With recent tax changes in China, luxury and international retail markets are evolving - by Joseph Aquino

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For years luxury brands were doing tremendously well from the Chinese tourists purchasing outside of China along with the gift giving within China and then suddenly China put a halt to it and now all the luxury chains are suffering missing the monies from the Chinese marketplace. It appears poor sales has been blamed solely on Internet sales, however I believe the problem is far more severe than just online sales.

For years I have been traveling the world attending luxury retail conferences and until recently, every show I attended the buzz words were always China, China, China…China, China, China…During this period all the European brands would be lined up, rolling out their expansion plans throughout this great country and sometimes forgetting the other markets entirely, just enjoying the cash that was coming from this country. China became the ultimate “cash-cow” that was feeding their brands’ global expansions. During this period, brands could make no mistakes since the cash from China was fueling all the profitable and unprofitable stores throughout the world.

Well everything came to a screeching halt when China a few years back changed their tax laws on “gift giving.” Gift giving was a daily event on “how to do business.” Give an expensive luxury item, and get business in return. And to make matters worse for markets other than China, China then instituted a policy encouraging Chinese shoppers to shop locally by cutting duties on some luxury items, making the merchandise competitive in price compared to off-shore shopping. Then to really drive the point home, the grey-market–where professional Asian shoppers would travel the world purchasing pricey luxury items and then to return back home and sell them at a huge profit–started being taxed heavily at the airports and other points of entry when they arrived back into the China marketplace.

Besides the issues mentioned about China, other questions come to mind. Why are sales down so heavily in retail? Don’t kid yourself–tourists still fear terrorism and attacks while they travel. One merchant who sells luggage on Madison Ave. says the streets have recently been empty of tourists. Another factor and this is the silent one–charge card debt. I think consumers are carrying way too much debt and they just don’t have any room on their cards to go on their usual buying sprees. There has been a good 20 years of purchasing power of luxury goods which the industry enjoyed. Now, I believe everyone has way too much stuff! Comedian George Carlin did a skit on buying too much stuff. You can view it on YouTube, it’s hilarious!. This skit is about 20 years old, and he saw it back then. At the end of the skit, after he tells you all the reasons why we buy stuff and he labels it–i.e., house stuff, storage stuff, travel stuff, wearable stuff–he closes and reminds us and we buy stuff with our charge cards paying 20% interest just to get more stuff.

Lastly, have consumer spending habits changed? Now we see that brand-conscious consumers are finding different channels where they can get their goods at a much more affordable price–and the purchase is not necessarily from a discount store. The purchase is done somewhere on the Internet where consumers are selling their goods directly to other consumers that are slightly worn and sometimes new. I saw the sites and tried to encourage my wife to enjoy the savings. However, she doesn't fit the market protoype. If she was ten years younger or more, she would be their target customer.

Now let's discuss the Millennials, which have different purchasing–and other–habits altogether. This is a big concern to the luxury brands. The Millennials do not seek out the corner office, rather they prefer to be with their contemporaries in a communal forum. They prefer to order their cooked meals on "Seamless," rather than go out to a restaurant. We see that beer sales at Heineken are at an all-time high, not that Millennials are alcoholics, they just like to drink alot of beer when they are streaming movies at home which they do 75% more than their older contemporaries. Young adults in their 30s still live at home, enjoying all the comforts and are not driven like their parents. There is no question, times have changed with the new generation, and retailers are trying to figure out how to capitalize on this new market. At a recent conference, discussions took place about the two different Millennial models: One has money, the other does not. Cartier has already geared into the "haves" and are servicing them quite successfully selling their timeless jewelry. They know their customer, and know what model watch or piece of jewelry they like and have been quite successful in this new market.

Wall St. has been quicker to adapt to the new consumer buying habits versus property owners which traditionally tend to be family-owned for generations, or institutions that are sometimes behind the consumer curve. It used to be a property owner would put a store on the market, and there would be a bidding war to lease the space. Those days are long gone. One has to be blind not to see the huge amount of vacancies that are now around town.

Now we can understand better what is happening to the traditional "brick and mortar" sales.

Besides the geo-political issues, there is an undertone of some financial stress, and let's not forget the new found competition from entrepreneurs on the Internet that weren't there years ago.

I think we should all recognize the global economy and the world events to understand what is happening to our local market. The big question is are we in a world recession, or will we all be laughing at 2017, come the new year?

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