

Collapse of Luxury Apparel Industry amidst Covid-19; Challenges and its Future

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Abstract –This study explores the challenges that luxury industry is facing amidst Covid-19. The following research clearly illustrates some misconceptions certain consulting analysts had towards Covid-19 disaster being the predominant reason towards the industry collapse. Theoretically proven with statistical data, the apparel industry has been receiving low response from consumers and sales were affected long before since mid-2018. Certain popular luxury brands like Gucci, Chanel and Louis Vuitton have been adopting emerging trends in their portfolios by manufacturing masks and hand sanitizers to tackle their colossal industry loss during the pandemic. The luxury industry has been worst affected by covid-19 and best possible way to survive in future would be to establish grounds of digitalization and provide customers the same physical store experience from the luxury of their home. The study also mentions several recommendations such as collaborations, e-commerce, virtual showrooms, aggressive discounts being some of the best ways forward to this collapsing industry.

Key Words: Luxury apparel industry, Covid-19, Coronavirus, New Normal of Luxury brands.

1. INTRODUCTION

The recent outbreak of Covid-19 has devastated the Luxury Apparel industry and a colossal revenue downfall awaits in 2020. It is expected the industry would experience a 25-30% sales drop as compared to their performance in the previous year (Bain & Company, 2020). According to the consulting giant, sales of apparel and accessories, watches and jewelry, perfumes and cosmetics will come plummeting down to \$180-220 billion this year. Consequently, a 60% collapse in revenue is

projected for the second quarter of 2020 (Choudhury, 2020).

With the Luxury Apparel and Fashion Industry taking an unexpected turn, certain popular haute couture brands such as Gucci, Louis Vuitton and Chanel have turned towards manufacturing masks and hand sanitizers, plus they have been making monetary donations to hospitals and NPOs (Achille, 2020). Consulting giants like McKinsey & Company, Bain & Company and Boston Consulting Group believe the supply chain disruption across Asia would affect global sales badly, thus keeping in mind 40% of total revenue standalone comes from China, Japan, and Singapore (Gupta, 2019).

According to Bernstein, the Covid-19 disaster will have the worst effect on the history of luxury fashion sales. Additionally, it will be much detrimental than the 2008 economic recession and online sales will be the only alternative of regaining sales back. Challenges in the present times look unbearable and the future of luxury fashion stands uncertain. A recent example of Burberry closing 40% of its stores after facing a 40-50% decrease in sales has consequently provided an opportunity for online retail even for luxury fashion (Vogue, 2020).

2. LUXURY FASHION INDUSTRY

A survey from Bain and Company projected the global luxury fashion industry was worth 281 billion euros (\$308 billion) in 2019 (Choudhury, 2020). It is expected the industry would reach \$1.5 trillion by 2025 and millennials will contribute about 50% of the entire industry, thus the consumer spending would elevate to a further new level. Luxury apparel brands gain popularity and cement

their brand image mainly by focusing upon designer collaborations. Consequently, it was recorded that 67% of Gen Z and 60% of millennials in China bought luxury goods through designer collaborated pieces.

According to Sarah Willersdorf (Partner and Managing Director, BCG), “Collaborations are key to the new luxury. Millennials are looking for innovation in design, along with unique collections that reflect their individuality and values”. Recent emerging trends show the Italian luxury giants like Bulgari, Versace, Dolce & Gabbana, and Armani have been contributing towards the hospitality sector, thus partnering with hotels, cruises, and trains etc. Some studies denote consumers consider choosing luxury fashion brands with whom they could associate themselves. Luxury fashion goods have been providing meaningful brand experiences as consumers often observe ethical, creative, and philanthropic reflection of themselves by wearing such apparels and accessories (Team, 2020).

Trends have been shifting and the Covid-19 pandemic has already had an adverse effect on the reputation and sales of the entire industry. Boston Consulting Group projected the industry turnover would experience a downfall of about 65-80% when compared with the sales report of March 2019, and consequently the predictions were nearly accurate. Likewise, there was a steep decrease in sales by 30-40% in Western Europe, 32-38% in Northern Europe, and 23-24% in Northern America (Ketchell, 2020). An intensive report from “The Economic Times” stated Gucci and Saint Laurent’s global sales were affected by 23.2% and 13.8% respectively during the first quarter of the financial year 2020-21 (Reuters, 2020).

