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What will the luxury market in APAC look like after coronavirus?

By Shawn Lim - 21 May 2020 02:00am



Sales categories like clothing and dining out are still in decline and even cosmetics have only seen a marginal lift.

As China and wider Asia Pacific continues in recovery from the coronavirus pandemic, consumers will likely resume their normal levels of spending, but they will be more selective in the way they spend on **luxury brands**, according to experts.

However, luxury brands that have not invested into consistent brand building, to create meaningful differentiation and desirability, will have to work extra hard to win over consumers that have spent the last few months living in lockdown.

Sanne Drogtop, vice president of business and operations for Asia Pacific at MediaMonks, explains that in times of crisis, luxury spending is the first one to go out of the window. As China was the first country to be hit by Covid-19, this meant it was the first to be impacted by lockdowns and large economic disruption.

"A large part of the business of luxury is global multi-billion-dollar fashion powerhouses. Due to the fact, these are global, they have since then been hit in all other parts of the world. Right now, analysts are estimating that the luxury market could contract up to 35% this year. I, therefore, do not expect to see increased marketing spend in the foreseeable future," she tells The Drum.

"I do expect that this consolidation, contraction and further closure of brick and mortar accelerate the need for luxury brands to drastically change their marketing strategy and the ones that do this well will win big."

While the majority of lockdown restrictions have been lifted, retail spending has not yet returned to normal in China, with March's total retail sales at negative 15.8% year on year. This is according to Dentsu Aegis Network China's report 'From infection to inflexion - China's response, recovery and return', which shows this as an improvement on January to February's negative 20.5%.

While the food industry and automotive sales have remained stable and in growth, with the latter seeing a 20% improvement in March, regaining lost ground, categories like clothing and dining out are still in decline and even cosmetics have only seen a marginal lift.

Stella Berry, regional business director at Adludio, explains that we will now see the rise of a type of consumer that always saw luxury brands as aspirational and something they will possess one day, like for a special birthday for example. Post-lockdown, these consumers will probably rush to buy that one piece they have always longed to have.

This is because, if there is one thing that Covid-19 has shown people, it's that everything can change very quickly and they should enjoy it while we can.

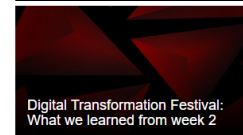
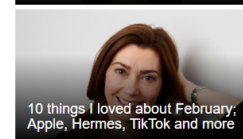
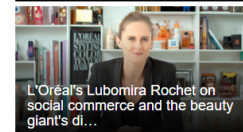
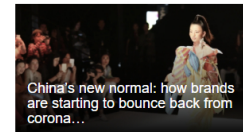
"Then again, consumers have kept a close watch on how brands were interacting with them. The brands that will come out of this stronger are the ones that have shown moral fibre," she adds.

"Luxury brands will need to think differently about how they engage with their consumers. Only time will tell us what the new trend will be as the consumer post-pandemic will dictate expectations and requirements."

On the other hand, Claire Zhao, vice president of strategy for China at Essence believes that for many Chinese luxury consumers, their demand and consumption of goods may not have been suppressed during the lockdown because the mature e-commerce infrastructure built over the past decade in the country has provided an abundance of online purchasing channels.



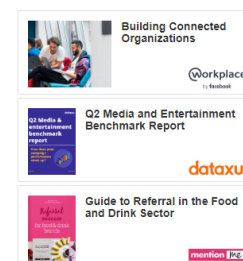
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With offline stores closed, the online sales volumes for some luxury brands may have remained stable or even increased during the lockdown

"After the lifting of the lockdown, it is expected that affluent consumers will continue to spend due to their desire to continue to fulfil social needs and limited consumption alternatives such as overseas travel. For consumers who rely on advance consumption via a credit card payment, they may, however, put the purchase of non-essential products on hold," she explains.

"Many luxury brands have also withdrawn spending on traditional channels such as out-of-home and shifted to online media. An increase in promotion by luxury brands has been observed and is expected alongside various festivals."

