

TRAVEL AND HOSPITALITY

Layoffs will likely hit multiple sectors of the luxury business

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New York Governor Andrew Cuomo. Image credit: New York State

By DIANNA DILWORTH

As damage from the coronavirus continues to make waves across the economy, layoffs have begun in travel and will likely hit many sectors of the luxury business.

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Some 18 percent of adults in the United States have already reported they have lost hours at work or have completely lost work, according to a [survey](#) released March 17 by NPR, PBS NewsHour and Marist. New York's unemployment insurance system's Web site crashed on Monday, March 16 following a spike in unemployed workers in the state.

"Unfortunately, when times get tough, labor is the first line item that companies see as a way to cut costs," said Donnie Pacheco, CEO of Donnie P. Consulting. "While some of it is understandable, it also presents an opportunity to really review the entire business, and cutting people is not always the wisest. Yes, short term it may save some costs, but what are the optics and what does it do long term?"

"We saw major cost-cutting resulting in major layoffs during the 2008 downturn," he said. "The result of that is we've seen a deterioration in customer service that has continued since."

"Companies need to think differently and strategically instead of simply being reactionary and slashing low-hanging fruit that happens to affect people's lives."



A private cabana suite at the Ritz-Carlton Amelia Island. Image credit: Ritz-Carlton

Travel and tourism hit hard

Marriott International, the world's largest hotel chain with brands such as the Ritz-Carlton and Bulgari hotels, announced plans to put tens of thousands of employees on furlough leave as the hospitality business is devastated by the coronavirus outbreak.

The Bethesda, MD-based company will furlough staff such as housekeepers and general managers without pay but with healthcare, although the cuts will not yet include corporate-level staff. The company had 174,000 employees as of end of 2019.

"As travel restrictions and social distancing efforts around the world become more widespread, we are experiencing significant drops in demand at properties globally with an uncertain duration," Marriott said in a statement ([see story](#)).

According to the World Travel and Tourism Council, up to 50 million jobs are under threat because of the COVID-19 coronavirus pandemic rampaging through markets such as China, Europe, parts of Asia and now North America.

"Right now, the travel sector is feeling the immediate impact and being hit harder than they have before many companies are stating it is worse than post-9/11," Mr. Pacheco said.

"While it is too early to tell, it will impact the entire sector," he said. "For retail, this is the peak-selling season for spring/summer collections."



Selfridges in London. Image credit: Selfridges

Retail under fire

Retail could be the next sector to suffer from the pandemic, as numerous stores have already begun temporarily closing up shop.

This week Saks Fifth Avenue shut its flagship store in New York for two weeks as the city recommended store closures to protect against the spread of the coronavirus. LVMH-owned cosmetics-focused Sephora and department store chain Nordstrom also shut for two weeks ([see story](#)).

Gucci announced it was closing its North America stores as a precaution against the coronavirus outbreak ([see story](#)).

Neiman Marcus has also closed down temporarily.

British department stores Selfridges in London closed and Harrods cut back hours.

Indeed, the ranks of those implementing the closures also include Rolls-Royce Motor Cars, Cartier, Chanel, Jimmy Choo, Saks Fifth Avenue, Bloomingdale's, Rolex, Patek Philippe, Hublot, Aston Martin, Marriott hotels and Versace, as well as a bunch of brands belonging to luxury conglomerates LVMH, Kering and Richemont.

"For companies that have not planned inventories tightly, they will either need to start discounting online now or when they go to clear out inventory starting in May, their margins will take bigger hits," Mr. Pacheco said.

"Retailers need to start looking at what this means for holiday, as planning is in full swing and, in some cases, being finalized in the coming weeks," he said.



The Shoe Bar at Nordstrom's New York flagship. Image courtesy of Nordstrom

Uncertain outcome

As coronavirus cases increase and consumer uncertainty continues, the ripple effect will very likely include more layoffs and roles eliminated.

Even affluent consumers who will rebound from big losses on the stock market and within their businesses may be hesitant to make purchases.

"While luxury consumers are impacted, if stock markets continue to take hits and remain low, it will even cause the main luxury consumers to cut back some," Mr. Pacheco said.

"The aspirational consumers or occasional purchasers are the ones that will be hit the hardest and that will flow throughout the entire luxury sector," he said. "There is still a great amount of uncertainty of how bad things could be.

"But if it is as bad as people think, we will once again face a time where buying luxury will be seen as insensitive and flaunting of wealth will be frowned upon while other people are struggling and losing their jobs."



British actress Keira Knightley fronting the Coco Crush line. Image credit: Chanel

Damage control

While luxury brands cannot foresee what will happen next, they can handle how they are perceived by consumers through messaging and behavior in the interim.

"The key for companies communicating during this time is to focus on the customer and not on themselves," Mr. Pacheco said. "Consumers are scared and confused and companies need to keep that in mind when speaking to them.

"Companies need to empathize and show they are putting people first," he said. "This could be explaining store closures or how they are keeping employees fulfilling online orders safe."

Messaging should not focus on calls to buy. Instead, marketers should do what they can for customers and use communications to express more supportive policies during these times.

"They need to remove any potential barriers that customers may face such as offering free shipping and free returns on all orders, extended returns periods and increasing points/benefits of loyalty programs," Mr. Pacheco said. "They can do things to help increase sales, but they should not appear to be an overt play for business and should be human focused."

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