INSIGHT REPORT

Luxury's Covid-19 pulse check

VOGUE BUSINESS

Foreword

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In May 2020, *Vogue Business* launched its first *Vogue Business* Index. The *Vogue Business* Index is the only index available today that, twice a year, analyses and compares individual brand performance with such an extensive breadth of data, categories and unique consumer insight.

The data included covers consumer sentiment, financial performance, digital, ESG and omnichannel. It is an objective scorecard for businesses and the industry to understand brand performance and ultimately make better decisions.

As a number of fascinating insights were sacrificed in the Index for the sake of brevity, we decided to create a series of reports based on the *Vogue Business* Index, each focusing on a different topic. The aim of this and future insight reports is to deep dive into the most pressing topics impacting the luxury fashion industry, drawing from quantitative and qualitative data. This insight report is the first of this series.

Covid-19 led to an exceptionally challenging time for the luxury fashion industry. In this report, we will expand on the current and future implications of the Covid-19 crisis. The topics include a view on the impact on consumer perception, omnichannel, financial performance and talent. The report will also cover quantitative and qualitative insights from China as the first country starting to move back to normality. This report precedes our next *Vogue Business* Index update — expected in November 2020 — that will provide objective data (currently being collected) on the impact of the crisis.

This report aims to answer the following questions:

- What are the present and long-term implications of Covid-19 on the luxury fashion industry? What steps should be taken to minimise the impact of Covid-19?

- What product categories should brands focus on and how are consumers most likely to make purchases in the "new normal"?

- What new challenges in hiring talent have emerged from the crisis?

About *Vogue Business*

Vogue Business is an online fashion industry publication launched in January 2019. Headquartered at Condé Nast in London, we offer a truly global perspective on the fashion industry, exploring how cultural trends and global patterns will impact fashion businesses. Harnessing insights from technologists, trend forecasters, futurists and innovators in other sectors, *Vogue Business* is the leading source of information on how new technologies will shape the way products are developed, marketed and sold.

Vogue Business has also quickly established itself as a leading provider of insights, research and data for individuals and companies operating in the global fashion, beauty and luxury industries.

While sharing the *Vogue* name, *Vogue Business* is operated as a wholly separate entity with an autonomous editorial team, developed with its own distinctive voice. So while we utilise the intelligence of Condé Nast teams around the world, our journalism is completely independent.

Executive Summary

Brands are no longer just providers of products and services; engagement on social and environmental issues is increasingly turning into a prerequisite.

E-commerce may no longer be optional. Brands with online sales channels are mitigating some of the impacts of the Covid-19 crisis.

As brands compete for talent, particularly with digital expertise, diversity and inclusion policies and brands' social impact can become key differentiators.

Covid-19 and the Black Lives Matter movement have triggered significant changes in the luxury fashion industry. Both have put management teams to the test by imposing difficult decisions and forcing introspection on hiring policies.

Speed and clarity of response are critical, including the ability to dynamically pivot as situations evolved. Most brands have now contributed to efforts to combat the global pandemic, through contributions to hospitals, converting production lines to produce sanitisers or making PPE. Consumers have been paying attention to this. With millennial and Gen Z incomes being reduced by as much as 50 per cent by the Covid-19 crisis,[1] having a clearly defined brand value will be critical as purchase decisions of both generations are increasingly moved by what brands stand for.

Brand values are also helpful for attracting talent. The current focus on developing e-commerce strategies will lead to increased competition in finding the right people to fill these roles. Effective communication of diversity and inclusion policies, as well as what the brand stands for, may well be the differentiating factor.

Of the luxury companies that have disclosed financial results, all have cited e-commerce as a key growth channel, in part offsetting overall revenue decline. China is ripe for digital growth — with online retail sales being three times those in the US in 2020 by value.[2] Brands that do not yet have a strong e-commerce footprint in China should consider partnering with established players to tap the current opportunity. As stores slowly reopen globally, the brands capable of creating a truly omnichannel experience will be well-placed to cater to consumers on their channel of choice.

