Luxury Daily®
The News and Intelligence You Need on Luxury

RETAIL

How China's severe winter will impact luxury consumption

February 7, 2022

Scientists expect a cold winter in China, which historically means less store footfall. But will other spending decisions be affected? Image credit: Shutterstock

By Adina-Laura Achim

Atmospheric scientists expect a severe cold wave to sweep China, and brands should be aware that the weather is a big factor in influencing purchasing decisions and spending habits.

Subscribe to Luxury Daily
Plus: Just released State of Luxury 2019
Save $246

"Weather affects consumers on three levels: their purchase method, their mood, and their product choice," says the advertising platform Weatherads.

In fact, the British Retail Consortium shares a similar view, stating, "weather has the biggest influence on consumer behavior after the economy."

When temperatures drop, consumers hide at home. Accordingly, out-of-home activities such as shopping in malls get replaced with home entertainment.

With bad weather, foot traffic drops significantly, but smart retailers try to gradually improve their online shopping experiences through digital marketing campaigns with a strong emotional pull.

A study by Rich Relevance found that, on cold or rainy days, retailers in the home and furniture, wholesale and clothing verticals registered a 12 percent hike in Web site traffic compared to sunny, warm days.

In November, when the first wave of snow hit China and temperatures plunged significantly, retail sales dropped 3.9 percent below the year-on-year forecast.

A similar temporary setback was seen in February 2021, when the United States was battling freezing weather and retail sales dropped by 3 percent.

"We knew the economy took a major hit in February due to the brutally cold weather and a lot of snow," said Joel Naroff, chief economist at Naroff Economics, to Reuters.

The cold winter will exacerbate the ongoing energy crisis in China, forcing regional governments to implement new energy-rationing quotas.

Inevitably, the phenomenon will lead to additional supply chain delays, stagnant industrial output and a slowdown in economic growth.

We forecast that these seasonal fluctuations will eventually boost consumer prices while lowering consumer purchasing power and confidence in China. Subsequently, spending will shift from luxury purchases to daily necessities.

Last November, the Chinese government encouraged families "to keep stocks of daily necessities ahead of the winter." But prices of vegetables climbed steeply after heavy rains flooded crops in Shandong.

Additionally, new waves of COVID-19 infections spread around the country, forcing the government to enforce strict epidemic control measures and a new round of lockdowns, threatening Lunar New Year celebrations and their related spending sprees.

Luxury and premium brands will struggle to stay relevant and create hype if consumers are fighting an upsurge of COVID-19 cases, higher food prices and larger electricity bills. Relatedly, small domestic businesses that cannot move their manufacturing offshore will be badly affected.

The experience economy will also take a huge hit. Concerts, live events, exhibitions and countless cultural activities will be canceled or moved online. And the hospitality sector will suffer again under renewed lockdowns and an economic slowdown.

In this new reality, luxury conglomerates LVMH and Richemont, which bet their futures on the experience economy, will be compelled to transition their experience to the digital world. Selling digital-first clothing in the metaverse is the first step.

However, luxury brands can also collaborate with independent designers and NFT houses, as they are better-versed in this digital world.

For example, they could partner with an innovative metaverse jewelry collection project called Chains NFT.

Per Jeweller Magazine, Chains NFT "is hoping to collaborate with big-name fashion brands such as Tiffany & Co and Louis Vuitton to become the first luxury jewelry store in the metaverse marketplace."

Meanwhile, opening 3D virtual flagship stores in the metaverse where brands can replicate the physical experience will also boost engagement and leverage the power of co-creation.

Additionally, mainstream brands can pursue the same digital road as Givenchy by partnering with graphic artists. The LVMH-owned brand collaborated with Chito to release 15 NFTs on the OpenSea marketplace, sold through a seven-day, simulated auction.

And, finally, creating virtual models and avatars for use in livestreams will allow brands to better connect with young consumers.

South China Morning Post reports that during a livestream on Bilibili in October 2020, Virtual YouTuber Hiseki Erio performed for nine straight hours to 90,000 online viewers. What is more impressive is the fact that 27,000 viewers showered the digital idol with virtual gifts, while 3,000 premium subscribers paid $30 (200 yuan) a month to have access to its exclusive content.

As you can see, luxury brands can employ virtually streaming idols around the clock to increase brand awareness and market their products and goods.

Published with permission from Jing Daily. Adapted for clarity and style.

© 2022 Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your feedback is welcome.