

RETAIL

## Transparency essential as luxury navigates supply chain stressors

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Consumers are increasingly aware of supply chain issues. Image credit: Affim

By SARAH RAMIREZ

Luxury brands and retailers are bracing for continued supply chain disruptions as the holiday shopping season gets underway.

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The COVID-19 pandemic has exposed and exacerbated longtime problems in supply chains and logistics. As retail sales climb and bottlenecks build, however, challenges continue to persist for businesses and consumers alike.

"We don't expect the global supply chain pressures to ease until well into 2022," said Marie Driscoll, managing director of luxury and fashion at **Coresight Research**, New York.

"Not only are there fewer ships and containers causing delays, but further up the supply chain the raw materials that are used in manufacturing goods, from buttons to chips are in short supply, causing friction throughout the supply chain."

### Supply chain struggles

This year's major supply chain disruptions began as a chain reaction after much of the global manufacturing and shipping industries ground to a halt in the early days of the pandemic. Meanwhile, unable to make experiential purchases, consumers with disposable incomes turned to online shopping at unprecedented levels.

Consumer demand has only grown as everyday life finds a new rhythm.

"As the world is resetting and recovering, and factories are getting back to production, consumers are getting back into the swing of things from socializing more, going to dinner and traveling," said Greg Flinn, retail planning and optimization solutions director at **Oracle**, Chicago. "All of which have motivated consumers to shop."

Other factors including the Suez Canal blockage, extreme weather events, tariffs and warehouse and labor shortages have further stressed the supply chain, leading to port delays and price increases.



*Supply chains are under more stress as bottlenecks buildup. Image credit: USFIA*

"U.S. ports continue to see record-breaking backups due to COVID-related protocols and labor shortages," said Maddy Alcala, executive vice president of sales and business strategy at smart supply chain solutions platform [Gooten](#), New York.

"Raw materials that are still on the water could be delayed and create shortages and stockouts that will ripple across many product categories," she said. "Labor shortages are widespread overseas and in the U.S. across all industries, from retail and restaurants to manufacturers and freight carriers."

These supply chain disruptions are at odds with consumers' evolving expectations, impacting shoppers' perceptions and purchasing decisions.

"Organizations that don't prioritize their supply chains risk declines in customer loyalty and revenue," Mr. Flinn said.

According to a [recent Oracle survey](#), 84 percent of shoppers say that delays would cause them to cancel their online orders. Eight in 10 would stop buying from a brand entirely after delays or shortages.

The findings are based on a September survey of 1,000 U.S. consumers.

As shoppers prepare to open their wallets for the holiday shopping season, brands and retailers should be proactive and transparent about supply chain issues.



*Stores shelves may be a bit sparse this holiday season. Image credit: Neiman Marcus*

"Transparency is essential for luxury brands," Mr. Flinn said. "As luxury brands are known for their customer service, customers have high expectations for limited hiccups and disruptions."

Gooten's Ms. Alcala recommends brands incentivize consumers to shop early and set expectations about product fulfillment and shipping times.

According to Oracle, 45 percent of consumers plan to purchase gifts earlier to allow for delays. Ninety-four percent also want more brand support to ease their supply chain worries, such as shipping status updates and transparency on inventory.

If approached correctly, brands can leverage the disruptions as an opportunity to build consumer engagement and loyalty, according to Ms. Driscoll.

"Honesty is always the best policy: begin to communicate now if there are potential delays to expected products,"

Ms. Driscoll said. "Suggest alternatives that are in stock and available.

"Offer to check other points of distribution for desired products and create a global queue for products in high demand and provide digital accurate updates for expected arrivals so clients can be assured that they will get the object of desire at some future date," she said.



*Online shopping has accelerated during the pandemic. Image credit: OrderDynamics*

When it comes to the supply chain, the luxury sector has both advantages and disadvantages.

"Luxury brands are more vertically integrated than other sectors, so they have greater control over their supply chains," Ms. Driscoll said. "However, they are vulnerable to the same risks as other sectors if they have a long supply chain and are dependent on third-party suppliers for some materials, components, etc.

"For instance, many luxury brands have experienced delays on their branded boxes that house handbags, small leather goods, jewelry," she said. "It isn't as easy for a luxury brand to switch supply sources as it is for more generic and mass-produced goods."

#### Holiday hopes

Last year, COVID-19 also created headaches for luxury brands in time for the holidays.

The fall 2020 resurgence of the coronavirus and subsequent lockdowns came with weeks left in the high-stakes holiday shopping season, as brands hoped to recover revenue losses from the spring. Sudden closures of manufacturing sites and fulfillment centers can contribute to long shipping delays for ecommerce orders, particularly as consumers avoid in-store shopping ([see story](#)).

Expectations remain high for this holiday shopping season, despite the stock and supply chain disruptions.

Holiday retail sales are likely to increase between 7 and 9 percent in 2021 totaling \$1.28 to \$1.3 billion between November and January, according to an annual holiday retail forecast by consulting firm Deloitte.

Ecommerce is expected to grow by 11 to 15 percent year-over-year, resulting in sales reaching \$210 to \$218 billion. Further, the delta variant and ongoing uncertainty caused by the pandemic may actually drive more spending on goods ([see story](#)).

"The pandemic's wide-ranging effects are still unknown, but the confusion provides luxury retailers an opportunity to anticipate consumer preference shifts," said Oracle's Mr. Flinn. "Legacy brands should embrace the moment and provide the products and services that customers want now."