Luxury Daily®
The News and Intelligence You Need on Luxury

MARKETING

Why the luxury sector will rebound strongly after COVID-19

April 21, 2020

The luxury market is more resilient than people realize, and if a brand is proactive rather than passive, it will thrive once the crisis is over. Image credit: Tesla

By Daniel Langer

As in all crises, commentators are currently predicting the long-term decline and death of the luxury sector as we know it. This happens because people in crisis are afraid of the future, and they cannot imagine spending money on expensive purchases right now.

But if we look at certain indicators, there is proof that luxury is more resilient than many people believe.

Tesla sold a record number of cars in China during March, growing by 450 percent month-over-month, as the overall car market plummeted, according to Reuters.

WWD reported that Herms broke a record with $2.7 million of sales at its second-largest flagship store in Guangzhou the day the store reopened after the COVID-19 pandemic.

LVMH just reported a 50 percent rise in sales of its top brands in mainland China during April.

Looking at luxury cruises, bookings for 2021 on the online booking platform CruiseCompete.com are up 40 percent versus 2019, according to the *Los Angeles Times*.

This is even more remarkable given the negative press around the spread of COVID-19 on cruise ships.

These numbers confirm the years of research I have done on the effects of crises, recessions and changes in income on luxury consumption.

I do not define luxury by prices but rather by the extreme value it creates for consumers. This extreme value, which I refer to as ALV (added luxury value), is usually dramatically higher than the perceived value of non-luxury products.

Luxury brands that can create extreme value become important to consumers, which often see items as investments, helping them to rationalize the purchase and increase their willingness to pay.

In other words, if consumers have gotten used to buying luxury brands that provide them with extreme value, they do not change their buying patterns easily.

And further research has proved that luxury is not overly income-sensitive, nor is it reactive to recessions.

Analyzing past crises confirms that the luxury sector suffered less than others, and it rebounded faster and larger than non-luxuries sectors.

In fact, practically all luxury categories have outperformed non-luxury segments since the 2008 recession.

Of course, we are experiencing a dramatic short-term effect that is being driven by a series of factors that include panic, fear, uncertainty, the inability to leave our houses, interrupted supply chains, and shuttered stores.

In this sense, the COVID-19 crisis is much more dramatic than any previous crisis since World War II.

However, I am convinced that the general principles of luxury consumption patterns still apply, and that we will see a significant rebound over the remainder of 2020 and 2021 wherever markets gradually open again.

While this is good news, managers should still be wary. That is because a crisis always creates a divide between brands that emerge stronger and brands that suffer catastrophic damage.

What determines the difference? Let us start with the latter.

Many brands are passive, focusing on cost and cash flow management. They cut brand investments, fire or furlough workers, and tend to go into a hibernation mode of sorts. They refuse to take risks, but by doing this, they risk their future because they lose their customer connections and the ability to create extreme value.

In other words, they destroy their most valuable asset: the intrinsic and intangible value creation model that once drove their customers' willingness to pay for their products.

And, sadly, once the crisis is over, customers will not come back. They will have moved on to the brands that better connect with them and provided extreme value without interruption.

A significant number of luxury brands will not survive the COVID-19 crisis, and their management will blame it on the virus, but their issues are typically internal rather than external. It can be from a range of issues including weak brand positioning, irrelevant consumer content, gaps in digital connections with millennials, or problems with the product portfolio. And when a staff does not receive proper support, these weaknesses are only compounded.

Brands that do not make it out of this crisis will not be victims of the virus. The virus is simply an accelerator that brutally exposes gaps in a brand's leadership and management. And once consumers turn around, they will not come back.

I often compare luxury with a love relationship. Once a brand suffers a breakup with its customers, it is very hard to repair that relationship.

This crisis calls for action.

Some brands have been incredibly active and successful in connecting with their customers. Sales teams have worked from their homes, using WhatsApp, WeChat or Zoom to connect with customers.

While stores were closed, they could still show their appreciation, provide services, and sell to customers one-on-one, while leveraging new digital, real-time insight technologies. These allow a brand to identify immediate shifts in consumer sentiment and then address them.

In contrast, the passive brands that focus on costs slow to a standstill. In the long run, cost reduction cannot make up for lost sales and broken customer relationships.

I have been asked many times lately about what brands should do right now. My answer is this: be more active than ever before.

If your competitor gets up at 6 a.m., get up at 5 and work twice as hard. Now is the time to audit your brand in a brutally honest way, work diligently on any gaps, strengthen your brand equity, and humanize your brand story.

And it is the time to invest in your people because without them you cannot survive. You need them to connect with your customers now more than ever and to come up with ideas, solutions and sales approaches.

Additionally, you should overinvest in your brand.

Prices for digital advertising and search engine marketing have exploded over the past few weeks, as more people are more on social media than before.

Reducing media investments in an expanded market will hit passive brands disproportionately when consumer connectivity is more important than ever.

I always recommend a focused, swift and decisive approach during a crisis one that identifies key areas, finds quick ways to win, and looks for gaps in branding. Brands that do this will have a strong rebound, a significantly strengthened market position, and lasting competitive advantages.

It is not a matter of size, but rather agility, leadership and dedication. The brands that do not make it will soon be forgotten., and not because of the virus, but their decisions in response to it.

Daniel Langer is CEO of the luxury, lifestyle and consumer brand strategy firm quit, and the professor of luxury strategy and extreme value creation at Pepperdine University in Malibu, California. He consults some of the leading luxury brands in the world, is the author of several luxury management books, a global keynote speaker, and holds luxury masterclasses in Europe, the USA, and Asia. Follow @drlanger

Published with permission from Jing Daily. Adapted for clarity and style.