

RESEARCH

## Pandemic ushers new era of conscientious luxury

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*The luxury market is entering a new era of conscientious luxury, as opposed to conspicuous luxury that has been the driving force in the luxury market for the last 50 years or more*

By STAFF REPORTS

This year's fifth annual *State of Luxury* report from *Luxury Daily*, Unity Marketing and The Home Trust International takes a look back at the year that was, but more importantly, looks ahead to what 2021 holds for companies competing in the luxury market.

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As 2021 gets underway, it will be a year of transition for the luxury market after the reset brought on by the COVID-19 pandemic. The luxury market is entering a new era of conscientious luxury, as opposed to conspicuous luxury that has been the driving force in the luxury market for the last 50 years or more. Luxury companies will be forced to adapt or be left behind.

Major findings from 2020

Across the 500-plus luxury insiders surveyed, including executives in luxury goods and services/experiences companies and advertising and marketing agencies serving luxury brands, here are some major findings from the survey:

COVID-19 pandemic will bring needed change. While the vast majority of insiders surveyed said the pandemic caused a major downturn within the luxury market, more than one-fourth (28 percent) saw a silver lining coming out of it. They believe it will bring needed change to the luxury industry.

Revenues are down less than 10 percent. It could have been worse, this insiders' survey reveals. While the majority of both luxury goods and luxury service/experiential companies experienced a sales decline, by no means did all.

Furthermore, the average change in company revenues was -9 percent for luxury goods companies and -8 percent for luxury services/experiential companies.

Advertising spending will be cut in 2021. While luxury goods and services/experiential companies spent ~11 percent of revenues on advertising this year, up slightly from 10 percent last year, nearly 30 percent plan to reduce advertising and marketing spending in 2021, the highest share over the five consecutive years of conducting this

survey.

Advertising agencies that serve luxury companies are expecting a greater decline, with more than half (51 percent) saying their clients will reduce advertising and marketing expenditures in 2021.

Luxury consumers' shifting shopping behavior is a key challenge. The changing ways that consumers shop for luxury (i.e. digital) is causing the greatest challenge for luxury insiders this year.

Also of primary concern is continued rates of infection combined with a global downturn in the economy.

Luxury companies are also facing challenges from consumers who are less willing to trade up to luxury. Younger consumers do not define luxury in the same way that previous generations of consumers had, making it harder for established brands to make a meaningful connection with them.

What 2021 holds for luxury companies

On the flip side of business challenges is opportunity, and 2021 will present plenty of both.

While the luxury industry has talked for years about "New Luxury," it has continued to cling to old luxury ideas and business practices.

So far, luxury companies have taken baby steps to adapt, but the COVID-19 pandemic, which brought the global luxury market to its knees, requires them to take giant steps now.

Instead of just talking about "New Luxury," luxury brands must take action because new luxury is here to stay. They cannot drag their feet any longer to maintain a sustainable luxury business in the future.

Luxury must welcome the era of "Conscientious Consumption"

Conscientious consumption is the "New Luxury," rather than conspicuous consumption, which has dominated the luxury market in the past.

"We have to take a holistic perspective this health crisis and the way we are reacting to it is a symptom of underlying weaknesses," said Martina Olbertova, founder of Meaning.Global. "It is a wakeup call to brands. It can serve as a great catalyst for brands to transition to the new luxury paradigm faster than they probably would under normal circumstances."

Ms. Olbertova warns luxury brands not to expect business to return to normal after the crisis abates.

"Luxury brands need to be thinking about future-proofing their businesses in ways that go beyond catering to different markets," Ms. Olbertova said. "They need to think about serving people's essential needs that revolve around what is scarce and luxurious.

"Ultimately, the symbolic value of luxury isn't going to change," she said. "Many of these luxury brands have been around for hundreds of years. There is always going to be demand for something that is handcrafted, premium quality and of lasting value."

In an unexpected way, this may cause luxury brands to return to their roots and the true legacy value of the brands. Just pumping out more high-priced, mass-produced stuff with prominent logos to feed consumers' demand for visible symbols of success is not truly luxurious.

Ms. Olbertova believes this crisis which slowed the whole world down will give luxury brands a pause so that they can look inward to probe more deeply into what their brands mean now and should mean in the future.

"This is a time to create and strengthen brand perceptions, which ultimately create value," Ms. Olbertova said. "That's all anchored in meaning."

Luxury consumers search for meaning

For 2021 the opportunities look bright for brands that lean into the many challenges they faced in 2020.

"There will continue to be some shrinking of the market and that's actually good," said one luxury insider responding to the survey. "We have too much product and it's not necessary. People need less, but want better."

The opportunity in 2021 is to create a new vision of the luxury market that builds on its great past, rather than simply reacting to the shifting tides of consumer trends.

"We can't afford to repeat the solutions over and over again, like only investing more money in tech to solve our

problems," the luxury insider said. "We need to start at ground zero and reinvent the industry proactively rather than simply reacting to current conditions. It requires listening actively and creatively to the voice of the consumer."

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