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RESEARCH

Luxury retail to remain resilient' through economic uncertainty: Bain

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Luxury shopping on New Bond Street in London. Image credit: Getty Images

By ZACH JAMES

New findings from global consulting firm Bain & Company point to high-end stores, providing industry leaders with learnings as the category continues stemming the tide of macroeconomic threats.

Titled "Three Reasons Luxury Should Remain Resilient," the firm has teamed up with AI-driven retail analytics platform Edited to predict luxury's future, publishing insights via a report, infographic and newly-launched podcast episode. Experts outline arguments for sustained industry growth, albeit slow, suggesting that strategies such as acute trend forecasting and "shrewd discount management" will, among others, mark brands' ability to stay afloat in 2023 and beyond.

For the report published in conjunction with Edited, Bain & Co. analyzed its partner's external market data, sourced across 18 unspecified luxury goods brands, studying select time periods spanning July 2019 through June 2023. Edited and Bain & Co.'s release measures prices at four different phases, including pre-pandemic, early pandemic, late pandemic and pandemic recovery.

Staying strong

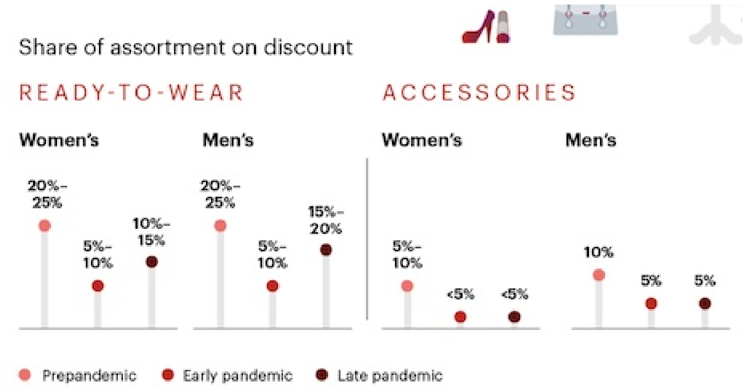
Rooted in three primary findings, the report counts expanded price distribution since the start of the pandemic, as well as a reduction in visible discounts and fast adaptation to consumer demand during lockdowns as reasons for luxury's resiliency.

First up, consultants share that pricing for entry-level items has remained stagnant despite economic downturns, with big-ticket items and an increased number of exclusive inventory increasing in price, making up for lower profits on low-end pieces in the process.

Next, discounts on luxury goods have also been diverted to loyal customers instead of remaining public-facing and accessible to all, resulting in a higher value perception for luxury goods among consumers.

The final insight surrounds leisurewear and the subcategory's pandemic-era prominence, which effectively served consumer needs at the time.

Report authors state that when lockdowns were lifted, luxury labels were ready with partywear available for purchase.



Representing a more strategic approach, discounts on luxury goods are more aptly reserved for loyal customers, lending the industry enhanced resiliency. Image credit: Bain & Company

Edited and Bain & Company came together to discuss these findings on the former's award-winning podcast "Inside Retail." The episode sees host Grace Hill, retail strategy director at Edited, speak with Federica Levato, senior partner and EMEA leader of fashion and luxury at Bain & Company and Carlo Moltrasio, associate partner in the luxury and fashion goods vertical.

"The strongest brands have each found their own way to seize exploding consumer demand," says Ms. Hill, kicking off the episode.

Explaining the forces behind the marginal gains, Ms. Hill points to French luxury conglomerate LVMH's strong first-quarter earnings statement, buoyed by its fashion and leather goods segment (see story), the appointment of Pharell Williams at Louis Vuitton (see story), an embrace of "quiet luxury" and China's initial rebound.

> Despite economic uncertainty, luxury #retailers can maintain momentum through strategic action. Find out more in our latest infographic, in partnership with @EDITED_HQ: https://t.co/taHJGOyUiD pic.twitter.com/ooxEMjy1Oj
>
> Bain & Company (@BainandCompany) August 7, 2023

"The era of uncertainty and inability to see the future is stronger today than ever," says Mr. Moltrasio, during the episode.

"In general, we think that right now is the moment to be proactive about the future, especially in product marketing strategies," he says. "Luxury reads the zeitgeist of the environment in which it thrives, with loungewear during the pandemic, and occasionwear, or partywear, taking over now."

During the digital drop, the fashion market, in particular, is said to be at an interesting point for ingenuity in creating visibility for products, as macro-trends disappear and upscale apparel becomes more about self-expression over what happens to be "in-season."

All in all, producing products that are not mere copies of more expensive counterparts but, rather, standalone desirable in themselves, and approaching the marketing of these relatively lower-priced buckets with creativity and innovation could help fuel what the partners call "high-low pricing" strategies.

The speed of market entry when it comes to luxury trend-based launches, and smart, appropriate discounting methods, are also listed as ways to keep a company on track for financial success despite economic conditions.

Keeping afloat
With consumers returning to stores following years of closures and shutdowns, the luxury retail space has seen big comebacks. These waves are beginning to stabilize.

Contextualized by post-pandemic revenue jumps, LVMH's most recent financial disclosure, while still showing overall growth, fell below expectations due to a number of factors, including a quelling of sales across APAC (see story).

Edited's podcast episode also raises the reality that luxury is becoming more locally focused, leading to less spending across the globe with revenues concentrated in the U.S., China and some European destinations, though to a lesser extent regarding the latter region.

"What we're seeing is that the market is less and less global and is more and more multi-local," says Mr. Moltrasio, per the podast.

"This is based on what consumers are demanding, a certain kind of luxury, and the ability to understand this kind of demand makes for a successful business strategy in this industry," he says. "After COVID forces us to be local and to understand each consumer base, it makes a difference with how we talk to a local consumer in Paris or China."

Improving customer experiences in-store could serve as one part of an overarching sales solution, especially with the emergence of new retail technologies in mind (see story).

As far as the near future is concerned, holiday spending is poised to return to pre-pandemic levels this year after three years of steady decline (see story), a trend that experts believe will extend into 2024 (see story).