

RETAIL

Luxury retailers could be devastated by COVID-19 fallout

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Global pandemic map. Image credit: NRF

By DIANNA DILWORTH

Social distancing and store closures are just the tip of the iceberg as luxury retailers brace for what is to come as the COVID-19 pandemic is turning the outlook from downturn into a potential recession.

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Indeed, social distancing is keeping consumers home from retail stores, which have already had to rely on special events and FOMO-designed pop-ups. It does not help that governments worldwide have mandated store closures to contain the coronavirus outbreak.

"Particularly for luxury goods, we're seeing people pull back hard on their spending as a lot of these high-end purchases come from physical retail stores and those stores are closed or malls are practically deserted from the social distancing," said Mark Lewis, CEO of Netalico Commerce, Morrisville, North Carolina.

"As of yet, we're not seeing many of these sales shift online in the luxury goods space, but if stores stay closed for long enough, I think we'll see more of a shift," he said.

Moody blues

Moods are low as the stock market, which had been flying high over the past several years, continues to crash: the Dow Industrials index dropped a calamitous 3,000 points yesterday. Rather than spending time with loved ones to combat these low feelings, the current advice is to stay away from others.

"Although health and safety are of primary concern, social distancing can lead to depression and anxiety for some," said Rania V. Sedhom, managing partner at Sedhom Law Group, PLLC, New York.

"Closing of retail stores leads to furloughs, which ultimately can lead to the same depression and anxiety," she said. "Online retailers may fare better than their brick-and-mortar counterparts, but only to the extent that their warehouses and delivery are operational.

"Online retailers who do not have too many logistic disruptions may be able to sustain themselves."

Inventories are either overstocked from a lack of shoppers or are dwindling, as inventory is unable to be

replenished as the economy continues to shut down and pipelines are clogged.

The National Retail Federation said imports at major retail container ports were down 18 percent in March as compared to last year because of the disruption in production in China.

April imports are now expected to be down as well, by 3.5 percent.

There is also a risk of exposure to the coronavirus if products are not handled correctly.

"For those retailers who diversified their inventory, they may be able to replenish current supply," Ms. Sedhom said. "It is, however, important that inventory be handled safely because COVID-19 lives atop surfaces and textiles for a period of time."

Retailers should create best practices on how products are being handled such as requiring that merchandise be handled using disposable gloves and that those gloves be changed in between customers.



Rania V. Sedhom is managing partner at Sedhom Law Group

Messaging is key

Retailers must use sensitivity when communicating with their customers and prospects to show the right mix of concern and marketing.

Retailers should not just push products. Instead, they should acknowledge the times and explain how things like orders will be affected, and how they are being thoughtful about their employees.

"Highlight the human element of how the business is operating and how you're taking care of your employees under these new conditions and what that will mean for customers," Netalico's Mr. Lewis said.

Additionally, consumers will want to feel that it is safe to still place orders online.

"A thoughtful email related to safety measures may be enough to drive sales," Ms. Sedhom said.

And several fashion houses are canceling shows where buyers go to select pieces to stock for retailers, which shows that they care about their employees and customers.

Some luxury retailers are leaning on Instagram and YouTube to push out appealing content that will give people who are stuck at home a break from the news. These channels give people connections at a time they are feeling distant from others.

"Digital marketers will need to compete for consumer spend from those who are focused on online shopping for the first time and will need several more touch points for other consumers," Ms. Sedhom said.

"YouTube is likely to drive sales aggressively because it feels interactive," she said. "Although the consumer can't touch a product or try it on, it helps consumers understand the products and the sell isn't aggressive.

"Retailers may want to consider video-conferencing with clients in order to drive sales. Maintaining interactions and connections with others is key."

Long and short of it

As retailers try to look ahead as to what is to come, the question remains: how long will this last?

Will global markets be shut down until the end of April, or will this crisis push into May or June?

The answers will change how consumers behave, affecting retailers' outlook for the year.

"Fear and uncertainty drives people to be more conservative in the short term and pull back their spending, but in the long term people still have the desire to purchase the products, so try to maintain the relationship with the customer in any way you can by keeping in touch with them as much as possible," Mr. Lewis said.

Much depends on the willingness of marketers of all hues to maintain their payroll strength in the face of the coronavirus pandemic.

"Most companies will be able to sustain themselves and keep many people employed in the short-term," Ms. Sedhom said. "The long-term outlook is precarious if life doesn't get back to normal quickly."

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