REPORT SERIES

Global Power Of Luxury Goods

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180 Degrees Consulting SGGSCC

MINI REPORT 3

IMPACT OF COVID & RUSSIA/UKRAINE WAR

GLOBAL POWER OF
LUXURY GOODS

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IMPACT OF COVID

INTRODUCTION

The COVID-19 outbreak has disrupted our daily routines. Many firms and industries, including the luxury industry, are now doubting their future. Luxury goods are assaulted from all sides, while some luxury goods categories and retail channels may be less affected than others, the pandemic is an entirely unprecedented shock to all regions, and in the short run, neither the luxury products nor the high-end goods categories are expected to "profit" from the COVID-19 issue.

The personal luxury products sector was damaged by the coronavirus outbreak to varying degrees. According to a recent global survey, the watches and jewellery market experienced the worst decline in 2020, shrinking by a quarter from its size in 2019. The clothes and accessories sector was next, with a 20 percent decrease in market size, followed by the cosmetics and perfumes market being marginally more resilient to the pandemic's effects, with a 15% decrease in market size.

Consumers dread luxury retail contagion, while others find little value in purchasing personal luxury items such as leather goods, garments and footwear, timepieces, or jewellery as they believe that since some things are so noticeable, they will have limited opportunities to wear or utilise them in the near future. Furthermore, customer self-belief has been harmed, resulting in a halt in spending on "non-essential" gadgets.

One of the most noticeable features of luxury customers is that their purchasing decisions are frequently based on emotions rather than logic. Consumers are becoming more conscious of their purchases as a result of the financial crisis, and are looking for companies that match their values and views and they may seek vengeance to lift their spirits during these difficult times. China has already been swept up in this phenomenon. Hermès' main store in Guangzhou experienced the greatest sales of $2.7 million following the lockout.

The current COVID-19 pandemic is having a significant impact on the premium travel sector. Luxury hotels, travel, high-end travel stores, and hospitality services have all seen major losses as a result of diminishing global demand, with the long-term future looking bleak since consumer expenditure on all of these services is rapidly declining.

While the challenges of COVID-19 have had a significant impact on luxury food service, with all of the world's luxury food service operators facing mandatory closures, many luxury hotels are now focusing on home delivery services and providing online tutorials on the way to recreate luxurious hotel facilities at domestic, together with bed-dressing, perfecting "turn-down service," flower arranging, and fine-dining.

Some of the core features of the luxury sector have been rattled by the pandemic, and there’s a possibility that some of these changes may be irreversible.

International travel

From world tourists to local shoppers, we've got you covered. The luxury sector caters to a worldwide audience: luxury purchases made outside of one's home country account for 20 to 30 percent of industry income. It is estimated that purchases made outside of China accounted for more than half of China's luxury spending that year, with more than 150 million travelling outside.

Asian tourists purchase luxury products outside of their home nations not only to take advantage of reduced pricing in Europe, but also because shopping has become an important element of the trip experience: purchasing a brand in its native country provides a sense of authenticity and excitement. A significant driver of luxury expenditure has come to a halt as a result of recent travel restrictions.

Cancelled fashion weeks, trade events, and galas

A slew of events, including the Met Gala, Hyeres Festival, Parisian HauteCouture Week, Indian Fashion Week, and London Men's Fashion Week, were either cancelled or postponed indefinitely following the conclusion of Milan Fashion Week in February ,2021. In addition, several ready-to-wear trade exhibits and exhibitions for perfumes and jewellery have been cancelled. The cancellation of such large-scale events has resulted in significant losses and setbacks for both organisers and designers, resulting in the restructuring of the wholesale dynamic.' Given the seasonal nature of the fashion industry, fashion week dates are frequently not 'compressible,' as the heads of the most well-known luxury brands such as Valentino and Gucci have stated.

Counterfeit goods

With in-store retailing at an all-time low and a huge need for critical goods, counterfeiting is on the rise. Many incidents of counterfeit face masks with unauthorised usage of luxury trademarks have recently been reported in a number of places around the world. Counterfeiters and infringers are attempting to profit from the reputation and goodwill of the rights holders by utilising the trademarks of fashion brands on vital goods. Fighting a recession-stricken business while also dealing with counterfeit products on the market is the unpleasant reality of the moment.

