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RETAIL

Post-COVID-19 luxury: Defining the new normal

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Gucci, like its luxury peers, has put on an enormous show of solidarity and altruism to help health authorities combating the spread of the COVID-19 coronavirus. Image credit: Gucci

By Abhay Gupta

The recent COVID-19 coronavirus has perhaps been the biggest disaster that the world and luxury have ever faced. Nothing of this magnitude ever was imagined or experienced even after the two world wars, famines or the financial mayhem of 2008.

However, with every such past crises, history has been witness to human resilience, the race's ability to adjust and create a new normal. Life goes on time and tide wait for none, as they say.

With every crisis, there comes new opportunity. Time and time again, this has been proven true.

Despite the telephone having been invented in late 1800s, it became a new normal immediately and only after the first world war.

Likewise, in 2003, post-SARS, Taobao emerged from Alibaba and became a new phenomenon. In India, 2016's demonetization of 86 percent of the currency led to digital money and its leader Paytm as the new normal.

9/11 changed travel security and Mumbai's 26/11 changed hotel security as a new and accepted normal forever. And the COVID-19 lockdown is already making work from home, digital banking, ecommerce and social distancing the new normal.

How about luxury?
In 2019, the luxury business was estimated to be worth 281 billion euro at 4.1 percent CAGR. 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.

Luxury, since its very origins, meant slow pace, attention to the detail and custom made. Rarity was the reason 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. More art than commerce was the true essence of luxury.

Soon after the corporatization of luxury, segmentation and targeting became the norm.

Luxury positioned itself as an industry that sells items often bought for status, self-gratification, differentiation or even the feel-good factor.

However, in a time comparable to a war-like scenario, luxury will not be a priority for many of those customers who used to stock wardrobes of pricey items that lost their appeal after just one season.

Per a study by *Harvard Business Review*, during a recession or crisis such as the one ongoing, the normal market segmentation does not hold true. It changes into four different categories of:

1. Those who slam on the brakes and conserve every penny they may have.
2. Those who are pained but patient to be cautious with their expenditure and wait for good times to return.
3. The comfortably well-off affluent customer, for whom recession or economic downturns do not matter.
4. And, finally, the YOLO or live-for-the-day generation.

Luxury essentially targets the last two of the above.

So, will luxury have a setback?
Yes surely, but will bounce back quickly simply because for someone whom luxury is a way of life, his or her benchmarks will not change? A hedonist enjoys what he or she buys. His or her taste levels do not accept anything lower than what he or she perceives as acceptable. He or she was always buying for his or her own satisfactions and will continue to do so.

On the other hand, the aspirant for whom luxury is a treat, a social declaration of success, a feel-good trophy, he or she will continue to live for the moment. Of course, quantity will be replaced by quality.

So what will post-COVID-19 luxury look like?
After the COVID-19 crisis dissipates, we will see brands and companies fall into one of two categories.

There will be those that do not do anything, hoping such a disruption will not ever happen again. These companies will be taking a highly risky gamble.

And there will be firms that heed the lessons of this crisis and make investments in mapping their supply networks so they do not have to operate blind when the next crisis strikes. They will rewrite their contracts, operating procedures and processes so they can quickly figure out solutions when disruptions occur. These companies will be the winners in the long term.

Luxury sales are expected to suffer a year-over-year decline of 25 percent to 30 percent, according to the latest research from Bain & Company (see story).

Aspects that are expected to continue into 2021 and beyond include:

- Decrease in consumer confidence
- Decrease in willingness to spend
- Travel will shift from no travel to cautionary and necessary travel

The evolution and duration of the pandemic will surely be impacted by the response of individual governments and populations. However, Bain predicts that the market is likely to recover in two different schematics for 2021 and forward.

Strategies for the new normal consumer trends

1. Accelerated shift to digital shopping: This is likely to super-accelerate both, because consumers have more time on their hands, but also because interacting with ecommerce sites has become a necessity. Omnichannel is the necessitated future.
2. Changes in store operating procedures: Restricted number of clients permitted into the mall and stores, heightened sanitation procedures and staggered and longer operating hours will all be a result of the new social distancing normal. Operating costs will rise, while inefficient stores will face closure. Brands with

multiple stores will keep the best performing ones on, while rest will shutter.

3. Shows without live audiences: With travel restrictions and limitations on crowd assembly, digital launch of collections is a new normal. Besides, cost of travel will shoot up due to reduced number of passengers allowed on board.
4. Heightened environmental and social consciousness: For pioneering brands, investments in sustainability and innovation are of high strategic importance. Quality over quantity will be the new mantra. Sustainability beyond lip service will be warranted.
5. Sharing economy may suffer: Health-related concerns growing out of the pandemic will impact the growth of rental and re-usable Hygiene and sanitation SOPs will become the deciding criteria for consumer choice.
6. Rise of a post-aspirational mind-set: Ethics will become as important as aesthetics as consumers prioritize purposeful brands. Anticipate shift in consumer mindset.
7. Strengthened local pride: Brands need to avoid being insensitive to local cultures and pride. The de-globalization phenomenon is backed by a rising urge of patriotism.
8. Expanding the need for inclusion: Brands need to include reduced spending powers by ensuring response to the mall ticket players. The lipstick effect is most prominent amongst the aspirational class. This time, the lipstick is likely to be replaced by eye liners and mascara, given the need to wear a mask in public.
9. Stay relevant to customers: Reassure the existing customers through editorial and personal engagement with social distancing, hygiene and other such measures they may be taking.
10. Develop a 360-degree customer strategy: Be more customer centric, agile and sustainable. Adopt the HEART framework of sustained communications.

Humanize your company

Educate about change

Assure stability

Revolutionize offerings

Tackle the future

Credits: Research inputs from Bain & Company; Harvard Business Review and a study by the author, "Corona Virus and its impact on Indian luxury," available as an extension to The Incredible Indian Luxury Bazaar.

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