Luxury Daily®

The News and Intelligence You Need on Luxury

COMMERCE

Russia-Ukraine crisis causes ripples in luxury sector

March 6, 2014

By JOE MCCARTHY

Global markets shuddered on Monday with sell-offs abounding, but pulled it together on Tuesday and Wednesday. Will the uncertainty in Ukraine and the straining of international relations impact luxury brands for the long-haul?

With potential sanctions, restricted visas and other penalties being considered and Western forces pledging aid to Ukraine, ties to affluent Russian consumers may be damaged. However, some commentators argue that the conflict poses only speculative threats to the long-term health of the luxury sector and that growth will continue.

"The crisis in Crimea will have some impact on the short term, but relatively no impact in the long term," said Al Ries, founder and chairman of Ries & Ries, a Roswell, GA-based marketing strategy consultancy.

"The reality is that there is almost nothing the European Union or the United States can do about the problem," he said. "It's going to be all talk and no action. After awhile, the international community will move on to the next crisis and forget about Crimea.

"The biggest impact for luxury goods will be felt in the Russian market. Russian people are very nationalistic and because of the negative publicity around the world, they are likely to reject many foreign luxury brands.

"But again, this is a short-term problem," he said. "In the long term, people forget and the Russian market for foreign luxury goods is going to rebound."

Rocky ground

The fraught relationship between the West and Russia has teetered for years. Although the mayhem in Kiev and the Crimean occupation have roiled the world, the grating tenor of the ensuing diplomacy comes from deep-seated distrust.

The U.S. and the European Union have rebuked Russia in recent days, calling for Vladimir Putin to respect Ukraine's sovereignty and openly supporting the fledgling government in Kiev.

On the other side, Putin believes he is acting in accordance with international edicts, that the thousands of unidentified troops in Crimea are local defense groups and that Viktor Yanukovych is still the legitimate president of Ukraine.

A resolution that flatters both camps seems unlikely. However, economic pressure may speed things up.

As the New York Times reports, "a day after global markets sank on fears that the conflict over the Crimea might spiral out of control, stocks in the United States, Europe and Asia turned higher...The Russian benchmark, the Micex index, rose 5 percent after a 10.8 percent decline on Monday, while the ruble clawed back a 0.3 percent gain against the dollar."

The prospect of escalating conflict may send investors fleeing once again, causing further bruising to the Russian economy, which may force concessions.

On Mar. 6 the E.U. and U.S. will consider measures such as imposing sanctions and restricting visas and assets of individuals with ties to the Russian economy, which would further isolate the country both economically and politically. To retaliate against sanctions, Russia threatened to abandon the dollar as a reserve currency and may impose additional import taxes to deter the purchase of Western goods.

Different circles

Luxury brands have long courted affluent Russians who constitute an estimated 5 to 7 percent of global spending on luxury goods, according to Reuters.

Rolls-Royce has seen bespoke requests rise in Russia

Similar to Chinese consumers, Russians travel and shop abroad in large numbers. In Britain, Russia trails only China and the Middle East in terms of tax-free spending.

The potential freezing of visas and assets would almost certainly hamper this tendency.

Such action may also create long-term damage, with some consumers feeling spurned and avoiding Western brands in the future. Real estate developments that plan to pull in Russian clients may also feel some backlash.

Projected view from One57

Reputation is a fickle thing, especially in the digital age. If brands manage to distance themselves from the political conflict, they might be able to bubble-wrap brand image.

However, luxury brands generally have a poor digital presence in Russia, according to L2 Think Tank. In L2's Russia Digital Index report from August 2013, 55 percent of brands offered Russian Web sites and only 14 percent offered Web sites with advanced Russian translation (see story).

In a country where wireless carriers have seen mobile data traffic triple in 2012 (see story), lack of communication from brands can multiply injuries.

Not so fast

Stock markets may still retreat and brands may sustain some long-term brand image problems, but unless the situation spirals out of control, luxury players will emerge from the crisis unscathed.

Putin has stated that war is a last resort and the markets have rebounded accordingly.

WWD argues that the real threat, if any, to international brands is not the Russia-Ukraine crisis. Rather, the real threat comes from the overall slowdown of the Russian economy and the weak ruble, which could curb international travel.

Also, retailers expanding in Russia may pump the brakes. After all, if the ruble continues to drop, won't new stores languish?

"Unless we go to war, I think the situation is under control," said Milton Pedraza, CEO of The Luxury Institute, New York.

"Obviously Ukraine is not a big luxury market, so directly, locally, no big impact, and I don't think Russians will stop buying luxury because of this," he said.

"To the degree that it affects the stock market, if it creates some kind of world economic fear, where key stock markets go down, then I think, yes, there will be some impact, but that's depending on the magnitude of the decline.

"It's in nobody's interest to bring an already fragile global economy further down."

Final Take
Joe McCarthy, editorial assistant on Luxury Daily, New York

Embedded Video: //www.youtube.com/embed/a76RIA20Bjg