With retail establishments closing, luxury shoppers are turning to the internet for their purchases. As a result, retailers who previously avoided establishing a meaningful online presence are now looking for ways to communicate with their customers online. According to a Forrester analysis, the Indian luxury e-commerce market would increase at a CAGR of 25.8% over the next five years, reaching $85 billion in 2023.

COVID-19 has had a severe impact on the luxury industry, but it has also hastened the evolution of emerging trends. Aside from the internet, premium firms will become much more customer-centric. To stay relevant to the new premium customer attitude, retailers will need to become more purposeful. The focus will be on delivering customers exactly what they want, with personalization and modern technology playing a crucial role. Despite the fact that 2020 has been termed "the worst year in contemporary luxury history," observers believe the sector will recover as it has in the past. The rising tendencies demonstrate an unwavering belief in the industry's long-term viability. What matters is that you get back into the business and adapt!

CHANGE IN STATS

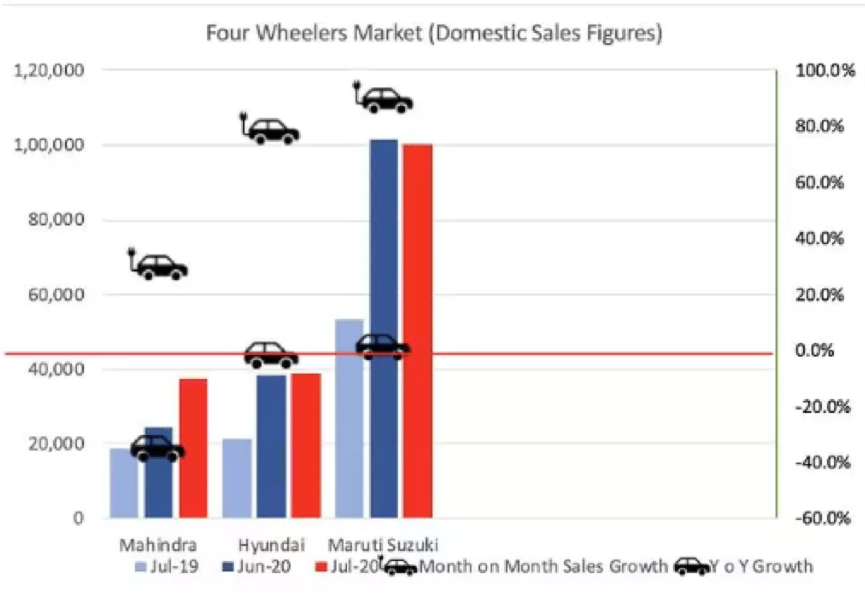
Sales for the spring season are up to 70% lower than last year, which is understandable given that consumers had limited access to the spring and summer collections in stores.

Fashion Brands

According to research, the high-end fashion business has already lost between USD 32 and USD 43 billion in income as a result of the COVID-19 epidemic, just four months into 2020. Overall, the industry is predicted to lose USD 450-600 billion in 2020, which is significantly higher than the estimates from the 2008-2009 crisis.

Automobiles

According to the Society of Indian Automobile Manufacturers, the sector's sales of all vehicle types declined in FY21 (2.24 percent decline in sales of passenger vehicles, 13.19 percent fall in sales of two-wheelers, 20.77 percent fall in sales of commercial vehicles, and 66.06 percent fall in sales of three-wheelers).