Recovery is likely to start in China. Seventy-seven per cent of Chinese consumers expect a fast recovery post-crisis, compared to an average of 31 per cent in the US and EU.[1] Seven out of 10 people in the UK said they expect to spend less on luxury purchases as a result of self-isolating, laying bare the significant challenge of reduced consumer demand.[3] It is no surprise, therefore, that China has become the key area of focus for most brands, although Bottega Veneta shows that pockets of growth can still be found in the US and EMEA.

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Consumers' view post-Covid-19

Lockdown continues to take its toll, particularly in Europe and the US as workers are furloughed and unemployment spikes.

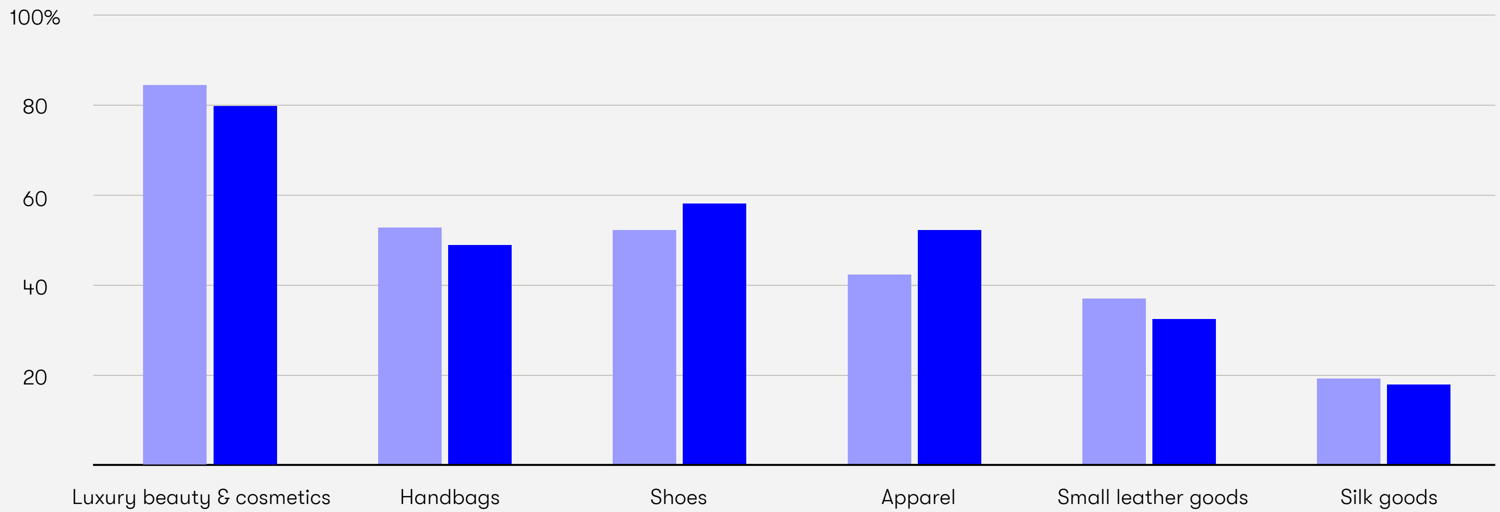
As the first market to exit lockdown, March's China Consumer Confidence Index showed that Chinese consumer confidence remained higher than the 2018 average and only 1 per cent behind 2019, albeit on a downwards trajectory. However, Chinese luxury spending looks to be up on last year's figures now the lockdown has ended. Indeed, Hermès registered record sales of $2.7 million in Guangzhou on its day of reopening.

Lockdown and the inability to travel has hit consumption hard.[4] A *Vogue Business* survey with Chinese luxury consumers showed that many were more keen to buy shoes and apparel than they were pre-crisis, with apparel purchase likelihood leaping by 10 per cent compared to pre-crisis levels. However, luxury beauty and cosmetics products have the highest likelihood of purchase post-Covid-19, despite a slight drop. This is significant as the category has been a critical driver of growth for the luxury industry over the past years.[5] On the road to recovery to pre-crisis levels in China, a faster recovery should be expected for the footwear and apparel categories within fashion compared to others. Brands with beauty product lines should also capitalise on the high purchase likelihood of this category and the associated growing health and wellness trend. An important factor to watch is whether consumers feel safe to travel if borders reopen. Before the pandemic, people buying luxury goods while travelling abroad accounted for more than 40 per cent of the industry's total revenue.[6] As of late April, most Chinese residents were not thinking about taking a trip until September, and when they do, it is likely to be within China.[7] The key question remains on whether buying luxury fashion products in China will have the same appeal as those bought while travelling abroad.