She adds: "For example, in the month of May, consumers celebrate Mothers' Day on 10 May as well as '520 Day' on 20 May which is known as another Valentine's Day in China. For the second half of 2020, luxury brands are likely to follow a normal level of investment with optimisation across media channels."

Agreeing, Lin Liu, chief strategy officer at Universal McCann China argues the notion of 'revenge spending' is a misnomer. Revenge spending is a concept that describes people over-compensating for not being allowed to shop by spending lavishly.

She points out that for the well-prepared brands like Louis Vuitton (LV), consumers did not stop spending even during the lockdown when shops were closed as they just shifted their shopping online.

She points out that LV's sales for Valentine Day's this year doubled compared to last year and Hermes' sales during Chinese New Year was also equivalent to two normal months combined.

"People's lives have been impacted by the pandemic, but luxury is doing really well, not just because Chinese young consumers love luxury, but also because the travel ban has brought a significant chunk of overseas spend back home. Media spend is also recovering at fast speed - the second quarter tends to be a bit quieter normally but many brands are already back in action," she explains.

How will luxury brands approach the rest of 2020?

2020 has proven to be a difficult year for brands and it will be a while until we see the end of Covid-19. Countries that have relaxed confinement measures too early have seen the number of cases has increased again in less than a week.

This means luxury brands will need to see how the world is going to get out of this crisis until they can start thinking about a new approach for the year. While the current political and economic turmoil across the world today brings challenges, there are also a lot of opportunities.

Therefore, it is up to luxury brands to learn to navigate their place in the culture and respond to these changes proactively, rather than being passively affected by them.

"China is already showing early signs of recovery, so for the rest of the year, luxury brands should continue to launch new products and services in China, while demonstrating a true understanding of the market," explains Geraldine Cheung, managing director at L'Atelier China, a GroupM bespoke luxury agency.

"As for APAC, this year is where luxury brands need to put the focus back on cultivating the local market audience. 2019 was a year where we saw lots of traction and focus on the topic of Chinese travellers and overseas shoppers."

She continues: "However, this year, most travelling for the Chinese consumers will happen domestically, as demonstrated in the travel statistics from the recent May holiday period. International travel restrictions aside, Chinese consumers will likely continue to be cautious about overseas travel in the short-term. There are also stimulus policies from the Chinese government to encourage domestic tourism and consumption."

MediaMonks Drogtop expects luxury brands to try and sustain focus on e-commerce for the foreseeable future as it allows them to reach a much larger target audience than before.

She explains that with most luxury brands only having a few stores in Tier 1 cities, this is a dramatic limitation to reach audiences and building the right online presence solves that.

"Furthermore, where the majority of Chinese luxury consumers previously were doing their luxury spending overseas, with the global travel ban, it is a huge additional opportunity to engage these shoppers with a high travel affinity," she says.

"E-commerce is a way for brands to reach a younger target audience. With the fact that in China purchasing power in lower-tier cities, as well as younger generations, has increased drastically over the past few years, e-commerce is the way forward."

While Lin struggles to recall any brand that is not targeting a younger audience, the question she says is whether they do so in a credible and resonant way as some brands think they could just put hire a young star or advertise on TikTok and call it a day.

"Young people respect taste, story, intelligence and integrity, which means luxury brands must be "thought and style leaders" for them. LV, Chanel, and Hermes all have that luminosity thanks to years of brand building, rather than catering to consumers' needs, which young people know is marketing," she explains.

"LV and Chanel just raised their price again in China, which isn't related to Covid-19, but it is extraordinary given the context and speaks volumes to the power of these great brands."

Many luxury brands will also see China as the key market to offset the impact of Covid-19. According to Lin, brands are more willing to embrace China's experiments, and despite frustration and bickering on both sides at the beginning, they will uplift the quality of these new media formats once they are in the game, like live streaming and social commerce.

They will also produce more content tailor-made for China and launch coveted new products in the country first, as Louis Vuitton has.

