Luxury retail feels the pinch

By Colleen Goko

27 Jun 2017

Conventional wisdom has had it that luxury retail - including clothes, shoes and accessories - is immune to movements in the economy, especially the downward kind. But the casualties at the top end of the retail sector point to a marked decline in that market and analysts warn that this could be a continuing trend.

Image credit: Freddy Mavunda via *Business Live*

Independent analyst Chris Gilmour said luxury and perceived luxury brands were operating in a competitive market. "I do believe the higher-end space – which includes perceived higher end in the form of H&M and Zara – is becoming crowded and perhaps explains why companies such as Mango and Nine West have shut shop."

House of Busby, which owned the brands in SA, said earlier in 2017 that it would be closing standalone stores. This was done as part of a process to alter its portfolio to match domestic needs, Busby said.

Busby to shut Nine West and Mango

23 Mar 2017

"Edcon still has little franchises like TM Lewin and Tom Tailor, but it's difficult to tell how well or badly they are doing. Stuttafords is the big one, though. For it to close, speaks volumes about the ability of customers to spend at the top end," said Gilmour.

Stuttafords will officially shut shop on 1 August. The closure comes at the expense of its 280 creditors - who include large brands such as Estee Lauder, L'Oreal, Tommy Hilfiger, Polo and Levi Strauss.

CEO Robert Amoils said consumer spending declined drastically in December 2015 after "Nenegate". He said: "We experienced a noticeable loss in consumer confidence; we had the rand devaluing at an astronomical rate and we saw 2016 start with a material and noticeable lack of demand from our customers. We lost, relative to our budget, in the first six months, R100m in projected turnover."

Independent analyst Syd Vianello said everyone was suffering in the current market. "When things get tough in an economy, even people at the top end feel it. Perhaps not to the same extent as those in lower brackets, but ultimately everyone suffers."

Vianello said the increase in tax for those in the upper end would also be felt, but that there was a six-month lag effect between when it was announced in March and when it would actually begin to show its effects. "Only the ultra, ultra rich won't be affected. But at the core of this all is sentiment. Consumers in all brackets including the top end spend less when they are less confident about the future of the economy. This is an important factor that should not be overlooked. Everybody is taking strain," he said.

Consumer confidence, a large driver of discretionary spend, declined to -10 in the fourth quarter of 2016 from -3 in the third quarter of 2016, according to the FNB-Bureau for Economic Research consumer confidence index. High food inflation has also limited consumers' purchasing power along with stringent credit requirements.

Referring back to Stuttafords, Gilmour said another factor in its fall may have been its inability to fulfil customer needs. "It was very badly managed towards the end in my honest opinion. As the economy continues to languish, expect more casualties," Gilmour said.

Nielsen says business prospects in SA are not promising. The economic growth outlook for 2017 remained subdued, the research group said.