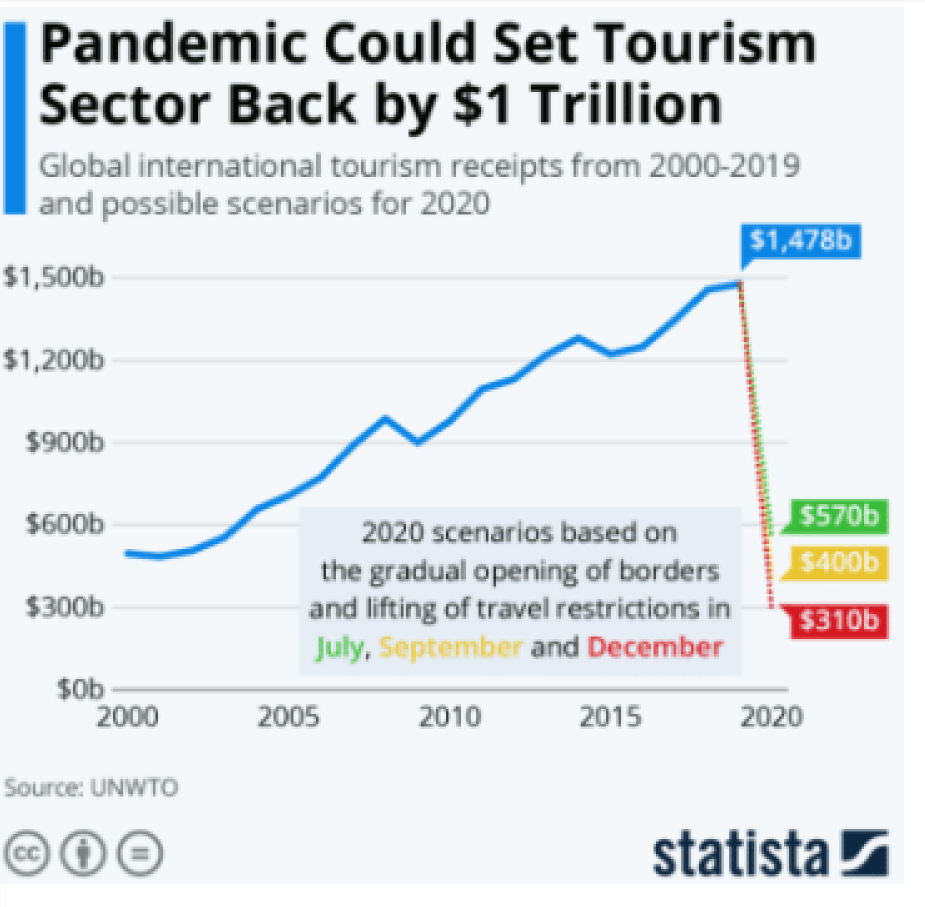


Makeup And Cosmetics

During the fiscal year 2020, the average monthly value of makeup and cosmetics sales in India declined to 87 in pre-COVID March, compared to a baseline value of 100 from December 2019 to February 2020. During Lockdowns three and four, their value plummeted to 48. The month of June saw a little increase in the value of sales.

