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Many luxury brands should not panic about 2022. They should be in shock

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The luxury industry is undergoing its most significant changes ever, and in 2022, many forces will align to alter it for good. Image credit: Chanel

By **Daniel Langer**

Across all categories, the luxury industry is undergoing its most significant transformation ever and many brands have not even noticed it.

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Much like the rude awakening that Kodak faced when digital cameras took off, many luxury brands are still far too reliant on their existing business models, as they sorely underestimate the speed of change.

It would be easy for me to write a comforting end-of-year column to please readers, assuaging them with what they would prefer to hear. But here, I have chosen to address the elephant in the room, as it is the only way brands can successfully prepare for their futures.

So, why is 2022 so critical for luxury brands?

As we know, 2020 sent the luxury industry into a nosedive. And if it was not for China, many more brands would have collapsed entirely. It was a painful year for the industry, with some brands experiencing high double-digit negatives in revenue and profit. The luxury market in Europe had its biggest decline in history, and important North American markets suffered significantly, especially in the first two quarters of 2020.

The following year was supposed to be the silver lining. At many New Year's Eve parties around the world, people screamed: "F**k COVID!" The pandemic felt like it was behind us: Vaccinations began, and the consensus was that, by summer, the pandemic would be over. But the reality could not be further away from that rose-tinted dream.

Looking at just the United States, the number of **COVID-19 deaths doubled in 2021** compared to 2020. And as 2021 comes to an end, **significant travel disruptions** to and from Asia are still in place, and countries such as Germany, Austria and the Netherlands have returned to restrictions and lockdowns as COVID-19 cases rebound in those areas. Add to that the new Omicron COVID-19 variant and the panic that has set off with closed borders and renewed quarantine requirements.

In the U.S., COVID cases are rising again by double digits. Meanwhile, the debate in China has centered around

whether a "Zero-COVID" stance still makes sense.

But consumers have seemingly started to learn to live with COVID-19, and the luxury sector has swung back.

Looking at current trends, I estimate growth in the personal luxury sector between 1 and 5 percent compared to 2019, which would bring the luxury market to an all-time high. So should luxury brands not be celebrating?

I always caution brands to take a closer look at the numbers.

While the majority of top 20 personal luxury goods brands including **Dior, Louis Vuitton, Hermès**, Cartier and Chanel are projected to grow significantly in revenue and profitability in 2021, many midsize and smaller luxury brands are going to remain in steep decline.

Indeed, many smaller luxury brands are in their worst profit situations ever. As such, we are observing a significant performance divide between the large, well-managed and fast-growing brands and the mid-to-smaller-sized legacy brands that are underperforming. That should not come as a surprise.

From the beginning of the pandemic, I advised the luxury industry to go "all in" by that, I mean excite, innovate and inspire. In times of crisis, consumers look for brands that influence and for something to desire. I also advised the industry not to overreact with price wars and promotion offensives. The best brands stayed extremely disciplined by significantly increased prices during the pandemic.

For example, Chanel increased its prices several times, marking some handbags up by 50 percent more than before the pandemic. These moves were accompanied by **limits on how many bags** an individual customer could buy, which increased desirability, made acquisitions even more difficult, and further drove desire.

Collections such as the one from the hundred-year birthday celebration of Chanel No. 5 have become worldwide hits while the **brand's \$80 water bottle** became a social media star, instantly selling out all over the world. And for the first time in the brand's history, Chanel started to sell eyewear online, which was perhaps a preview of more direct digital sales to come.

Chanel's social media remains one of the best managed, and Blackpink's Jennie, the K-Pop megastar known as the "Human Chanel," is driving sales to Gen Zers worldwide. Its pandemic brand strategy was a master class in influencing consumers, giving the brand a fresh-yet-recognizable air while innovating and building brand equity and desire.

Many other brands did the opposite. And for these brands, just panicking is not enough. They should be in shock. And they must act.

Over the last two years, some brands merely focused on reducing costs, and many were hesitant, complacent and uncreative. They overreacted with price reductions and increased promotions.

While Chanel managed to emerge much stronger from this crisis, many other brands entered a downward spiral by trading brand equity for the hope of fast growth that, in the end, did not happen.

And next year, many transitional forces will finally collide.

The **importance of Gen Z** will become more felt by brands, creating a headache for those who thought they could wait to communicate with them. This consumer group will be the number-one group of personal luxury goods buyers by 2030 and has significantly higher expectations towards brands that many traditional brands do not fulfill.

In fact, the more these brands hesitate to reinvent themselves, the more vulnerable they will become. They will soon be forced to **consider sustainability** and inclusion, luxury as investment, elevated experiences and **physical-digital fluidity**. And because these young consumers make their brand preferences digitally, emotional **brand storytelling** has become indispensable.

Sadly, about 90 percent of audited luxury brands across categories are not ready for the demands of this critical generation.

What many managers still say is: "Our customers are 40+, 50+ or 60+. Gen Z is irrelevant to us." But with that attitude, their brands will be probably already irrelevant for Gen Z, and the managers who were clinging to their traditional audience will soon get fired.

Some brands started to get a wake-up call during the pandemic and chose to disrupt their traditional brand positions and strategies. But a lot of brands still do not feel the need to change. And when they do, it will be too late.

Up to 50 percent of luxury brands operating today may not survive this decade. They will get replaced by the successful incumbents or the multitude of luxury startups emerging in China, U.S. and Europe.

The number of new Gen-Z-focused, digitally native luxury brands is unprecedented and will only continue to accelerate in the next decade.

Just take a look at the car industry, which, until recently, never saw any significant new player. Suddenly, innovative and technologically superior car brands such as Rivian, Lucid, Fisker and Nio have become investor darlings, despite having yet to produce any revenue. Of course, Tesla is in a class of its own.

These developments have made 2022 the most critical year for luxury brands across all categories. Therefore, many luxury brands must wake up and do the homework to catch up with the brands currently leading their respective categories. They must act rapidly to connect with Gen Z. Waiting until the end of the decade is too late.

To me, this moment marks the most exciting time for the luxury industry.

While some brands should be in shock and need to awaken from their slumbers, it is a time of unmatched opportunity and exponential change. Now is the time to quickly learn about luxury's new rules, adjust strategies and play to win. It is a time for change and bold action.

This is an op-ed article and reflects the views of the author and does not necessarily represent the views of Jing Daily.

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