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Why Is Herms thriving in China despite COVID-19?

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Following lockdown, Herms enjoyed stellar sales in China after reopening. How has it been able to not only weather the COVID-19 crisis but also thrive? Image credit: Shutterstock

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In April, following a two-month-long lockdown, Herms surprised the world with stellar sales at its **flagship store** in Guangzhou's Taikoo Hui shopping center.

As widely reported, Herms' flagship store brought in an incredible \$2.7 million in sales on its reopening day, even selling a highly coveted and outrageously expensive diamond Himalaya Birkin bag.

Record sales are hardly surprising in a country such as China, where consumers are avid luxury buyers. But until recently, the repatriation of China's luxury spending was more tempered and restrained.

The post-COVID-19 world, however, has created a new global reality. One in which international travel restrictions and travel bans, quarantine measures and lockdowns are confining overseas travel and forcing affluent Chinese shoppers to discover their local stores.

Foot traffic in mainland China is increasing and domestic consumption of luxury and premium goods is also seeing an improvement. But not all global brands have benefited equally from China's **repatriation of spending**.

In times of **raising patriotism and nationalism**, when consumers are returning to the "Made in China" logo, not all international brands have conquered and maintained the interest of the Chinese consumers, which makes Herms record sales even more noteworthy.

According to *Vogue Business*, the fact that Herms is currently trading above its pre-COVID-19 value represents "a rarity among fashion firms." And *Vogue Business* is right.

The success of the **French luxury brand** in these trying times represents an anomaly, especially because new consumer behavior trends have emerged during and in the post-pandemic days. Given this, how has Herms managed to thrive in post-COVID-19 China?

The best value for money

If the lockdown and quarantine periods have taught us anything, it is that seasonal designs that ultra-modern look are no longer fashionable in a world where consumers might find themselves isolated at home for months.

By the time these consumers were finally allowed to safely leave their homes, what was trendy when they entered quarantine was no longer fashionable when they emerge from lockdowns. Thus, the desire for timeless, classic designs has become more than a fashion staple, but a must-have.

Equally important, buying fewer and better investment pieces is a trend fashionable with the younger consumers who look for possible substitutes for the wasteful fast fashion model.

Moreover, the post-pandemic consumer has emerged from the crisis more price sensitive and with less disposable income, so it is not surprising that they are reassessing priorities and avoiding extravagance.

Additionally, consumer sentiment and behavior have also changed in the era of post-luxury or "silent luxury."

Currently, most affluent Chinese consumers have a stronger focus on vitality, wellbeing and health instead of shopping for trendy luxury pieces.

Consequently, custom-made and durable designs that will last a lifetime are the only luxury items that register robust demand in a world that wants athleisure, loungewear and activewear.

The **World Economic Forum** states, "As consumers become more cautious in making purchase decisions in the face of ongoing pandemic uncertainty, sales of customized products that are more directly tailored to consumers' needs are rising."

Making the male segment a target market

Luxury brands have a strong focus on the urban professional women, but Herms prioritizes segmentation, giving male and female consumers an equitable shot.

Considering that only **40 percent** of Herms Chinese consumers are women, recognizing gender-specific buying habits instead of focusing solely on women or proposing gender-neutral products is a veritable gold mine for the brand.

Herms understands that women and men have different buying behaviors and they perceive luxury differently.

Given this, segmentation enables Herms to build and deliver a more individualized customer experience.

Making the most of opportunities and challenges

Hong Kong was a shopping Mecca for affluent mainlanders, but the ongoing demonstrations, deteriorating economic outlook and the **COVID-19** outbreak have boosted the repatriation of spending.

"Chinese consumers made 27 percent of their luxury purchases in China in 2018, up from 23 percent in 2015, and we anticipate that this share will increase to 50 percent by 2025," according to **Bain & Company**.

While some brands could not overcome these particular challenges, Herms has transformed a crisis into an opportunity by capitalizing on existing trends.

In fact, Herms heavily pursued a strong China strategy while it also accentuated its digital marketing strategy.

According to **Reuters**, Herms claimed that the launch of its **ecommerce** site in China was helping to increase revenue.

Advantage of low inventory

Low inventory and the **closing of production lines in France** during lockdown have unexpectedly increased demand.

As stated by **Vogue Business**, part of Herms success in China can be attributed "to the predominantly all-year-round nature of Herms' product range and the limited supply of its famous handbags."

Oliver Fritz, portfolio manager for European equities at Berenberg, told **Vogue Business**, "The lower the seasonality, the more resilient the sales demand has been."

A 1987 article by Daniel Isenberg for the **Harvard Business Review** described strategic opportunism as "the ability to remain focused on long-term objectives while staying flexible enough to solve day-to-day problems and recognize new opportunities."

Three decades later, Herms has reinvented itself as a market disruptor thanks to the same strategy. It has emerged

more resilient **post-COVID-19** and ready to conquer a bigger slice of China.

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