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APPAREL AND ACCESSORIES

As European lockdowns resume, luxury brands brace for more setbacks

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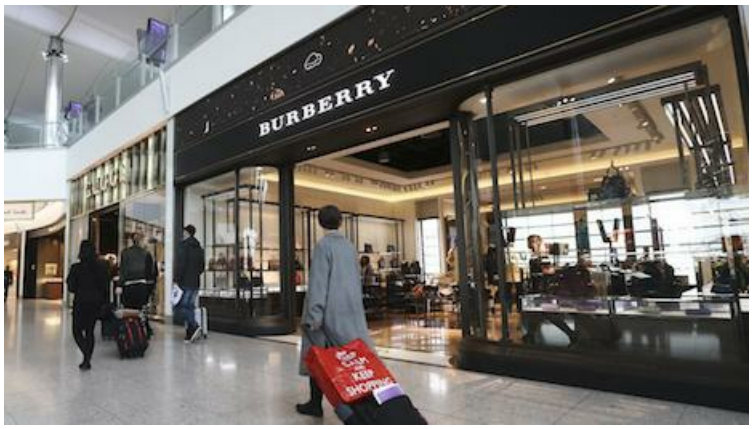


An estimated $5.84 billion, or 4.5 billion, in luxury sales was generated last year by international visitors to the United Kingdom. Image credit: Walpole, Heathrow Airport

By ELLEN KELLEHER

Luxury brands will have to be strategic and fortunate to avoid any negative repercussions from the restrictions being put in place across Europe as governments return to lockdowns and curfews in an effort to stave off rising COVID-19 cases.

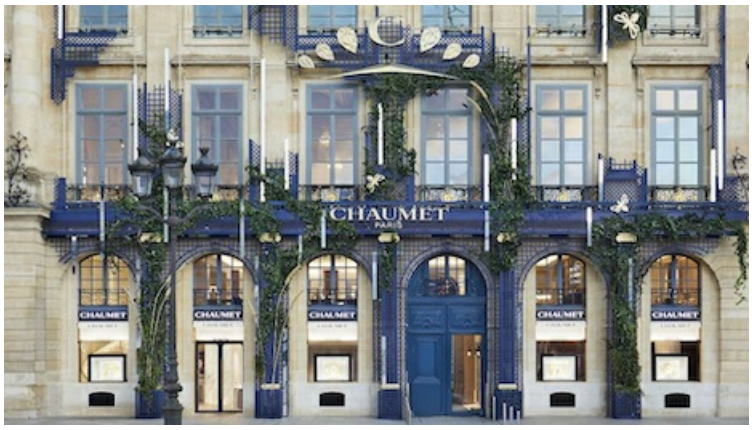
New restrictions across Europe, including region-wide lockdowns and weeks of curfews, are leading to uncertainty for brands leading into the holiday shopping seasons. Industry watchers say new strategies are being considered to stave off a prolonged meltdown in the sector.

"A lengthy second wave will impact all luxury brands," said Marie Driscoll, managing director for luxury and fashion at Coresight Research, New York. "Luxury retailers will continue to feel the impact of reduced business and pleasure travel on luxury sales for another 12 to 18 months."

Europe as the COVID-19 bellwether

Europe has reported more than 7.4 million cases of COVID-19, compared to 18.3 million cases across the Americas and 8.28 million cases in Southeast Asia, per the World Health Organization. Governments are rushing to curb the soaring rate of infections the highest since the spring by introducing various restrictions and new lockdowns.

A public health state of emergency has been ordered in France where a curfew each night has been put in place in Paris and elsewhere for at least a month, as reported by CNBC.



A curfew is now in place in Paris. Image credit: LVMH

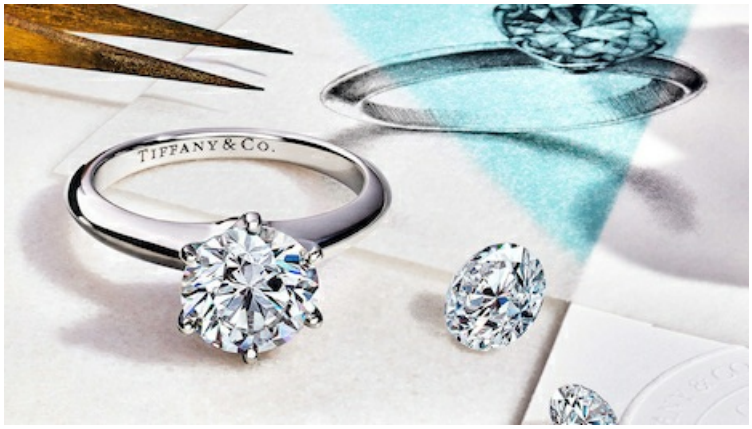
In London and other major cities in the U.K., people have been barred from inviting friends to their homes since the mixing of households in indoor settings was banned late last week, as reported by *The Telegraph*. While non-essential retail currently remains open under the most strict "tier 3" restrictions, such activities are not advised.

