

RETAIL

The luxury industry was not prepared for COVID-19, but it could have been

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The COVID-19 coronavirus has devastated economies and lives, and hit the epicenters of luxury consumption and production. Image credit: Pexels

By [Susanna Nicoletti](#)

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In 2019, the luxury business was estimated to be worth \$308 billion (281 billion euros) at 4.1 percent CAGR, while many of the top luxury groups and brands enjoyed double-digit growth for several quarters.

Ninety percent of the growth of the entire business was thanks to Chinese customers alone, reaching 35 percent of the value of luxury goods, [according to a 2019 Bain study](#).

The rest of the world tried to catch up, but with little success. The greatest focus of the luxury business over the past 10 years has been to conquer Chinese customers to increase its revenues in an unprecedented way and at a fast pace.

China was the place to be for events, strategic communication and business.

Chinese customers travelling all around the world made trips to cities such as Las Vegas, Leccio (a tiny town 30 minutes from Florence and home to a huge Gucci discount outlet, as well as other brands) and England's Bicester, not just the shops of the well-known Via Montenapoleone in the heart of Milano.

Despite the signals of a slowdown of the China economy, nobody could have believed that such an outcome awaited. After all, the severe health emergency due to the global spread of COVID-19 *seemed* without warning.

Blind to the truth?

In an official report from September, the United Nations World Health Organization issued a clear warning in its release of ["A World at Risk."](#)

"While disease has always been part of the human experience, a combination of global trends, including insecurity and extreme weather, has heightened the risk," the report reads. "Disease thrives in disorder and has taken advantage. Outbreaks have been on the rise for the past several decades and the spectre of a global health emergency looms large. If it is true to say what's past is prologue, then there is a very real threat of a rapidly moving, highly lethal pandemic of a respiratory pathogen killing 50 to 80 million people and wiping out nearly 5 percent of

the world's economy. A global pandemic on that scale would be catastrophic, creating widespread havoc, instability and insecurity. The world is not prepared."

The world was informed, but it was not paying attention, nor was it prepared.

The global economic and financial system worked in a "business as usual" mode and pushed even harder for sales, margins and profits, believing that China demand would have guaranteed a good level of growth in any situation.

While a recession was looming, the most prestigious consulting firms advised the sector to prepare for a slowdown. But the luxury business was stuck in a honey trap and seemed unable to see the risk of setting the greatest part of its business in the hands of a single country.

A dubious time ahead

What makes a difference compared to other events such as Sept. 11, 2001 and the global recession of 2008 is that, in this case, the uncertainty surrounds the world and no visibility exists for the near future as the pandemic forced the complete shutdown of entire countries to save as many lives as possible.

This too shall pass, some may say. And it will. But at what cost?

"The ripple and feedback effect of all of these closures will have a major impact on our economy, as each industry that gets impacted puts people out of work, and those laid off workers don't buy products and services," Steve Blank, one of the most inspiring Silicon Valley entrepreneurs and Stanford professors, recently said.

"It's no longer business as usual for the rest of the economy," he said. "In fact, shutting down the economy for a pandemic has never happened. Millions of jobs may be lost in the next few months, as entire industries get devastated, something not seen since the Great Depression of 1929-39.

"I hope that I'm very wrong, but the impact of this virus' social and economic effects is likely to be profound, and will change how we shop, travel and work *for years*."

The message he is trying to convey?

While everything is certainly uncertain, businesses, employees and the world must prepare for a long road ahead.

Ray Dalio, founder of the largest hedge fund Bridgewater Associated, admitted to **getting it wrong** regarding the outbreak of the coronavirus, giving it a fund scoring of -20 percent since the beginning of 2020.

It seems clear that no algorithm nor sophisticated technology can beat Mother Nature, but also that even the extreme confidence and trust of the smartest minds in finance have failed to anticipate an upcoming disaster.

A lesson in pride and vanity

"It was pride that changed angels into devils," said St. Augustine. And it was pride that turned an industry rich of creativity, innovation, dreams and manual skills into a pure money machine.

Let us be clear: every company has the right to aim at making money, profits and growing its business.

But as Mr. Blank said, "act with compassion." Instead, luxury brands were caught in a vicious cycle that led them to be giants with clay feet: corporations completely dependent on a geographic region and the stock market fluctuation.

Luxury brands did not create flexible organizations able to weather any storm. They rather developed traditional organizations with a rigid top-down approach and incredibly high-fixed costs. Their priority was short-term gain and to reach that objective they sacrificed talent and innovation, quality and attention to the detail.

Collections have multiplied during the year. Capsules, limited editions and temporary shops invaded the markets, and sustainability efforts were next to nothing compared to the spread of discount outlets and overstock retailers.

Luxury, since the beginning, meant slow pace, attention to the detail and custom. Rarity was the reason why that justified a high value of the product.

Luxury was the story of passionate creators aiming to leave a lasting mark in the history of excellence.

Then came the obsession for higher margins, which meant lower costs, quality of the raw materials and industrial processes. Then came the buy-back of products and their destruction to avoid price decreases at the point of sales. It raised the delocalization in countries where workers were paid little money and asked to work with no or few rights.

The absurd mark-ups on products with low value resulted in high prices. Just take the recently booming sneakers category as an example.

It seemed that this perfectly oiled cash machine could have grown forever with no hesitation, but the seed of a potential collapse was already planted in a blind economy.

As it has always happened, the economy does not develop in a linear way, but in a cyclical manner.

And as soon as the coronavirus emergency surfaced, all the weaknesses of the economy emerged. This exceptional time of breakdown is not to be taken with a light heart.

Former Bank of Italy governor Mario Draghi recently wrote the coronavirus pandemic is associated to an immense human tragedy, a deep recession will not be avoided and that governments must do anything they can to avoid the recession to turn into a painful depression.

Luxury is an industry that sells items that are often bought for status or self-pleasure. In a time comparable to a war scenario, it will not be a priority for many of those customers that were used to stock wardrobes of pricey items, losing their appeal after just one season.

While in the press, luxury CEOs say they believe people will come back and will crave for novelties, Guido Maria Brera, co-founder of Kairos Investment Management and creator of "I Diavoli" media project, recently shared his point of view, calling it "the Chernobyl of globalization."

Nouriel Roubini, the economist who anticipated the recession of 2008, predicted that the worst has yet to come.

With stores shut down and the risk of top executives getting sick due to exposure at large-format fashion shows and buying sessions in showrooms, luxury has never been so vulnerable.

Perhaps Indian philosopher Jiddu Krishnamurti said it best: "The answer is in the problem." Here is to addressing the problem.



Susanna Nicoletti is founder of LuxFashion

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