

RETAIL

Flight of Icarus: As luxury sales soar, how does this end?

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After the breakneck pace of the past few months, what can the luxury sector hope for now? A soft landing. Image credit: Shutterstock

By [Erwan Rambourg](#)

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I published a very much glass half full luxury growth assessment in my book, *Future Luxe*, which was published almost a year ago now.

At the time, friends, investors, journalists and readers told me in polite terms that I was a dreamer, way too optimistic, a Frenchman likely influenced by the fact that he was living in New York and started taking way too bullish views on where the world was going.

The truth is, in hindsight, that I likely was not optimistic enough.

A recent flurry of [results publications](#) has highlighted the breakneck pace at which luxury sales have rebounded from the spring 2020 abyss, during which a majority of [physical stores were shut](#).

As Tory Burch once said, "If it doesn't scare you, you're probably not dreaming big enough."

Luxury sales growth is so good, it is becoming scary, with some people thinking this will not end well.

Again, I am more optimistic.

Growth at the current pace cannot likely be sustained but it does not mean that, like Icarus, the sector is about to crash and burn. There is a path to a more sustainable flight.

Key changes that will be with us for a while: localization, M&A consolidation, sustainability

Like many French peers, I am about to take some time off in August, and while traveling from the United States to France is currently easy for me, I know I am an exception.

Europe might benefit from a bit of intracontinental travel. Domestic travel has rebounded swiftly in mainland China and the U.S. as well, but what counts for the luxury sector and notably key travel retail sales, i.e., [long-haul Chinese travelers](#), that is unlikely to pick up before at least the summer of 2022.

Vaccination rates are surging here and there, but so are [COVID-19 variant cases](#) and it is very unlikely that global

travel could be back to normal anytime soon.

Is that an issue for luxury sales? Well, slightly in Europe, but looking at the sector globally, relying on local sales has not been a drag if looking at recent trends.

As long as Chinese and American clienteles are enthused and the feel-good factor fuels further recruitment in the sector, it does not really matter where they purchase.

Since mid-March 2020, leaders of the industry such as Rolex in watches, **Cartier in jewelry** and **Louis Vuitton or Dior** in handbags and accessories have increased their share as consumers, mostly first-time purchasers, focused on the key brands to become part of the club.

Scale will continue to matter and, as the outperformance of the bigger groups was mostly driven by organic growth recently, there is a case to be made that outperformance as the world re-opens could be incrementally fueled by external growth ahead.

Over the past three weeks, there does not seem to be a day without the announcement of one of the usual suspects Kering, Richemont and, above all, LVMH announcing a JV, a deal, a **majority stake in another**, smaller company.

The **Tiffany deal** was clearly not the last M&A act of an active decade.

Multiples are high, so sellers have a window. Money is cheap and most luxury groups are family-controlled so believe in asset diversification. Consolidation has likely only just begun.

On sustainability issues, I remember reading articles saying consumers would refrain from purchasing luxury as much when the world would reopen. That really has not happened as enthusiasm has trumped good intentions to a certain extent.

What is encouraging though is that groups have taken many initiatives over the past 12 months on **re-sale**, **blockchain**, eco-conception of products and a lot more, getting brands closer to the point where they could actually stop hiding in fear of being called out for being bad corporate citizens.

What goes up must come down?

Luxury brands will not necessarily see a collapse after the recent soaring sales, mostly because they have learned a lot during the pandemic and adapted their structures.

Brands have restructured staff, have renegotiated rents, have gotten to know their end consumers, locally, a lot more intimately. And they have **recruited many newcomers** who have become wealthier over the past year and those might stick around and influence others to join the party.

With higher margins, lofty cash positions, I believe the industry can accompany a very gradual landing after a violently positive take-off.

In the current state of affairs and despite COVID-19 issues not being solved globally, it is likely luxury will continue to fare well. Happy days.

***Erwan Rambourg** has been a top-ranked analyst covering the luxury and sporting goods sectors. After eight years as a marketing manager in the luxury industry, notably for LVMH and Richemont, he is now a managing director and global head of consumer and retail equity research. He is also the author of "Future Luxe: What's Ahead for the Business of Luxury" (2020) and "The Bling Dynasty: Why the Reign of Chinese Luxury Shoppers Has Only Just Begun" (2014).*

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