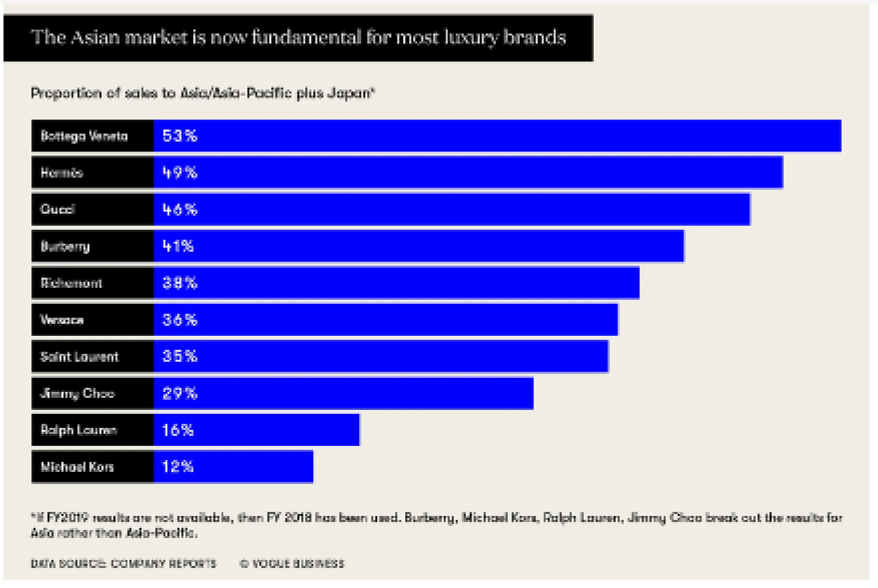
Tourism

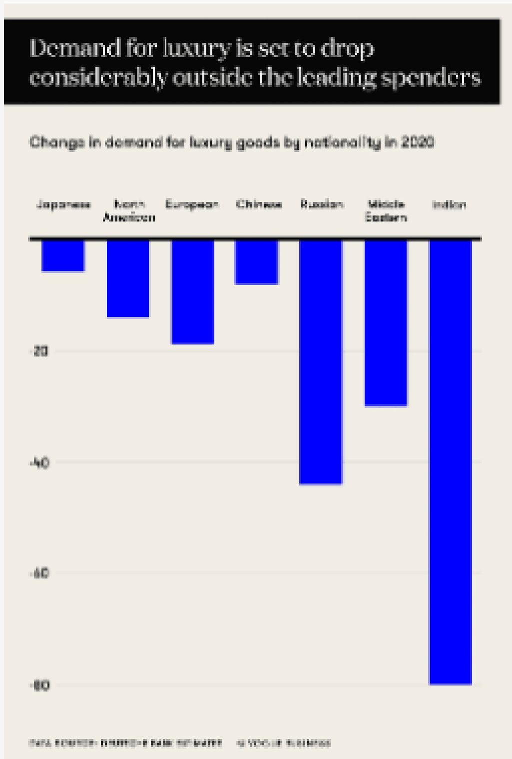
According to preliminary estimates, international arrivals in 2019 were still 72 percent lower than the year before the epidemic. This is in contrast to 2020, which was the worst year for tourism on record, with international arrivals falling by 73 percent.

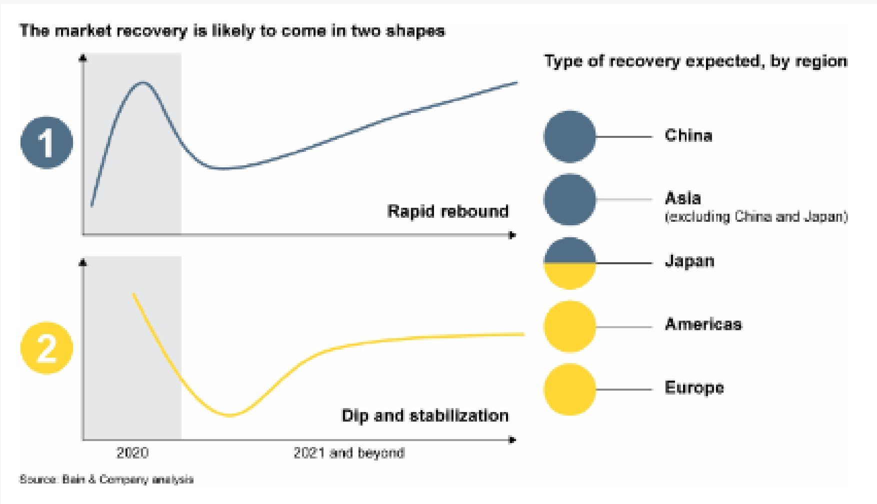


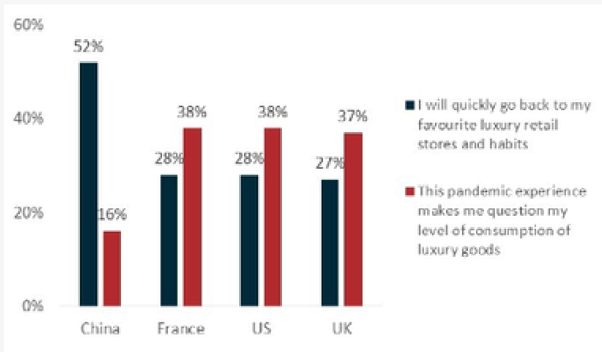
Real Estate

The impact of COVID-19 on Indian real estate has been extraordinary, as evidenced by the fact that the sector has lost over Rs 1 lakh crore since the epidemic broke out. In 2020-21, the loan crunch reduced residential sales in India's top seven cities from four lakh units in 2019-20 to 2.8 lakh units.









