens are left without the ability to buy goods due to sanctions and other restrictions imposed by other companies.

"There is a lot of anti-Russian sentiment around the world and that's very interesting because for luxury brands, Russians are some of the best, favorite customers," said Astrid Wendlandt, founder/editor of [Miss Tweed](#) and author of *How Luxury Conquered the World*, Paris. "These are people who love to spend millions, the ones that give you a \$500 tip no other nationality does this."

For those in Russia, the economy is purportedly inactive.

"Virtually right now the economy is shut down," said Robert M. Appleton, partner at [Olshan Frome Wolosky LLP](#), New York. "You can't buy, you can't do any cross border financial activity right now.

"That's a major problem for not only the government but their own citizens because many, many cross border international transactions are still in dollars."

Currently, Russia's foreign reserves are estimated at about \$630.2 billion. The reserves held outside of Russia, however, cannot be utilized.

"Reserves are only useful if you can access them," said Marci Rossell, chief economist at [Luxury Portfolio International](#), Virginia. "And so those reserves that are held outside of Russia are essentially useless to them right now.

"A week ago, we would have thought they could hold out for quite some time," she said. "But I think that their ability to hold out economically is going to be really stressed."

The type of consumer that is most likely to be impacted is the aspirational shopper. While affluents usually can bank on always having the means, aspirational consumers do not have that luxury.



LVMH has more than 150 employees in Ukraine and announced a 5 million euro donation to relief efforts. Image credit: LVMH

"Don't forget the way the luxury industry is configured today," *Luxury Daily's* Mr. Alam Khan said. "It's not just the super-rich buying it.

"LVMH didn't get to wear this in the last two years because only the super-rich bought [their products], aspirational bought it," he said. "Luxury is being bought by non-luxury people as well."

Empathy for Ukraine

Recent years have seen an increase in consumers searching for values-based initiatives from their favorite luxury brands. Shoppers want to know brands' ethos and how they support their own communities and beyond.

With the current crisis in Ukraine, many consumers around the world are calling on brands to support the country.

Cond Nast's *Vogue Ukraine* recently called on fashion and luxury brands to place an embargo on Russia as the country's invasion of Ukraine continues to unfold.

In an Instagram post from March 2, the publication implored brands to cease any collaborations on Russia's market. *Vogue Ukraine* also appealed specifically to several luxury brands to cease working with the country, tagging brands in the post ([see story](#)).

French luxury conglomerate LVMH Mot Hennessy Louis Vuitton announced an emergency donation to aid efforts for Ukraine.

On March 2, the group announced it was donating 5 million euros, or \$5.6 million at current exchange. LVMH stated it was closely monitoring the events in Ukraine and that the group stands with everyone severely affected by the war ([see story](#)).

"I think luxury brands have reacted responded as they should," Coresight Research's Ms. Driscoll said. "These are brands that we personify, we have relationships with them and we choose to participate with them when we're comfortable.

"I don't think people really feel like buying luxury," she said. "Rather, we feel empathetic with luxury brands that are empathetic and giving money to the Ukrainians."