As of Oct. 22, a "firebreak" lockdown will begin in Wales, which includes the closure of non-essential stores through Nov. 9, per the BBC.

From Paris to London to New York, the effects of the pandemic on the luxury goods sector have already been dreadful.

Since May, U.S. brands such as Brooks Brother, Neiman Marcus, Brooks Brothers and Lord & Taylor and Century 21 have been among those to file bankruptcy (see story).

Adding to the misery, foot traffic to stores has slowed to a near halt at many luxury brands. Additional research is finding correlations between restaurant spending and confirmed coronavirus cases in states across the U.S., which is a good indicator of what things might look like during a second wave and into next year (see story).



LVMH's bid for Tiffany was scrapped due partly to pandemic concerns. Image credit: Tiffany & Co.

In another dramatic move for the sector, French luxury conglomerate LVMH Mot Hennessy pulled out of its $16.2 billion deal to acquire Tiffany & Co. (see story). The U.S. jeweler saw its net sales fall by 37 percent to $1.3 billion in the first half of fiscal year 2020, as the coronavirus pandemic stalled the luxury industry this spring (see story).

The luxury group has recorded revenue of 30.3 billion euro, or $35.5 billion at current exchange, in the first nine months of 2020 down 21 percent on an organic basis from its record revenue in 2019 (see story). Rival French luxury group Kering saw its revenues plunge about 30 percent in the first half of 2020 to 5.378 billion euro, or $6.309 billion at current exchange (see story).

However, both luxury conglomerates have experienced exponential ecommerce growth during the pandemic

Future holds online potential, especially in China
Industry watchers say there is no question that some kind of overhaul of the sector is likely and new strategies must be adopted.

Digital channels and business in China, perhaps the luxury industry's most important market, are the answers, according to some.

China, which has begun its recovery, is the only country whose luxury market is expected to grow in 2021 and 2022 (see story).

"In this prolonged COVID crisis, the life savers have been whatever digital channels brands have on the one hand and China on the other, where business is essentially back to normal," said Pierre Mallevays, managing partner at Savigny Partners LLP, in London.

On the digital front, online sales and appointments as well as increased social media use can help ratchet up brand awareness. It is also pivotal to invest in systems, talent and marketing to grow online presences.

Those houses that choose not to embrace digital channels do it at their own risk given that retail networks have become a "costly albatross" and traditional wholesale channels have pretty much shut down, noted Mr. Mallevays.

The first country to face widespread lockdowns, China is now the first to return to something resembling normalcy. Image credit: Farfetch

Coresight's Ms. Driscoll is in agreement about the promise of China. She expects luxury sales in China to outpace the world over the next 12 to 18 months, barring macro-economic deterioration, since the Chinese account for 80 percent of the luxury category's growth globally.

"Luxury brands with a well-established presence in China will continue to benefit from that region's strong demand for luxury along with the growing numbers of Chinese luxury shoppers," Ms. Driscoll said. "Already we are seeing China returning to pre-COVID Covid luxury sales trends."

At the day's end, analysts are in agreement that the COVID-19 shake-out in the luxury retail space will be Darwinian.

Louis Vuitton, Herms, Gucci and other brands controlled by conglomerates will survive while smaller, weaker ones will fade away (see story).

"A lot of these mediocre brands, these second-tier brands won't make it," said Milton Pedraza, CEO of Luxury Institute LLC, New York. "The second wave of COVID-19 will have a negative effect on brands that are borderline and hanging by a string.

"We'll see bankruptcies," he said."We'll see pruning, but in a way that might be healthy for the industry."

Tourism impact

A final problem for luxury brands is that travel is unlikely to recover as COVID-19 lingers. This will affect both duty-free sales and companies' ability to amortize the cost of their big flagship stores in London, Paris, New York and other top tourist destinations (see story).

Travel blockages also hit luxury brands more directly as the industry's supply chains depend on highly lucrative trade routes from Europe and New York into China and Greater Asia. Indeed, their management teams depend heavily on travel for business.

"What we need now is a highly nuanced response from government to different sectors [] to ensure that they weather the storm until international travelers and domestic consumer confidence returns," said Helen Brocklebank, chief executive officer of Walpole, the trade group representing UK luxury stores.

While the COVID-19 crisis has been ruinous for the sector, industry watchers say that luxury brands, from the U.K. to New York to Hong Kong, will weather the storm and a turnaround will come buoyed by the return of high-end travel (see story).

"It's all cyclical," Mr. Pedraza said."We can't predict that there won't be a fashion surge.

"People will always be dressing," he said. "Fashion and retail will always be relevant."