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RETAIL

5 years of growth in the global luxury market could vanish as the coronavirus spreads

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The coronavirus appeared out of nowhere, a dragon-slayer to luxury, travel and countless other sectors in business

By Pamela N. Danziger

The previous outlook on the coronavirus' impact on the luxury market has turned from caution to alarm, according to a new ad-hoc survey conducted among 28 C-suite luxury executives by Italian luxury trade body Altagamma, in association with Boston Consulting Group (BCG) and investment firm Bernstein.

Initially viewed as largely a short-term challenge in China and neighboring Asian markets, it has now spread to Milan, the home of Italian luxury. Asia alone accounts for about 35 percent of the 330 billion ($362 billion) global luxury market.

Altagamma warns the effects of the virus are going to extend beyond the first half of 2020 into 2021. The executives surveyed expect global luxury market sales to decrease between 30 billion to 40 billion ($33 billion to $44 billion). That would push the sales of global personal luxury back to levels not seen since 2015, according to BCG.

Further, it could to wipe out 10 billion ($11 billion) in luxury brands' profits this year.

"It's a disaster for virtually every company that's in the sector," said Pauline Brown, former LVMH chairman of North America in an interview with Yahoo Finance. "We're going to start to see this cascading effect across the industry."

No luxury brand is immune
Right now it is hard to predict the cascading effect of the virus that Ms. Brown spoke of, since coronavirus has already spread to 47 countries.

But in the Asian markets, the potential disruption can be quantified.

For example, the global luxury leader LVMH derived 37 percent of its 53.7 billion total revenues in Asia and Japan in 2019.

Other brands that stand to lose big include Bottega Veneta with 53 percent of revenues derived in the region, followed by Herms (49 percent), Gucci (46 percent), Burberry (41 percent), Richemont (38 percent), Salvatore Ferragamo (38 percent), Versace (36 percent), Saint Laurent (35 percent), Jimmy Choo (29 percent), Canada Goose (20 percent), Ralph Lauren (16 percent) and Michael Kors (12 percent).

Depending on company reports, these percentages may include Asia-Pacific markets as well.

Moncler does not report sales in China but warns of the volatility and uncertainty it faces this year to maintain its impressive 13 percent growth recorded in 2019.

Burberry just announced it would ratchet down its earlier positive outlook for fiscal 2020, promising to give more solid figures in its 2019 year-end report coming in March.

Kering, which owns Gucci, Saint Laurent and Bottega Venetta, among others, derives 42 percent of its total 15.4 billion in revenue in the Asia-Pacific markets. And LVMH-owned Bulgari is at risk not just in the luxury goods sector, but in hospitality too with hotels in Milan, Beijing and Shanghai.

Disruption in travel is going to drag down luxury brand revenues as well.

Ms. Brown estimated that about 40 percent of all luxury goods spending is in one way or another a result of travel, either purchases made in airports, duty-free stores or on cruise ships or in destinations visited by business and leisure travelers.

Specifically, Ms. Brown estimates somewhere between 7 percent to 10 percent of luxury goods are purchased in airports or on cruises.

"The amount of non-essential travel that is being curtailed is going to severely affect sales," she said.

Milan, home of Italian luxury, is an emerging hot spot

The virus has recently spread outside China to Milan, another major luxury goods market and supplier.

Milan, the capital of Lombardy in Northern Italy, and neighboring Veneto have been the hardest hit regions so far.

While Milan Fashion Week (February 18-24) went on as scheduled, travel restrictions kept more than 1,000 Chinese buyers, designers and reporters away.

During the show, concern about spreading the virus caused Giorgio Armani to restrict attendance at its runway show in favor of livestreaming the event.

The *Wall Street Journal* reported that the company has also closed offices and production sites across northern Italy this week.

Gucci is taking preventative steps as well, encouraging its employees to work from home, rather than come into its Milan offices where schools, tourist attractions, museums and movie theaters are also closed.

It is not just fashion, with the home furnishings market taking a hit, too.

The Milan International Furniture Fair, claimed to be the world's most important home furnishings design show, has been postponed till mid-June.

Psychological impact may extend longer than the physical
With each passing day the news about coronavirus, now officially COVID-19, gets more grim.

The World Health Organization said last week that countries should prepare for a pandemic with no end in sight.

"The virus is probably with us, beyond this year, and I think eventually the virus will find a foothold and we will get community-based transmission," Robert Redfield, director of the Centers of Disease Control and Prevention, told *CNN*.

And a health policy analyst for Raymond James, Chris Meekins said, "The market underappreciates the duration of this," adding that it has advanced further, faster and longer than most experts originally anticipated.

While luxury brands remain confident they are resilient enough to handle the short-term impact to sales and profits, longer-term questions remain.

Cowen's Oliver Chen warns of declining consumer confidence resulting from the unpredictable spread of the virus that will bring highly restrictive public health measures whereever it pops up, like those seen in China and Milan.

"As the virus affects Europe and the U.S., global traffic could be down even further, impairing sales across the retail landscape," he wrote.

Ms. Brown also warned of the psychological impact during her interview on Yahoo Finance.

"The problem with luxury is if you don't buy it in a given quarter, you're not likely to get the sales back," she said. "It's also a very psychological purchase. [When] people are not feeling safe, they are no feeling prone to go shopping."

It is hard to quantify the psychological factors influencing consumer confidence.

Most consumer confidence indices measure people's perceptions of their personal financial outlook, but these seemingly objective measures have psychological underpinnings.

That is why the latest Index of Consumer Expectations from Morning Consult signals growing concern about the coronavirus' impact on people's financial security, if not yet concerns about their physical safety.

In reporting the results of the study, Morning Consult economist John Leer said, "For many consumers, the issue of coronavirus is still outside of their daily lives."

But that can change on a dime, since viruses are no respecter of persons or borders.

"We cannot hermetically seal off the United States to a virus," said secretary of health and human services Alex M. Azar II, before a Senate panel last week. "And we need to be realistic about that."

If a public health crisis on the scale of that in China emerges in other places in the world, the potential downstream psychological impacts can only be imagined.

Fashion writer and *Jing Daily* columnist Jiaqi Loa, who happens to be based in Milan, reminds us that the coronavirus is more than simply an economic issue.

"It's become a disorienting, time-stopping social disaster," she wrote. "How can a company convey a marketing message that doesn't sound out of place to a public who just experienced this type of fear, trauma and paranoia?"

THAT IS a question that every luxury brand with exposure in China will have to answer soon.

And it may be one that will eventually have to be addressed in other markets as well, if this contagion continues its relentless spread.

Pam Danziger is president of Unity Marketing

Pamela N. Danziger is Stevens, PA-based president of Unity Marketing and Retail Rescue, cofounder of the American Marketing Group, and a luxury marketing expert. Reach her at pam@unitymarketingonline.com.