RETRIEVAL OF THE LUXURY GOODS INDUSTRY

Personal Luxury Goods

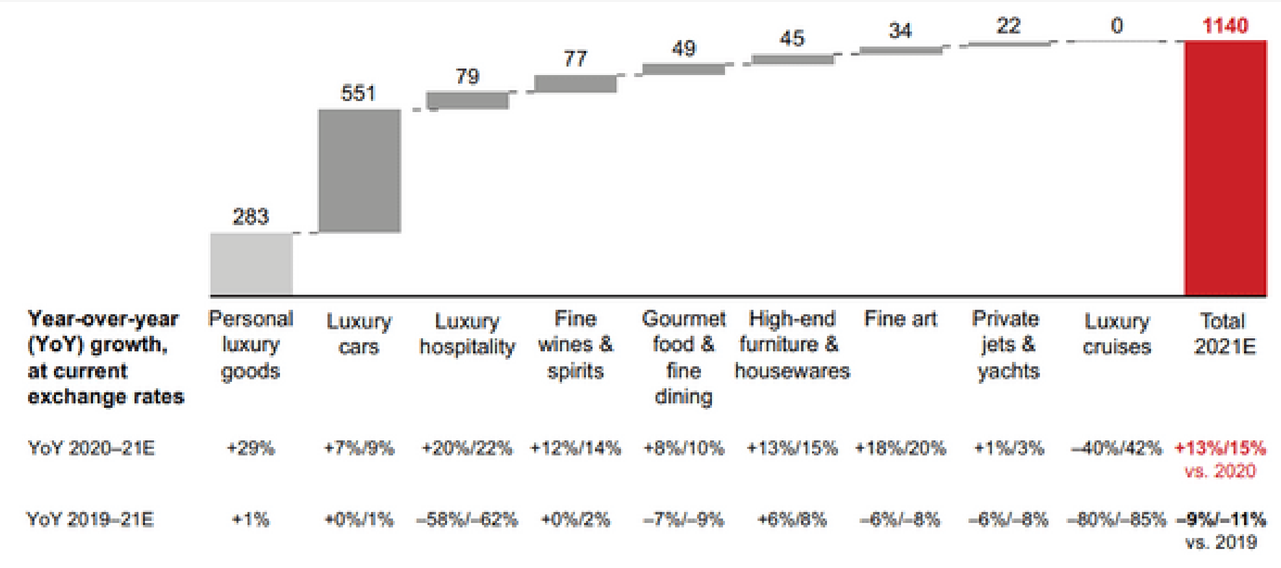
Following its greatest slump in history in 2020, the market for personal luxury goods—the heart of the whole luxury industry—enjoyed a V-shaped resurgence. In 2021, sales were expected to surpass their pre-Covid high, with the market expected to increase by 29% at current currency rates to €283 billion, up 1% from its previous high.

Luxury cars

Luxury car sales, which account for the majority of the entire market, surpassed their previous high of €551 billion, an increase of 7% to 9% over 2020 at current exchange rates and 0% to 1% over 2019.

Luxury hospitality

From the middle of the second quarter of 2021, luxury hospitality bounced back, with occupancy rates gradually increasing. However, due to persistent international travel restrictions, overall spending on hospitality remained substantially below pre-pandemic levels. At current currency rates, the market reached €79 billion, up 20% to 22% from 2020, but still down 58 percent to 62 percent from 2019. Customization proved vital to accelerate the recovery. Digitalization has progressed to satisfy the demands of younger customers, allowing for process automation and contactless interactions.



Fine wines and spirits

Fine wine and spirits sales returned well, hitting €77 billion, up about 2% from 2019, bolstered by individuals engaging in post-lockdown partying in a spirit of "revenge conviviality." Spirits grew the greatest, due to the rising consumption of Asian spirits and increased interest in high-status spirits. Sparkling wine, which took a disproportionately hard hit in 2020, recovered better than other wine categories.

Gourmet food and fine dining

At current exchange rates, high-end food and fine dining increased by 8% to 10% but remained 7% to 9% below 2019 levels at €49 billion. Fine dining establishments, which were heavily damaged last year, have recovered since the lockdowns were lifted. Gourmet food sales expanded at a slower pace than the previous year, despite signs that increased home cooking excitement was encouraging consumers to produce high-end pantry meals using specialised tools.

High-end furniture and houseware

The market for high-end furniture and homewares reached €45 billion, growing 13% to 15% from 2020 and 6% to 8% ahead of 2019. Consumers spent more on their houses, with a focus on their living rooms, bedrooms, outdoor areas, and lighting, which boosted the segment. Consumers wanting more comfort, functionality, and flexibility in design solutions encouraged "resimercial" expansion by combining living and working environments.

Fine art

Thanks to the gradual reopening of public auctions and art shows, the fine art market has recovered. As global uncertainty inhibited bidding on higher-priced items, a stronger increase in the medium-priced market was noticed. Although non-fungible tokens (NFTs) have grown in popularity among younger generations, their impact on the broader market is still unknown.