Impact of coronavirus on purchase intent by category in China

Pre-coronavirus purchase

Post-coronavirus likely purchase



March 2020, n = 700 respondents

DATA: VOGUE BUSINESS RESEARCH

A time for change

Brands increasingly need to communicate their values and act in a responsible way towards society in the eyes of consumers and investors. The Covid-19 crisis, Black Lives Matter movement and ongoing climate crisis are all issues brands need to take action on as they increasingly shape consumer decision-making.

Despite finances being pummelled during the Covid-19 outbreak, brands stepped up to contribute. LVMH used its perfume production lines to output 12 metric tonnes of hand sanitiser, while Chinese group Bosideng donated 150,000 down jackets worth RMB 300 million (£34 million) to doctors in Wuhan. Executives have also made generous contributions, with Dolce & Gabbana donating to a Covid-19 research project at Humanitas Research University[8] and Donatella Versace giving €200,000 to the intensive care department of Milan's San Raffaele Hospital.[9] In May, fashion houses donated more than $65 million to the Covid-19 crisis in addition to over 42 million PPE items, with these numbers growing constantly. Carolina Herrera was the latest brand to join these efforts by donating 10 per cent of handbag and other accessory sales to the Red Cross and Red Crescent globally.[10]

The Black Lives Matter movement also brought back to the spotlight the need to continue enhancing ethnic diversity in the fashion industry. The last five years have seen dramatic growth in ethnic representation in runway shows, from Spring 2015 where only 17 per cent of models were people of colour to the 41 per cent of the Autumn 2020 shows[11], but this just scratches the surface. Boardrooms continue to lack a similar level of diversity and, in the UK, no major fashion house has published data on the racial wage pay gap.[12] This continued push is a necessity for the industry as consumers have made their desire for more inclusive marketing clear for years, with 69 per cent of Gen Z and millennials saying they think it's positive for brands to feature diverse models in an ad.[13]

Consumer demand for sustainable luxury is increasing — environmental, animal and ethical manufacturing concerns influence 60 per cent of luxury consumers' purchasing decisions.[14] However, consumers are largely unaware of or are unimpressed by brands' ESG policies. Across all brands, just 12 per cent of consumers on average were aware of their policies on any given sustainability issue. Tellingly, no fashion house had more than 26 per cent of consumers saying they knew the brand was taking a specific social or environmental action. The lack of an industry standard means policies have been adopted and communicated in differing ways, with little oversight to provide accountability. Nearly 75 per cent of brands said they would take action on most overarching ESG topics but generally fall short on detail around the approaches and implementation of these goals. In particular, detailed information about the outcomes and impact of sustainability policies is still lacking. European governments have signalled they are hoping to legislate around disclosure and as consumer interest and knowledge of sustainability grow, their expectations and desire to see progress does too.

$65 million

donated by fashion houses to the Covid-19 crisis in addition to over 42 million PPE items.

60%

of luxury consumers' purchasing decisions are influenced by environmental, animal and ethical manufacturing concerns.

12%

of consumers were aware of sustainability policies for brands in the *Vogue Business* Index.