2.1 Challenges faced by Luxury Fashion Industry due to Covid-19 Outbreak:

The industry is facing a catastrophic challenge as their supply chain and inbound logistic activities look disrupted. On March 21, “Vogue Business” reported wholesalers and retailers had to cancel several orders due to loopholes and

inconsistencies in cash flow and goods worth \$100 million were cancelled from Bangladesh alone, thus putting employment at a colossal risk (Donaldson, 2020). Another such challenge the industry would face ahead is in form of reliability and credibility as consumer spending has been plummeting ever since the 1st quarter during March 2020. Manufacturing hubs and physical stores have been shut down and luxury apparels now have an objective towards regaining sales and initiate consumer spending by building digital infrastructure (Bain, 2020). Both retail and manufacturing has been hit badly and the consequences are being experienced even in Europe and Asia. Companies are focusing on towards new ownership and government subsidies to maintain their day-to-day cash flow and business operations. Certain economies like US and UK tried proposing relief packages to avoid watching the big luxury market players getting sabotaged. The government in the UK has proposed new business interest rates and have promised to provide 80% of employee wages in the fashion industry, thus the presence of emerging small fashion brands is also quintessential in the long run (Vogue, 2020).



Luxury Apparels are essentially finding the healthcare sector as a lucrative business option in present times. Since masks and hand sanitizers have now become essential commodities, big giants have been capitalizing on manufacturing and distributing them worldwide. A few examples include Ferrari (in the automobile sector) and Gucci. Furthermore, Kering Group has been importing 3 million masks from China every month and Moncler invested 10 million euros approximately towards construction

of a hospital in Milan. There has been a coalition too amongst several American brands which have been manufacturing masks and providing medical supplies for health centers to keep the supply chain intact and push up sales (Ellis, 2020).



Table -1: Potential Impact of lockdown on Luxury Industry.

Financial distress has impacted the previously very well to do luxury industries. The Covid-19 outbreak not only resulted in the closure of almost 80% of the physical stores but also some of the iconic luxury retailers like Neiman Marcus have been filing for bankruptcy. (Jones, 2020)

Studies suggest the Covid-19 outbreak was not the only underlying factor towards the luxury fashion industry collapse, but the consumer insight have shifted from physical store shopping. It was observed much before luxury brands have been moving towards e-commerce as wholesalers and retailers have been struggling to identify consumers ready to purchase from stores. The industry has also observed travel experiences of foreigners are intricately linked with shopping. About 20-30% of the industry’s revenue is generated from consumers who shop outside their home countries. According to a survey from “McKinsey & Company”, it was recorded Chinese travelers took approx. 150 million trips abroad in 2018 and are spendthrift towards shopping apparels and fashion accessories wherever they go. A gruesome challenge which awaits us is

the halt towards luxury goods spending. With a temporary stoppage towards travel and consumer income declining, some renowned brands have started observing losses and are incapable to maintain their financial cash flow (Achille and Zipser, 2020).

2.2 Industry Performance – After Coronavirus:

The Covid-19 disaster has surely shown challenging, adverse times to luxury fashion owners and the industry. However, certain pulp article writers and financial analysts have been looking towards upgradation of technology and processes in the apparel industry post-covid-19 crisis. It is predicted that augmented reality will help watchmakers and later watches could project holograms of timepieces on an individual’s wrist. Virtual reality showrooms could help buyers select their merchandise and remains a lucrative option for both the company and consumer’s point of view. It would help consumers save time and accentuates towards a revolution in the apparel industry where virtual assistants could help humans make choices on their taste and behavior(Gomelsky, 2020).

Predicting the long-term performance of this industry at this stage is difficult but a recent report by ‘Bain and Company’ predicted three scenarios for the remaining quarters of 2020.

1. Optimistic Scenario- 15% to 18% decline in sales. (\$46 billion to \$56 billion)
2. Intermediate Scenario- 22% to 25% decline in sales. (\$68 billion to \$77 billion)
3. Worst-case Scenario- 30% to 35% decline in sales. (\$92 billion to \$108 billion)

The earliest signs of recovery will not be seen earlier than 2022 and by then the entire Luxury industry will have entirely transformed.