Private yachts and jets

At current currency rates, sales of private yachts and planes increased by 1% to 3% in 2020, reaching €22 billion, but did not close the gap with 2019. Delays in 2020 and a surge in demand for personal luxury experiences benefited luxury yacht delivery increase in 2021. The demand for private jets was stable compared with 2020, driven by the perceived benefits of safety, convenience, and efficiency. Due to lower supply than in previous years, the secondhand market slowed down.

IMAPACT OF COVID

How Luxury Brands Can Win In The New Reality?

RESET AND STREAMLINE

Reset distribution:

Brands must increase their presence in significant cities in the regions where they operate to reengineer distribution, for as long as travel restrictions prevent tourist-related purchases, those places will account for a higher share of sales. In addition to selling products, digital platforms have evolved into important sources of inspiration during the pre-purchase phase of the customer journey. To attract luxury buyers, firms must increase their presence in these channels and provide amenities such as virtual try-on and a more personalised shopping experience.

Make supply chains more efficient and agile:

To create a more agile supply chain that allows them to be more flexible, brands may need to shift from high-volume manufacturing partners to producers that operate more factories located closer to customers. That way they can cut delivery times and improve time to market.

Reset costs to adjust the P&L:

Luxury firms must adapt their P&L to combat the near-term reality of decreased revenue while preserving operating profits. They must make cost adjustments across the board, including the cost of items sold, rent, and personnel.

Rethink the fashion calendar:

Even before the financial crisis, the fashion and luxury industries were attempting to reconcile the gap between long-established cycles for revealing, delivering, and marking down items with the realities of consumers' shopping patterns, tastes, and demands. The desire for change has been heightened as a result of the crisis, with companies looking to cut costs, raise margins, and operate more sustainably, among other things. It would necessitate a complete redesign of a brand's fashion calendar, including the number of collections produced each year, as well as when, where, and how those collections are presented and delivered.

Implement a zero-based organisation redesign:

Luxury brands can also make their cost structures leaner and more agile by implementing a zero-based organisation overhaul. A corporation evaluates what it would require if it were to launch today, and then implements those systems, using data analytics to forecast and augment decision-making, as well as uncover cost savings. A zero-based reorganisation could lead to the adoption of a bionic operating model, which seamlessly blends people's and technology's capabilities. Brands can also use a bionic operating model to digitise product creation and their supply chain, making them more agile and effective.

INVEST

Address the changing consumer

Consumer concerns haven't always been at the forefront of luxury brands' operations. They must do so right now, beginning with making diversity and inclusion a top priority, with clear objectives and performance goals. Sustainability must also be a crucial pillar in everything a company does. Brands must do a better job of conveying their mission and values, as well as exhibiting their legacy and authenticity, in order to remain relevant to the next generation of customers. With a few noteworthy exceptions, all of this will be driven by the need to appeal to a quieter, less visible kind of luxury marked by temperance, slow fashion, and quality.

Embrace clienteling 2.0

Brands must build strategies for engaging with high-end customers as buying preferences and behaviours change. Several businesses and stores are already experimenting with this concept; some have had success during pandemic-generated lockdowns by transforming store personnel into digital stylists who communicate with customers and sell products directly through WeChat and Instagram.

Bring fresh skills to the workforce

One of the luxury industry's main concerns in the future decade will be finding talent with the requisite abilities. The sector requires data engineers, data scientists, analysts, and other technologically aware professionals, all of whom are in high demand. As AI and advanced analytics continue to change all aspects of the value chain, existing employees will need to be upskilled.

Accelerate the digital ecosystem

Many luxury firms have been hesitant to adopt digital channels, but considering the number of people who shopped online for the first time during the pandemic—including some who purchased premium goods—they must soon catch up. Brands must build distinct online experiences that go beyond what non-luxury merchants can provide. Shopping and purchase transactions should be considered, but so should related activities such as fashion shows, private showings, personal shoppers, white-glove delivery, and other customised services.

Build an AI-driven technology backbone

Artificial intelligence (AI), advanced analytics, and other components of an enterprise-wide technological backbone will become a competitive differentiator. If the crisis recovery Fight phase lasts for a long period, it will be difficult to predict product patterns, at least in the short run. Brands can utilise AI to guide the way, for example, by performing pulse checks on purchasing patterns to increase demand tracking and analysis and acquire insights that competitors may not have. AI can also assist brands in more agile manufacturing and stock management. It can also help them tailor their value proposition to a high degree.

