

RETAIL

## China dependency exposed and virus-wary world in lockdown: What should luxury brands do?

February 28, 2020



*Burberry Chinese New Year 2020 campaign with a capsule collection. Image credit: Burberry*

By MICKEY ALAM KHAN

As the coronavirus reaches pandemic proportions, luxury marketers may be forced to come to a stark realization: 2020 may be a write-off, and the five-letter engine for profit and growth China has temporarily sputtered.

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Depending on whose research to believe and there is a gusher the luxury business is set to lose an estimated \$43 billion this year.

Some larger conglomerates are sanguine about the slowdown in Asian sales due to their market diversification. But others cannot afford to live without China, South Korea and Japan, and the travel to and from those countries, to meet their revenue targets and fortunate upward trajectory in the past decade.

Most luxury brands cannot live without sales from cross-country travel, to put it simply. That freedom of movement across borders is under threat.

Eggs in one basket

Per Bloomberg data, China accounts for one-third of the \$1 trillion luxury business worldwide and two-thirds of the profits in recent years.

Just see how beholden some leading luxury players are to Chinese consumers for estimated revenue, according to UBS: 50 percent for Switzerland's Swatch Group, 45 percent for Swiss-based Richemont, 40 percent for Britain's Burberry, 35 percent for France's Kering, 35 percent for Franco-Italian Moncler, 35 percent for Italy's Prada, 30 percent for France's LVMH and Hermès, and 30 percent for Italian groups Salvatore Ferragamo and Tod's.

Stores in China are shut, either voluntarily or by government fiat, and the supply chain is paralyzed not just for luxury goods makers but also automakers and everyone across the high-end spectrum. Demand is flat and consumer sentiment depressed, on top of an already slowing-down Chinese consumption market and the Hong Kong protests last year.

Beyond China, South Korea and Japan have registered the largest number of coronavirus cases, closing stores, affecting travel and schools.

The virus hit home close to Milan in Northern Italy and the country's industrial belt. And there are fears of what may happen if the virus takes bloom in the United Kingdom, France, Germany and the United States.

Lest we forget, these worries are manifest in the global stock market free-fall over the past week.

All in all, the coronavirus has created a perfect storm for not just the luxury business, but for all sectors of the global economy. The world is under siege at least, several countries are behaving as if they are.

Given this environment and on top of the regular coverage of the issue, *Luxury Daily* asked three luxury experts to opine on how to deal with the coronavirus crisis, consumers affected by it and steps to take to keep the engine running while the health scare runs its course.

Here is what they had to say:

*Marie Driscoll, New York-based managing director for luxury and fashion, Coresight Research*

What damage is the coronavirus inflicting on the overall luxury business?

Marie Driscoll, Coresight Research: The Chinese consumer has driven global luxury growth for since 2000.

For the past two decades luxury brands have benefitted from the increasing wealth of the Chinese consumer providing the accouterments of wealth both within China and, as global travel began, in the world's flagship cities.

The coronavirus has the Chinese population largely immobile within China and is likely to impact travel plans for the next six months, if not more.

Thus both within and without China, this virus will impact luxury brands as the growth driver for global luxury has a time-out.

Over the next two to three quarters, luxury brands will see flat to modest sales declines depending on their exposure to the Chinese consumer.

Can luxury marketers make up for lost sales?

Marie Driscoll, Coresight Research: When a third or more of global luxury consumers are impacted by an exogenous event such as the coronavirus, there are few immediate remedial strategies that can propel the remaining two-thirds of the market.

Outside of China, we suggest engaging local consumers with experiential retail, events and gatherings that engage consumers in your brand story and your products.

Traveling artisans displaying craftsmanship along with locally relevant product exclusives can deepen relationships.

Additionally, by reaching out to Chinese luxury shoppers in the West, luxury brands can fulfill China-based demands with an extended family member or friend, colleague or co-worker, who will purchase for the homebound and get the product to China when air travel resumes.

How should luxury marketers show their support for China?

Marie Driscoll, Coresight Research: Being sensitive to the trauma of this illness and its impact on the Chinese society is foremost. Then engaging the homebound with online storytelling and gamification, deepening the bonds of the brand relationship without a transaction motive, but conveying a sense of community.

Many luxury and global brands have already donated significant sums to help with the shortages in medical supplies.

Many are working with influencers and KOLs [key opinion leaders] to communicate regularly.

When things return to normal, there could be pent-up demand that luxury brands will capture if they have maintained and deepened consumer relationships.

What should luxury marketers do to insulate themselves from further losses, or at least mitigate some of them?

Marie Driscoll, Coresight Research: Diversify clientele and become less dependent on the Chinese luxury

consumer. This will be necessary as the Chinese increasingly aspire to homegrown luxury brands.

*Iris Chan, New York-based partner and international client development lead, Digital Luxury Group*

How much empathy should luxury marketers show for this issue? Chinese consumers will remember who stood by them, right?

Iris Chan, Digital Luxury Group: Not as important *how* much empathy as it is how brands express it.

Genuine messaging will show Chinese consumers that they are not just an important consumer to the brand when they spend, but an important consumer full stop.

We're seeing brands share thoughtful and practical and helpful messaging, recommendations on things to do and guidance on how to manage at home while the situation remains, brands showing that they understand the current reality of their Chinese consumers.

How can luxury brands and retailers find a replacement for lost China and Chinese traveler sales?

Iris Chan, Digital Luxury Group: China is a significant piece of business for many brands.

Managing a lower-performing first quarter or potentially first half of 2020 will mean thinking about how to rearrange efforts for the rest of the calendar, and also thinking about Chinese consumers they might reach elsewhere like Chinese expatriates in other global markets.

*Milton Pedraza, CEO, Luxury Institute, New York*

Looks like the coronavirus is gradually spreading beyond China and its neighbors to Europe. Airlines are stopping travel to and from mainland China, quarantines are all over the place, China has banned group tours overseas, and general paranoia all over with travel originating from the country. What does this mean for luxury marketers long term that depend on China and Chinese travelers for a huge chunk of their revenue?

Milton Pedraza, Luxury Institute: Depending on the length and depth of this crisis, we will see short term and minimal to long term and strong negative revenue impact.

It is too soon to tell if this is global and rampant, but for sure all entities and geographies that depend on Chinese tourism will experience Q1 and Q2 declines in revenues.

How dependent they are on the Chinese consumer will determine the hit, but no one is immune.

What if this situation stretches out for six months or a year?

Milton Pedraza, Luxury Institute: Then this might trigger a world recession. Hopefully, it is short term.

How much empathy should luxury marketers show for this issue? Chinese consumers will remember who stood by them, right?

Milton Pedraza, Luxury Institute: All luxury goods and services brands should be contributing heavily to the prevention and treatment resources effort.

People will remember which brands stepped up and assisted and which ones stood by in a humanitarian crisis.

The top-tier groups such as LVMH and Kering have already begun to assist. In a crisis, there are no exceptions. We can all do our part.

How can luxury brands and retailers find a replacement for lost China and Chinese traveler sales?

Milton Pedraza, Luxury Institute: It is difficult to replace that size of client base. Brands can double down on local outreach and relationship building. But if the effect is global, it will have a dampening effect everywhere.

What advice would you give marketers in how they deal with this crisis?

Milton Pedraza, Luxury Institute: Be empathic and be generous.

Public relations efforts are useless and disingenuous. Your words will only count if they are backed up by tangible and effective actions that make a real difference.