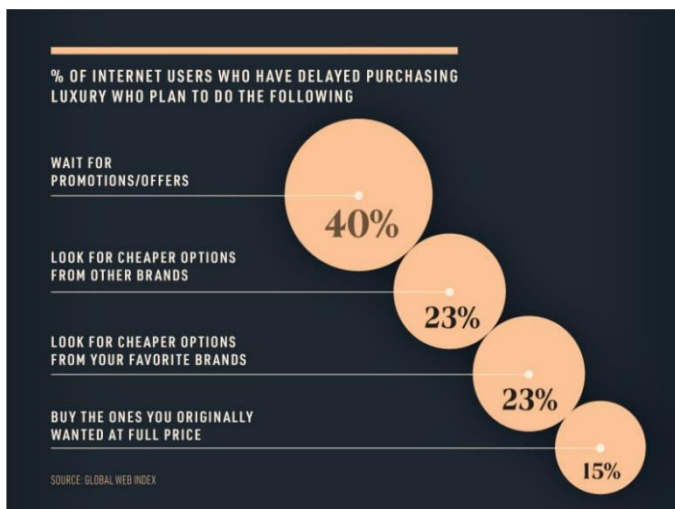


Table -2: Reasons for delayed purchases by internet users.

Online based selling is going to be the new normal for almost all industries and the consumer mindset is surely changing with time. Changing times have shown us consumers have become more price sensitive towards making purchase as compared to earlier times when they would buy goods at offered retail prices. As mentioned in the above graph, 40% of internet consumers look for offers or promotions as it is has become easier to compare the prices of different luxury goods. (Jones, 2020)

2.3 Recommended Steps that Luxury Industry can follow:

Short term:

1. Brands that do not have a concession model can be affected due to which it is highly recommended to adopt to huge discounts and aggressive commercials.
2. Brands should focus more on local shoppers as compared to global ones. Such measures can be successfully achieved by tailoring local experiences, engaging more deeply with local consumers, and strengthening digital offerings.
3. Digital enhancement with a shift in focus from brand building to consumer activation. At the same time, brands must enhance their online

websites and shift media spending to online channels. Collaborations with reputable e-retailers will help boost sales and will keep consumers enticed in visiting their stores in the long run.

4. Luxury brand owners can also diversify into designing stylish masks, hand sanitizers and PPE kits, thus keeping the medical supply intact. Consequently, it would help them keep their brand image alive by investing into such sustainable practices (Achille and Zipser, 2020).

Long term:

1. In the coming years, digitalization and e-commerce is surely going to open more opportunities for businesses. The Luxury Fashion industry must focus on creating personalized digital experiences of the same quality which are provided at their stores.
2. Mergers and Acquisitions will surely help build a strong luxury sector and a larger amount of product categories and markets can be tapped.
3. Once consumers resume to their normal lives, the new normal will be a little different. Consumer preference will shift from conspicuousness and bling to ‘Silent Luxury’, where classic elements like craftsmanship and heritage are given more importance.
4. Virtual showrooms and digitalizing end-to-end supply chains will enable the luxury industry to be unaffected even during travel restrictions. Although there will be huge cost required for such innovations, it will surely be how the new normal will function. (Achille and Zipser, 2020)

CONCLUSIONS

The luxury industry being vulnerable during this outbreak has observed a humungous dip in sales. With most of the physical stores closed, the manufacturers and retailers are finding it difficult to cope with the sudden requirements of change. The lockdown apparently did create a negative effect on all luxury brands. A new era will likely be established when everything gets back to normal, and where online sales will be more preferred and valued by consumers as compared to shopping from physical stores.

Some of the financially solid players like Chanel, Gucci, Coach, etc. can very easily buy out their competitors and high network retailers. In that way, it would not only be the smaller apparel brands getting saved from bankruptcy but also will lead to an overall advancement of the luxury industry. The shift to building a digital infrastructure requires critical efforts and capital investment, however the likely chances of maximizing revenue and customer reach are higher.

Our purchasing decision during the pandemic has surely resulted in 'slow luxury' and has triggered a new era for this industry.

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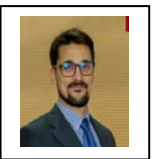
BIOGRAPHIES



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