Invest in inspiration

If customers are spending more time in the inspiration stage of the buying process, brands must be present as well, including on social media platforms like Instagram and WeChat. Brands must build an image that is both aspirational and approachable in order to be culturally credible, and they must make it simple for their audience to engage and interact with them. Brands can utilise social media to demonstrate their involvement in social, civic, environmental, and other concerns. They should also collaborate with third parties to deepen their awareness of local groups and subcultures, as well as support cultural pioneers and the circles they direct, in order to be as transparent and authentic as possible.

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RUSSIA-UKRAINE WAR

The Russia-Ukraine war had drastic consequences for the world economically. Since the February 24 invasion on the country, oil prices skyrocketed and commodities soared resulting in governments taking measures to ease the financial pain for consumers. Russia and Ukraine are the world's breadbaskets, accounting for 30% of global wheat exports.

Prices of cereals and cooking oils have risen due to the conflict. Stock markets started in 2022 on a high note, as economies recovered from the Covid pandemic and companies reported positive results. But the war has brought volatility to the markets while Moscow's stock exchange closed for three weeks.

The Russian banking sector and financial system have been paralysed by Western sanctions, and the ruble has collapsed. The measures include efforts to freeze $300 billion of Russia's foreign currency. The war has made several firms flee and impeded growth. Even after these measures, the war is far from over and this has led to brands pulling out from the country.

Brands Halting Their Operations

As the Russia-Ukraine crisis unfolds, corporations around the globe have announced changes to their supply chains to reduce their footprint in Russia.

More companies are continuing to suspend their business operations in Russia, with a few ending their deals in the country altogether.

The announcements follow as the United States and its allies continue to impose expanding sanctions against Russia in response to its invasion of Ukraine last month.

Many companies in several industries have indicated their decision to halt operations is an act of altruism. These include brands from all sectors such as technology, energy, automotive, logistics, finance, manufacturing, media, aviation, textile etc. Below is a list of all the global companies pulling out of Russia due to its invasion of Ukraine.


Global companies pulling out of Russia
As Russia's war on Ukraine intensifies, many of the world's leading companies are leaving Russia
TECHNOLOGY
ORACLE
DELL Technologies
SAP
YouTube
Microsoft
intel
AMD
IBM
Lenovo
xerox
zoom
SAMSUNG
LG
Canon
cisco
Panasonic
ZTE
EMERSON
epam
T-Systems
NEC
RICOH
Atos
Juniper
fujitsu
TOSHIBA
AUTODESK
Adobe
AUTOMOTIVE
TOYOTA
HONDA
SCANIA
DAIMLER
MANUFACTURING
SANDVIK
Atlas Copco
SIEMENS
IKEA
Hydro
TEXTILE
adidas
H&M
PUMA
NIKE
lefties
MANGO
PULL&BEAR
ZARA
OYSHO
TENDAM
UTERQÜE
mothercare
INDITEX
GUCCI
LV
asos
FOOD AND BEVERAGE
Coca-Cola
PEPSICO
ENERGY
TotalEnergies
bp
Shell
SIEMENS energy
eni
TRAFIGURA
ExxonMobil
GLENCORE
equinor
OMV
iog
LOGISTIC
FedEx
ups
msc
Hapag-Lloyd
DHL
Deutsche Post
MAERSK
ONE
Bolt
FINANCE
mastercard
VISA
DWS
Raiffeisen BANK
Nordea
wise
HSBC
AVIATION
AIRBUS
BOEING
AERCAP
Lufthansa Technik
MEDIA
BBC
CNN
Bloomberg
ZDF
TELECOMMUNICATIONS, CINEMA AND TELEVISION
ERICSSON
NETFLIX
NOKIA
airbnb
Disney
amazon

Cost to Russian Elites

Vladimir Putin's decision to send troops into Ukraine, with military losses mounting and Russia facing unprecedented international isolation, a small but growing number of senior Kremlin insiders are quietly questioning his decision to go to war. Unprecedented threat had led to unprecedented sanctions which has caused a huge blow to Russian elites. Home to some of the wealthiest people on the planet, the demand for luxury goods has fallen drastically as a result of frozen accounts and the crippled state of the currency.

The future seems to be bleak for these oligarchs and business owners. Foreign brands have halted operations and even more are pulling out by the day. Local brands are finding it increasingly hard to sustain their businesses and are being forced to shut down amid the crisis. The elites believe the invasion was a catastrophic mistake that will set the country back for years.

