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Luxury rollercoaster: What comes up must come down? Not so sure

September 13, 2021

After 12 months of impressive growth, a lot could go wrong in the luxury sector, on paper. In reality, things could be just fine. Image credit: Shutterstock

By Erwan Rambourg

The back-to-school period is always a good time to reflect on what's ahead after having benefited from hopefully a thoughtful summer break.

As I reflect on the past 18 months, it is quite clear that very few luxury managers could have imagined sales growth would be so strong for the sector. And as headlines hit a rebound in COVID-19 cases in the United States and parts of China, continued travel restrictions, tough bases of comparison, "common prosperity" discussions in mainland China there seem to be clouds accumulating on the horizon.

Here are a few of the recurring questions that are troubling luxury managers these days:

Travel constraints an issue?

Travel seems to have picked up domestically in the U.S. and as well in China and in Europe, there has been a clear acceleration in intra-regional travel.

The key traveler for luxury, though the long-haul Chinese mainlander going to Europe or parts of Asia has evaporated and is unlikely to reappear meaningfully anytime soon given current regulations. Is that an issue? Not really.

The notion that luxury demand was very much correlated to long-haul Chinese outbound travel has been disproven since the spring of 2020, and while Chinese and other nationalities stayed at home, sales for most brands rapidly picked up to reach above 2019 levels.

Sure, that means European and Hongkongese stores were somewhat quiet, but look at the continued success of Hainan, the domestic duty-free hub of China, and store activity in Tier 1 and Tier 2 cities as well as online purchases that has been heaving.

We are facing another year of locavore luxury consumers, but buying at home does not equate to buying less.

U.S. and mainland China under pressure?

Usually, something that is hard to explain cannot endure. And when luxury execs try to explain why the U.S. market has been so buoyant, they struggle. Many arrive at the conclusion that success in the U.S. could only be ephemeral.

Equity markets, "staycationing" impacts, stimulus packages, repatriation of growth, property markets. All of that has contributed.

If you want to see the brighter side of the U.S. luxury market, you could look at the capacity that consumers who were newly recruited during the crisis could come back and may influence others to step up.

More importantly, you could make the case that, finally, the American consumer psyche is not incompatible with the concept itself of luxury. Societal change could be more long lasting than volatile markets.

Conversely, in mainland China, the notion of "common prosperity" has spooked many luxury participants as, by essence, luxury demand is generated by bubbles or at least some form of wealth discrepancy.

Here, the positive take would be to see that the end game of "common prosperity" is not to limit means of wealthy individuals but more to accelerate access of a greater number to the middle class.

From COVID-19 to courage

After years of complacency, over-spending and lack of discipline, the luxury sector has had great incentives to rethink its business models during the past 18 months.

Corporate staff have been reassigned. Sales associates have been retrained. Rents have been renegotiated and some leases terminated. Data has been reexamined and leveraged greatly. Cynicism around sustainability issues has been reined in.

As a consequence of the many actions taken, margins have rebounded very strongly in the sector.

If it were just down to a COVID-19 knee jerk reaction, those margins might not prove to be sustainable. But if it is down to managers becoming way more professional and efficient, then it might be a different story.

As Churchill said: "Success is not final; failure is not fatal: it is the courage to continue that counts." Carry on.

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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