MARKETING

Consumer purchases of luxury goods to dip 53pc over next six months: PwC

February 21, 2023

In good news, as consumers move to cut costs, just about half will spend the same or more on luxury over next six months, per PwC's estimates. Image credit: Shutterstock

By AMIRAH KEATON

Consulting firm PwC is sharing a bit of background on the future fiscal standings of luxury's consumer base.

Out with the 2023 Global Consumer Insights Pulse Survey, PwC projects that luxury and premium products are primed for the greatest decrease in consumer spending for the next six months. Though generally untouched by market fluctuations, as 69 percent of consumers hold back on nonessential spending, and 90 percent adopt cost-saving behaviors in light of cost of living increases, luxury forecasts are affected.

"The cost of living crisis is having a material impact on how consumers purchase, both in-store and online," said Sabine Durand-Hayes, global consumer markets leader at PwC France, in a statement.

"As prices rise, consumers globally are cutting back on nonessential spend, while spending more time looking for cheaper alternatives," Ms. Durand-Hayes said. "While every industry surveyed shows an anticipated decline in spend over the next six months, we are nevertheless seeing consumers continue to prioritize products that are ethically produced and sustainable."

"If retailers are to thrive in this challenging macroeconomic environment and maintain consumer engagement, they must leverage and diversify their distribution channels, offer competitive pricing, invest in greater supply chain resilience, and compensate for customers' increasing reluctance to share data online by better monitoring their customer base and loyalty programs."

PwC's biannual Global Consumer Insights Survey tracks changes in consumer trends. For the February 2023 pulse survey, for which respondents were at least 18 years old and were required to have shopped online at least once in the previous year, the firm polled 9,180 consumers across 25 territories, including Australia, Brazil, Canada, China, Egypt, France, Germany, Hong Kong, India, Japan, Mexico, Philippines, Qatar, Saudi Arabia, South Africa, South Korea, Spain, Thailand and the United States.

Deep dives

Across all surveyed retail categories, PwC's Pulse Survey results show that designer products are poised for the most substantial setback, at an estimated decrease of 53 percent over the next six months.

The figure beats out travel virtual online activities and general market fashion such as clothing and footwear in sales losses, coming in at 43 percent, 42 percent and 41 percent, respectively.

> Consumers and companies are facing powerful internal and external forces in 2023. Concerned about inflation and the cloudy macroeconomic climate, consumers are realigning their shopping habits.
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> Discover more in our Global Consumer Insights Pulse Survey: https://t.co/E5DAKfsBxW pic.twitter.com/8b7iJzc6Kk
>
> PwC (@PwC) February 17, 2023

Luxury marketers should not be discouraged, however, as further estimates balance PwC's outlook.

Two sides of the same coin, luxury spending proves hopeful when considering the fact that forecasts for the next six months are accompanied by solid expressions of consumer sentiment.

With 40 percent of shoppers planning to treat themselves or others in this time frame, and 39 percent admitting to viewing luxury goods as products of higher quality, the strength of luxury's aspirational appeal is not lost, and could boost bottom lines.

Additionally, despite possible dips in revenue, the appetite for future spending remains steadfast.

The portion of consumers that intend to spend the same amount on luxury or designer products sits at 26 percent. Meanwhile, 21 percent claim they will increase spending within the category, over the next six months.

Thus, a little less than half of consumers are planning to either keep purchases steady, or match current levels of luxury spending, in this time frame.

The aforementioned motivating factors such as wanting to treat oneself or a desire to invest in better products, plus increased incentives to keep up with the latest trends, could work to keep the industry afloat in trying economic times.

PwC's full report can be viewed at https://www.pwc.com/gx/en/consumer-markets/global-consumer-insights-survey-2023-01/feb-2023-global-consumer-insights-survey-pulse-5-pwc-global.pdf.

Luxury loyalists

Helping to contextualize forecasts is one guiding principle when it comes to luxury's loyal consumer base.

Essentially, the bottom 80 percent of consumers account for 30 percent of brand sales in the sector. This population tends to take hits to cash flow when times are tough, lessening disposable income and lowering net worths. This is according to expert Milton Pedraza of the Luxury Institute, who joined *Luxury Daily* for this year's Luxury FirstLook 2023 programming (see story).

Mr. Pedraza's formula notes that the top five percent of luxury clients give brands 40 percent of the sales, on average, followed by the next 15 percent, which are said to dole out 30 percent of luxury brand sales.

Luxury Daily founder and editor in chief Mickey Alam Khan in conversation with Luxury Institute CEO Milton Pedraza. Image credit: Luxury Daily

A bulk of the industry's sales come from customers who can withstand fiscal shifts the top 20 percent of clients prove responsible for 70 percent of total luxury revenues.

Thus, the luxury sector has traditionally remained quite insulated from periods of more harsh financial conditions.

Though the Luxury Institute CEO notes that this represents an informed generalization, versus a blanket truth for all brands, the model helps to paint the picture of what exactly is at risk in case of a recession.

The reality of competition 68 percent of brands planning to increase their influencer marketing budgets in 2023 (see story), for example should caution leaders in enacting drastic preemptive measures when it comes to marketing budgets.

The above consumer base breakdown should help ease the minds of luxury marketers, as far as earning potential in the months to come is concerned.