Omnichannel is the way forward

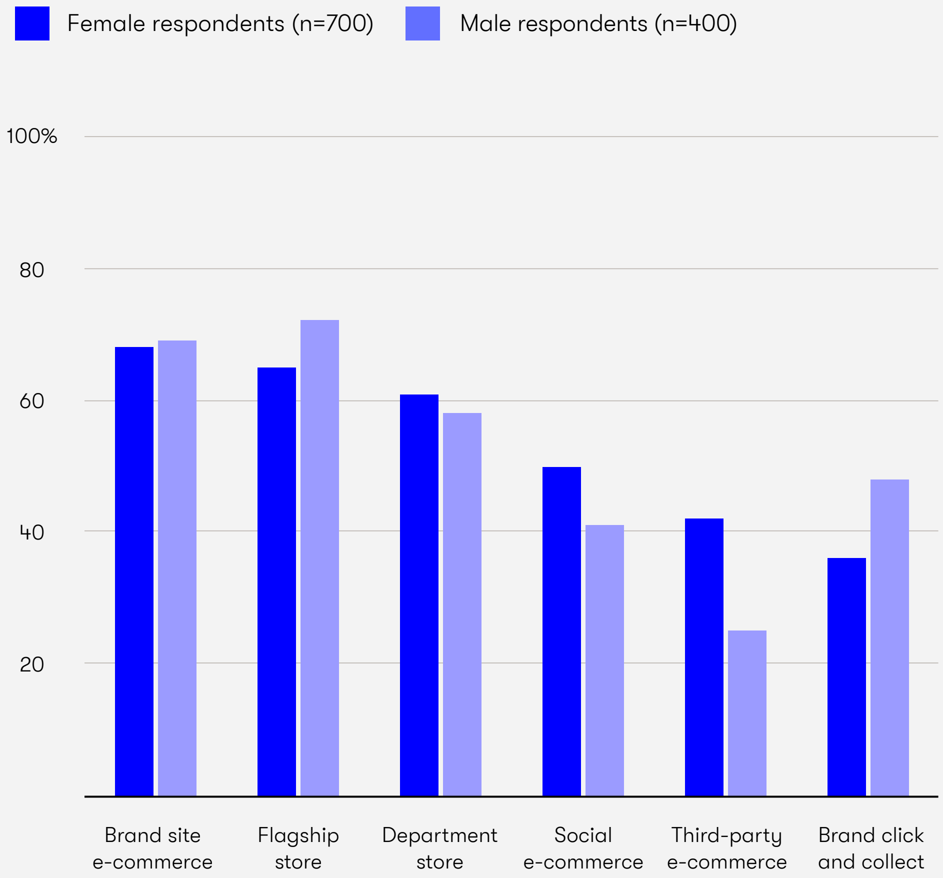
Covid-19 has made shoppers much keener to buy luxury fashion online. In 2019, e-commerce made up about 10 per cent of all luxury goods sales, experiencing double-digit growth, and is expected to grow to 30 per cent of the market by 2025[15]— growth that may well be accelerated by the Covid-19 crisis.

In its Q1 2020 financial report, Kering noted that e-commerce sales rose sharply by 21 per cent, partially making up for store closures.[16] Specifically for China, Farfetch spoke of demand being robust during the lockdown, and many other brands saw interest rise online while the country was on lockdown.[17] Other brands that were slower to selling products online have spoken about triple-digit increases in online sales. Additional ripple effects include smaller designer firms ramping up their DTC offerings as their wholesale partners' doors were shut. E-commerce may not be sufficient to mitigate the losses entirely, but brands that get it right while maintaining a luxury experience online may be the ones best placed for recovery.

Ramping up e-commerce in China is a strategic goal for many luxury brands without an extensive store network in the country. The growing digitisation is fostering purchase likelihood from digital channels, especially in digitally advanced markets such as China. Chinese consumers are also clearly stating that once things go back to normal, they are as likely to buy products from the brand's own e-commerce platforms (69 per cent) as they are from flagship stores (68 per cent) — where male respondents tend to over-index. This trend is also advancing globally, with 48 per cent of consumers being more likely to use e-commerce compared to pre-lockdown.[1] In China, brands that still lack an e-commerce experience can partner with established providers such as Tmall to accelerate their presence online, such as Prada, Miu Miu and Acne Studios who have all launched stores on Tmall since the beginning of the year.

Stores are likely to remain a key sales channel; however, their role will continue to shift to a place where brands can showcase inventory and consumers can interact with the brand in-store. The increased use of e-commerce and consumers' reliance on digital media will continue to grow the importance of a seamless omnichannel experience. For inspiration on what advanced digital and omnichannel experiences look like, brands should look at digitally innovative markets like China.

Chinese luxury consumer purchase intent by channel post-coronavirus crisis



March 2020, n = 700 respondents

DATA: VOGUE BUSINESS RESEARCH © VOGUE BUSINESS

Taking stock of the Covid-19 crisis

Brands that have maintained a growth trajectory through the pandemic are rare. Hermès and Chinese sportswear brand Li Ning are among these as both are trading above their value before the Covid-19 pandemic.

