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Business at its best

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The ethics of luxury

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By Erminia Blackden

British Prime Minister David Cameron last week committed the ultimate red-faced blunder as he pronounced Nigeria "fantastically corrupt" in a conversation with the Queen that was caught on microphone just days before London's anti-corruption summit.

But the PM's comments, and Nigerian President Muhummadu Buhari's subsequent acknowledgement of corruption issues, raise awkward questions for the luxury market, as brands begin to target the mega-rich in developing countries.

Global wealth is on the rise, as the mega-rich are getting richer and growing in numbers. A recent report by Credit Suisse estimates that global millionaires will rise from 35 million to 53 million by 2019. And the Boston Consulting Group forecast that new world regions such as Africa and Asia will account for nearly 70 percent of this growth.

Nigeria is one of the markets most enjoying super-charged growth, growing at an average of 8.2 percent year-on-year since 1999, resulting in a predicted 47 percent rise in the number of millionaires by 2018 and the world's fastest-growing middle class.

But with so much controversy in the press this week about corruption in Nigeria, what is the real cost?

Making the cut
Super-charged economic growth comes at a price: typically the widening gap between rich and poor, rising prices, pollution and the loss of traditional culture, as well as the growing threat of political corruption.

The National Bureau of Statistics states that more than 60 percent of Nigerians are living in "absolute poverty," a figure that has consistently been rising since 2004.

So despite its growing resource of millionaires, Nigeria ranks around 160th out of 177 countries on the scale of the Human Development Index, as well as being the third-poorest country in the world, according to the World Bank.

It does not help that wealth generated in the country does not necessarily mean that it stays in the country.

Lack of prestigious indigenous brands, poor distribution and infrastructure, coupled with the luxe appeal of Europe, the United States and Dubai, means that very little discretionary spend is benefiting the indigenous Nigerian economy.

Conversely, where the government has tried to make investing in Nigeria a more attractive proposition by offering an enticing five-year tax holiday for foreign investors, it has also controversially stripped out any means of benefiting from that investment by refusing to introduce capital controls.

This means that setting up business in Nigeria is almost risk-free, as companies are able to cut and run whenever

This means that setting up business in Nigeria is almost risk-free, as companies are able to cut and run whenever they like, taking all their profits with them.

Many luxury brands have already taken advantage of the opportunity, with more soon to follow suit.

Hugo Boss, Ermenegildo Zegna, Mercedes-Benz, Porsche and Cartier are among the luxury brands enjoying success in the Sub-Saharan watering hole, making friends with Nigeria's wealthy elite, while rural poverty rages on.

Poor choices
Rising poverty in Africa is largely brought about by cultural behaviour, which one could argue, market forces will not change.

Africans are still among the most likely to have large families. Large families are seen as some sort of pension that guarantees that there will be someone to look after you in your old age. But the larger the family, the smaller that family's income.

High child mortality, poor education, schooling and infrastructure are all factors that are sustaining poverty in Nigeria. What is needed is investment.

Investment means jobs, which not only creates opportunities at the level of the individual, but it also raises the average income of the whole population, as well as the value of human capital as people learn or improve their skills.

Sounds great in principle, but with little political appetite for bringing about change, these aspirations seem rather nave even with President Buhari's comments at last week's summit.

Given the country's high unemployment rate, entrepreneurship will be key to reducing poverty in Nigeria.

Smart Nigerian entrepreneurs are taking position in the fastest-growing luxury market by taking advantage of the country's natural resources and the skills of local artisans.

Popular luxury goods made by Nigerian entrepreneurs include black soap, shea butter and coconut oil products, which are starting to infiltrate the luxury skin care markets at home and abroad.

Fashion is also a growing luxury category using both natural resources and natural talent.

Brands such as Tiffany Amber and Deola Sagoe apparently a favorite of U.S. First Lady Michelle Obama are making waves in the global world of couture. But the scale of these brands cannot compete with the pillars of European luxury.

Brands including Cartier and Rolex have entered Nigerian market using the franchise model a simple way to maximize opportunity and minimize risk.

Many other brands, such as Vivienne Westwood, are working directly with artisans to help design and make bespoke African-inspired luxury, which has a place in African markets and beyond.

But as with entrepreneurship, is the scale of this activity big enough to make a difference? The answer is probably not.

This also raises an ethical question.

Watch out
Is it acceptable to sweep ethics under the carpet when enjoying commercial success?

The interesting dimension is that in non-luxury sectors brands have not been allowed to get away with answering yes to this question.

Social pressure driven largely by world-citizen millennials who are hyperaware of, and have high expectations for, corporate social responsibility have been the tail wind behind some very positive change. Ironically, the luxury market has yet to be hit with the same tidal wave of morality.

Catherine Walker, a researcher at the Directory of Social Change, a British independent research charity, and author of The Company Giving Almanac, says that the concept of corporate social responsibility clashes psychologically with the motivations for buying luxury goods, and needs to be carefully managed.

This is, of course, a real consideration, and although it might not be easy to persuade a luxury watch buyer to consider paying 10 percent more for his item to help those less fortunate than himself, a good reputation for positive change and business practices might encourage high-net worth individuals to choose you over someone else, so that they can feel good about themselves doing so.

THE OPPORTUNITY is there, and the prizes can be great.

With the spotlight on Nigeria this past week, the big question is, who is going to make the first big move? What are you going to do, and how are you going to do it?

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