The United States has sanctioned more than 50 percent of Russia's banking assets There exists dangerous uncertainty over whether Putin would resort to nuclear weapons in Ukraine.

It's a measure of their powerlessness that some in Russia are quietly hoping the West will show Putin a way out that lets him save face. But there's little mood in the U.S. and Europe to reward him for inflicting such devastation on Ukraine.

GLOBAL LUXURY DISRUPTION DUE TO WAR

SUPPLY CHAIN

Businesses are scrambling to get enough raw materials and components to meet growing client demand due to the world's unexpectedly swift recovery from the pandemic depression. Overwhelmed factories, ports and freight yards mean shipping delays and higher prices. The disruption to the Ukrainian and Russian industries further delays return to normal conditions. The supply chain which is already strained may come under even more pressure with threat to shipping lines and air travel.

Although sales of luxury goods inside Russia represent merely 5% of global purchases, the closure of stores still represents a loss. The years of investment in Russia based operations and the opportunity to grow in what would have been a strong emerging market have all been lost.

The European Union Commission is currently formalising a set of sanctions on Russia, including the SWIFT international payment system, which would impede the ability of luxury goods to be sold and traded with Russia. The European Commission has imposed financial and military restrictions on Russia's government and oligarchs, but luxury exports, which are popular among the ultra-rich, are currently unaffected.

EFFECT ON GLOBAL LUXURY BRANDS

Ever since Russia invaded Poland many of the luxury brands have temporarily suspended their operation while some brands have closed their stores in Russia. High-street fashion companies such as H&M Group, Mango, Zara, Marks & Spencer, Asos, Boohoo Group, JD Sports Fashion, and Nike have closed their Russian stores and suspended online commerce in response to the crisis. Balenciaga, Louis Vuitton, Dior, Hermès, Chanel, Prada, Gucci, Saint Laurent, Cartier, and Burberry are among the luxury fashion firms that have halted operations in the country. By not halting the operations the brand would have risked angering the consumers who are concerned by the Russian aggression, like Uniqlo, who tried to remain apolitical had to quickly change their stance after receiving backlash from the western consumers.

Brands like Chanel, Burberry Boohoo Group and many more have shown support for Ukraine through social media but have also given donations to support Ukraine or organisations helping Ukraine. Like Chanel gave a donation of €2 million to relief organisation Care and UNHRC.

Many in the world of fashion have remained indifferent but some of them have shown their solidarity with Ukraine like with Giorgio Armani. Giorgio Armani is one of the few designers who addressed the war directly during his Milan fashion show by showing it in complete silence .The silence was taken as a sign of respect towards the people involved in the tragedy.

IMPACT ON GLOBAL LUXURY SPENDING

The growth trajectory of the luxury demand will be more affected in 2022 because of the war and will only grow by 1%.The sanctions on Russia will further trigger an increase in energy costs as well as inflation. Further resulting in slowdown in growth of Global GDP. In this scenario there would be a significant downward adjustment in Global equity markets and asset prices.The status of high ended consumers will be dented which would lead to less spending on luxury brands.

Federica Levato, a partner at Bain and leader of its luxury practice in Europe, the Middle East and Africa says that because of rising oil prices, stock market volatility, tourism disruptions, and other economic uncertainty, the war is likely to erode consumer confidence in European and North American countries.

All of the above factors combined would result in much lower fashion revenue and profit in 2022 than predicted. The war between Russia and Ukraine might cost the luxury industry up to 8 billion euros. This would result in a decline in global sales of around 2% to 3%.

There are also tales of Russian customers racing to luxury boutiques to buy pricey watches and handbags to offset rising inflation, speculating that such items could be used to sneak money out of the country and circumvent sanctions.

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CONCLUSION

CONCLUSION

This concludes the third report of the four - part mini report series titled "Global Power of Luxury Goods". The purpose of this report was to study the impact of COVID19 and the Russia-Ukraine war on the luxury world.

The report covered in detail how the outbreak of the pandemic led to a serious decline in the demand for luxury goods all around the globe. It also talked about how the war tensions affected global supply chains and how its impact further reduced the global luxury spending.

The fourth and final report of this series aims to study the upcoming trends and the future of the luxury goods industry.

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