Both represent two sectors relatively protected from the fallout from Covid-19: non-seasonal luxury and sports-driven fashion, combined with popularity among the Chinese population, who are largely through the pandemic and back shopping.[18] Hermès's stoicism could also be due to luxury consumers associating the brand with providing a sense of elevated status to wearers.[19] With the fashion calendar being severely disrupted, brands should focus on consolidating their non-seasonal offering to create a foundation and insurance policy against future crises.

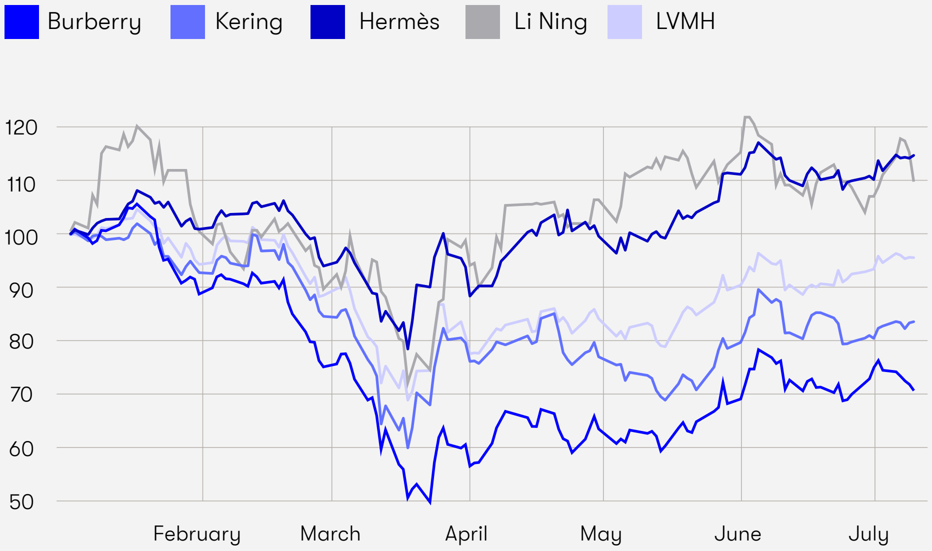
Brands are relying on China and APAC to make up for missed revenue in the first half of 2020. According to the *Vogue Business* Index, the top 50 brands in luxury fashion had 35 per cent of their turnover from APAC based on the latest published results and estimates. The pandemic is set to shift the balance even more towards APAC and China.

Over 50 per cent of luxury goods sales worldwide are expected to take place in China within the next few years.[20] Not all brands, however, are seeing their growth in China. While having static revenues in APAC, Bottega Veneta managed to find pockets of growth through its wholesale channels in the US and EMEA.[16] The brand's 9 per cent revenue growth shows that there is no one recipe for success.

In May, industry sales were expected to contract by at least 20 to 35 per cent.[20] Since then, only a handful of fashion houses have decided to publish financial results covering the Covid-19 crisis period. Kering reported a 15 per cent drop in Q1 2020 revenue compared to Q1 2019. Capri Holdings — owner of Michael Kors, Versace and Jimmy Choo — is expecting further declines after announcing an 11 per cent decrease in revenue in Q4.[21] Burberry also reported a 45 per cent decline in comparable sales in its Q1 results, but has started to see a return to growth in June in APAC.[22] While similar announcements are expected from other fashion houses, it is unlikely for any of the significant names collapsing at the moment.

Hermès and Li Ning are trading above pre-crisis levels

Indexed share price since start of 2020



January – July 2020

Note: Share price indexed to 100 on 2 January 2020

DATA: EURONEXT,LSE,SEHK © VOGUE BUSINESS

Talent amid the crises

The Covid-19 crisis has inevitably taken its toll on the global workforce across all industries, including luxury fashion houses. Initial reactions from fashion houses were to protect their workforce, at least for an initial period — Chanel, Kering and LVMH have all pledged to maintain employee salaries in France.[23]

However, this may not remain the case as companies reassess their financial positions as the crisis continues. In fact, 78 per cent of companies surveyed by *Vogue Business* in April were either in a hiring freeze or hiring fewer people. Further to this, 76 per cent expected cutbacks that could hit up to 30 per cent of the workforce. The lack of clarity about the long-term effects of Covid-19 has seen brands cut back less on fixed-term contracts and temporary positions (57 per cent) compared to full-time roles (78 per cent).

