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APPAREL AND ACCESORIES

Beyond China, luxury fashion recovery may stretch into 2023: McKinsey

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The future of luxury fashion in Europe is highly dependent on the return of tourism. Image credit: Louis Vuitton

By SARAH RAMIREZ

The global fashion industry has a long road to recovery after suffering its worst year on record amid the COVID-19 pandemic.

According to a new report from McKinsey & Company and Business of Fashion, worldwide fashion sales are expected to decline 15 to 30 percent in 2020 from 2019. Despite exponential growth in online sales this year, the industry is not expected to return to 2019 revenue levels until the second half of 2022.

"The fashion industry will long remember the devastation of 2020," said Achim Berg, senior partner and global leader of apparel, fashion and luxury at McKinsey. "Economic profit in the industry is expected to be down 93 percent this year."

The "State of Fashion 2021" report is based on a survey of more than 320 fashion professionals, including in-depth interviews with industry executives.

Fashion outlook

Globally, fashion companies had seen modest growth of 4 percent in economic profits, defined as a measure of value where capital costs are deducted from net profit earned, in 2019.

While fashion executives had expected the rate of growth to slow in 2020 (see story), it is unlikely the most pessimistic could have predicted the challenges brought on by the deadly pandemic and months of lockdowns around the world. Disrupted supply chains and shifting consumer habits worsened the economic disruptions.

Looking to 2021, the recovery will look different across fashion categories and markets. The expectation, however, is that companies centered on digital, China and luxury will have an easier road.

British fashion label Burberry recently opened a social retail store in Shenzhen, China. Image credit: Burberry

There are two primary scenarios for the fashion industry's recovery, based on the efficiency of virus containment.

If an effective vaccine and government interventions mitigate the spread, travel restrictions may be lifted sooner and promote a faster economic rebound. Under these circumstances, global fashion sales would return to 2019 levels in the third quarter of 2022.

However, if coronavirus cases periodically swell in different regions, another round of lockdowns in 2021 will delay the industry's recovery until the fourth quarter of 2022.

It is increasingly clear that the path for recovery for fashion, as well as the luxury industry, goes through China. Fashion sales in the country are forecast to return to pre-pandemic levels by the first quarter of 2021 at the latest.

Europe has seen a steeper decline in sales than the United States, with a drop in sales between 22 and 35 percent compared to sales decreases between 17 and 32 percent. Nonetheless, fashion sales in Europe are expected to recover by Q2 2022, faster than the Q1 2023 forecast for the U.S. market.

Overall, luxury and affordable luxury have been more resilient than other fashion segments.

However, global luxury sales are still expected to decline by 12 to 17 percent in 2021 compared to 2019, including a 28 percent decline in Europe. Notably, luxury sales in Europe will likely be among the slowest segments to recover due to drop-offs in tourism as well as shorter production cycles.

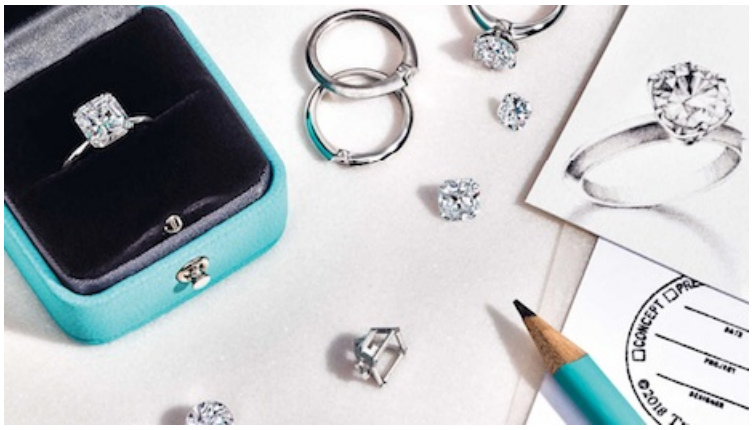
Markets that are less dependent on tourists are recovering quicker due to the strength of local shoppers. As a result, luxury brands' investments in establishing physical presences in mainland China are paying off, as the country "returns to normal" quicker than Europe and the U.S.

"Especially important here is to understand the implications of diminished travel and thus tourist spending," Mr. Berg said. "One has to localize and think about how to increase the spend of domestic consumers.

"The digital customer journey has taken a step and changed over the course of COVID," he said. "The other important component here for luxury brands is the demand shift for different categories the assortment must be tailored, and it leads back to being the flexibility and agility needed to maximize catering to the new consumer demands."

With the coronavirus remaining a major challenge in 2021, the report identified several themes and disruptions that will shape fashion's priorities in the coming year.

Luxury brands are the least likely to be impacted by diminished demand for fashion, but would still be wise to continue investing in high performing categories, channels and regions including online and other digital offerings.



Luxury may see more acquisitions in the coming years, such as the LVMH takeover of Tiffany & Co. Image credit: Tiffany & Co.

Online sales have accelerated during the pandemic, accounting for 29 percent of total fashion revenues in 2020 condensing six years' worth of growth in a period of eight months. Brands can continue leveraging livestreaming, social shopping and other innovations to boost their ecommerce business.

Consumers are also increasingly aware of corporate responsibility, encompassing fashion companies' sustainability efforts as well as ethical treatment of lower-wage workers across the supply chain.

For luxury fashion in particular, brands can expect the experiential economy, including unique in-store experiences, to return post-pandemic. Executives also believe luxury is prime for more acquisitions and mergers, although mid-sized players may be more at-risk than niche, independent brands.

Beauty comeback

In a first, the report also examined the state of the beauty industry. During the pandemic, the global beauty market has proven to be more resilient than fashion and is expected to return to 2019 sales levels in 2021.

Sales have already rebounded in China, and the U.S. is forecast to follow suit in early 2021. Due to diminished travel retail, Europe and Japan are expected to recover in 2022.

"Self-care" categories in beauty such as skincare, haircare and personal care have remained strong enough to offset declines in color cosmetics and fragrances. The former categories are also better suited to ecommerce than the latter.

A tremendous increase in online sales has partially offset the disastrous financial impact of the COVID-19 pandemic on Este Lauder Companies, according to William Lauder, executive chairman of the beauty products manufacturer.

In dialogue with Roula Khalaf, editor of *The Financial Times*, Mr. Lauder said at the FT's Business of Luxury Summit on Nov. 23 that strong online sales, particularly in China, were buoying profits at Este Lauder Companies. At the same time, late surges in COVID-19 have forced more store closures and cut operating hours at its network of outlets around the world (see story).

Although beauty ecommerce sales have grown during the pandemic, more than half of consumers are opting to purchase tried-and-true favorites, according to new research.

According to the "Future of Beauty and Skincare Ecommerce" report from ecommerce personalization platform Nosto, 44 percent of beauty consumers have purchased more products online than in-store during the last 6 months than they did before lockdowns. Features such as customer reviews, virtual try-ons and other personalization tactics can further encourage online beauty purchases (see story).

"Like fashion, the beauty market that returns will reflect a changed landscape across regions, categories and channels," McKinsey's Mr. Berg said. "COVID has accelerated many consumer trends, including self-awareness, health and wellness.

"Consumers are also turning to personal care and skincare products to address conditions specifically related to COVID-19, whether that is to address dry hands, breakouts from mask-wearing or puffy eyes from hours squinting at a computer screen while working remotely," he said. "These general consumers trends are true in fashion as well we've seen sportswear players outgrow the rest of the market.

"Beauty as category is more relevant to consumers today, versus fashion in general."

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