"Generally, the availability of diverse products will be prioritised to countries that reopen their markets first, which may lead to an immediate stimulation of sales there," explains Essence's Zhao.

"On the promotional front, luxury brands will likely be exploring opportunities and leveraging various distribution channels to enhance sales. Firstly, this can be through accelerating the expansion of digital stores on new platforms such as social e-commerce, and new formats that integrate content and sales."

"Secondly, partnering with major retail partners like SKP in China can also be leveraged. And lastly, brands can advance their omnichannel retail experience to ensure that consumers can be engaged at any point online or offline."

The luxury industry, post-Covid-19

Instead of causing new changes, Covid-19 has accelerated changes. For example, e-commerce seemed to be the clear winner during Covid-19 as luxury brands with existing e-commerce capabilities were able to keep their lights on throughout the outbreak when most physical stores were closed.

Many brands who previously did not sell online are now expediting their entry into e-commerce across APAC. Some of them have been exploring or testing new ways to approach e-commerce, be it on WeChat mini-apps or pop-up stores on e-commerce and social platforms.

"Covid-19 is also pushing brands to reconsider the role of offline retail. Even before the pandemic, retailers and brands were downscaling offline locations. Now with physical stores enforcing more stringent hygiene practices and appointment systems, experience has become further limited," explains Cheung.

"Luxury brands should be rethinking the role of offline boutiques. What can a brand provide within their stores beyond product displays? How can brands enhance experiences through memorable interactions with the help of innovative technology within their boutiques?"

Agreeing, Darren Woolley, the founder and global chief executive of TrinityP3 points out recently four famous CCTV hosts showed up in a live stream to help sell overstocked products from Wuhan.

They achieved total sales of about US\$75 million in three hours, proof the pandemic has brought changes in consumption patterns and live stream sale has become an important part.

"Online shopping is very popular in China, especially during the Covid-19 crisis, online channels became a lifeline for brands. Live streaming is also becoming more and more popular in recent years, especially those with celebrities," he explains.

"It is no longer a new concept but it is still developing. Brands can turn their focus to a new model of online and offline integration. More and more luxury brands have entered into Alibaba's Tmall platform, such as Prada, Burberry, Armani, Moschino etc."

Droptop believes luxury brands should also be looking to capture a larger slice of the esports market as well, as esports have become the best approximation of socialization. She says the way gamers' digital avatars look is becoming more important than the real-life trainers that no one sees anyway.

"It is a really cool way for brands and designers to tap into a brand new behaviour and has already proven successful, look at Moschino's collaboration with The Sims or Fortnite and Nike on Air Jordan," she explains.


"Imagine designers working with 3D modellers to launch digital premium lines, seeing what is popular and basing the supply chain on that."


It is still unclear what footfall will look like post-pandemic as boutique experiences like being able to touch and feel the products are a major part of the customer purchasing journey.


What will the experience be like with social distancing measures and once boutiques are allowed to reopen? Will consumers be scared to go out until there is a vaccine, or will they be rushing out of the door embracing the new normal?


One thing for certain is brands will need to adapt to this new normal and have a short-term plan, such as being able to offer some delivery service if they cannot offer e-commerce.

This article is about: China, Coronavirus, Luxury, Ecommerce, Advertising, Digital, Digital Advertising, Mobile, Marketing, Brand

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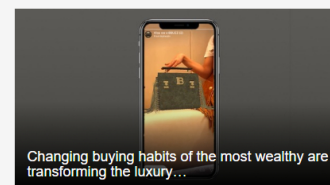
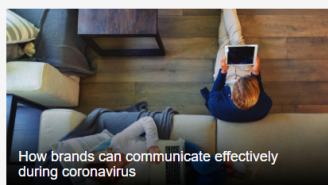
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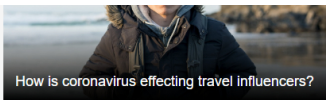
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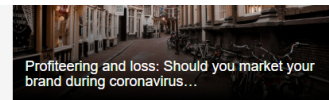




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