Retail staff were the first to bear the brunt of either furlough schemes or dismissals. Longtime London stalwart Harrods announced it was cutting nearly 700 jobs last week — about 14 per cent of its workforce — blaming the drop in international visitors and current social distancing regulations.[24]

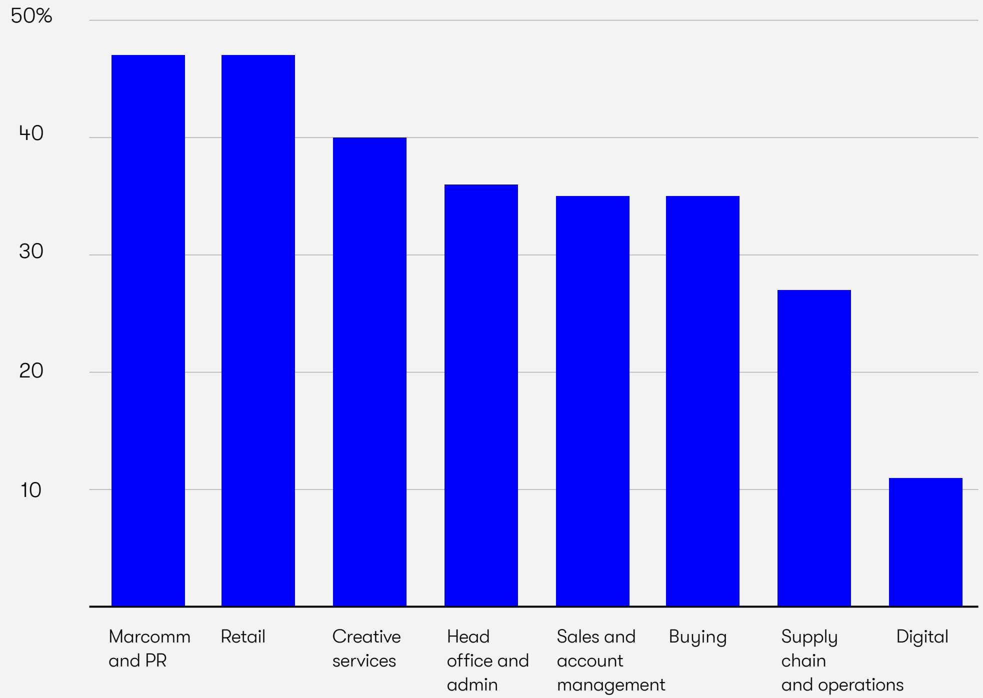
Of the 61 senior HR executives surveyed by *Vogue Business*, 47 per cent stated marcomms and retail departments being the most affected by restrictions. Brands, however, should consider that higher staff-to-customer ratio has contributed, among other factors, to increased basket sizes by up to 40 per cent, according to Pierluigi Cocchini, CEO of La Rinascente.[25]

Brands are not looking to cut their e-commerce and digital teams — with only 11 per cent of respondents indicating hiring restrictions. Many luxury names have been reporting sizable increases in e-commerce sales as the bulk of their store networks stayed closed during lockdown. With many brands suddenly prioritising digital, finding the right talent is increasingly difficult.

The Black Lives Matter protests have also upped the pressure on brands to address diversity and inclusion within their workforce. Campaigners have pointed to evidence that diverse firms are judged to be more economically productive[26] and that controversial messaging would be less frequent when there is a greater plurality of voices involved. Any decisions made about redundancies and new hires made during this time should listen to what they have to say. Not prioritising policies of diversity and inclusion may cause significant backlash, limiting access to talent and losing appeal with consumers.

Digital departments are suffering minimal impact from the Covid-19 crisis

Departments likely to see hiring restrictions due to the Covid-19 crisis



April 2020, n=61 senior HR executives

DATA: VOGUE BUSINESS RESEARCH © VOGUE BUSINESS

Endnotes

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