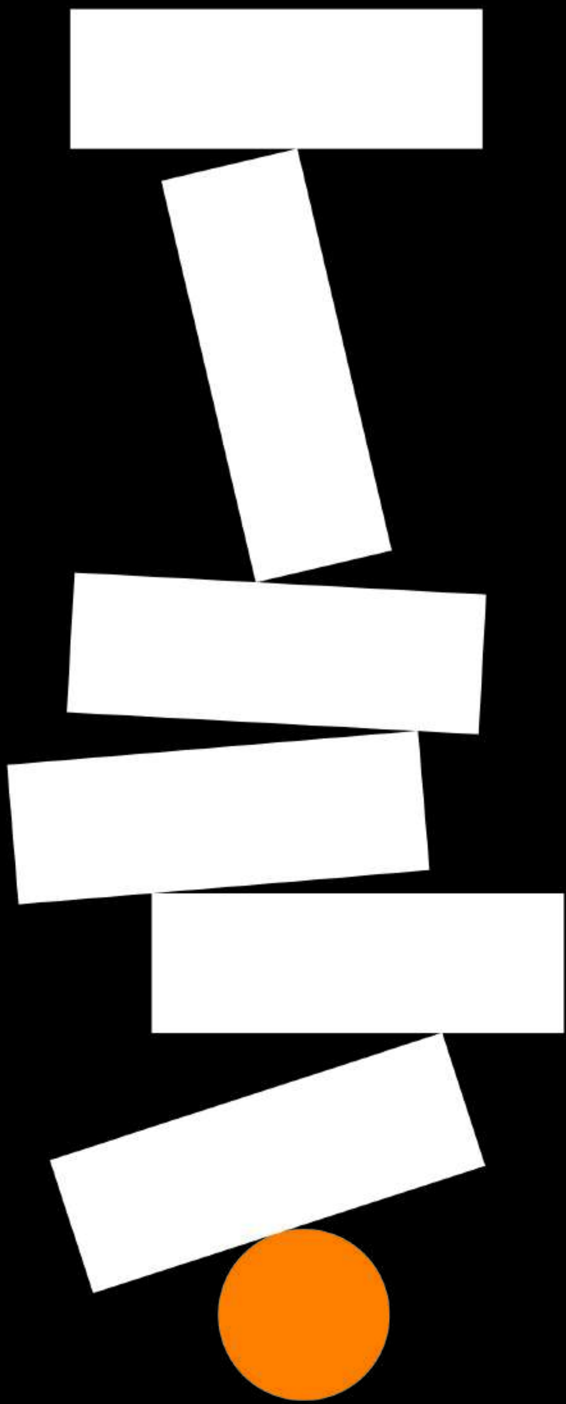
Week in review

The stay-at-home economy, business supports staff and society, PLUS an in-depth look at the impact of COVID-19 on the Luxury sector



Wavemaker

CONTENTS

Introduction

In this week's review: The redefined home, CMOs respond to the crisis, and Kantar reveals consumers' expectations of brands. PLUS an in-depth look at the impact of COVID-19 on the luxury sector.

Ground control to living room – The redefined home and the effect on global retail

Amid the glut of guides to life in isolation, the advice from astronauts Chris Hadfield and Christina Koch stands out. (Koch returned to earth in February after 328 days in space, only to find herself in isolation again a few weeks later.) Astronauts are expert at extracting maximum value from their environments, and understand our need to reconfigure the home as the epicentre of life in this time of crisis.

Despite the threat of a global recession, this means certain products and services are now in huge demand – as long as supply chains survive. There is the obvious surge in sales of technology and uptake of video-conferencing software as people create their home office. The office then transforms into cafés and bars as our social engagements become virtual and new habits emerge.

Like astronauts, our limiting factor in leisure is space. For many that means a good book; Penguin UK published a 150% increase in sales vs. last year. Those with some space invested in home exercise equipment, from yoga mats to table-tennis kit, with many products selling out online.

China gives us the clearest picture of the new stay-at-home economy. Online sales of home products, leisure items and kitchen utensils rose, yet growth in the gross merchandise value of ecommerce fell as sales in luxury and discretionary items continue to decline.

How to Survive Pandemic Reentry
Click to read

Our home is our world
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Six categories in rapid growth
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E-commerce drives China's economy post-crisis *Click to read*

Responding in crisis, recession and recovery

The CMO Growth Council, run by the Association of National Advertisers (ANA) and Cannes Lions, held a virtual meeting on 24 March to consider 'intelligent practices and functional guidance' for marketers managing the Covid-19 crisis. While specific strategies and actions differed, common themes emerged around a core principle of 'look inwardly to help outwardly' – protecting employees, assessing how operations can help ameliorate the crisis, and understanding the appropriate role of advertising.

WPP CEO Mark Read mirrored this guidance, citing similar responsibilities for agencies as businesses themselves, but also in the work they do for clients. Read's hope is that our industry – one that is focused on understanding human behaviour and emotion – accurately reads the tone of employees and customers and responds appropriately. This might be by supporting government efforts, providing enhanced utility and service to customers, facilitating the transition of employees to new ways of working and living, adapting production and distribution chains to meet changing consumer and society demands, or creating new products and services fit for a future context. These actions can help limit the spread of the virus, soften its impact on everyday lives, and aid recovery when the time comes.

CMOs look inside to help outside
Click to read

Our work matters more than ever
Click to read

Crisis, recession, recovery
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Crisis lessons Nike learned in China
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WARC noted this week that an economic, and ad recession, is now highly likely (see Chart 1). While in the immediate crisis brands might be forced to pause and re-evaluate their positioning and communications to ensure it reflects shifting values and behaviours. Evidence from past recessions shows that 'reducing marketing and advertising budget, or going dark, during a downturn does not work in the medium to long term' (See Chart 2).

Communications should be considered an investment and marketers must develop a recession strategy to protect brand health and market share. Learning from experience in China, last week on a call with investors **Nike** revealed their four-stage transition to return to growth that has become an operational playbook they will reapply in other markets. This approach is not only important for the success of individual businesses, but as Mark Read states, 'plays a vital role in driving and sustaining the wider economic activity that societies need to function'. As an industry we need to plan for recovery and strength into the future.

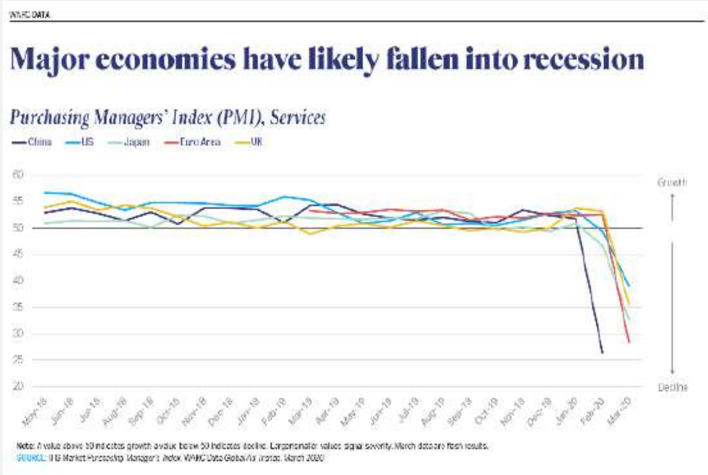


Chart 1

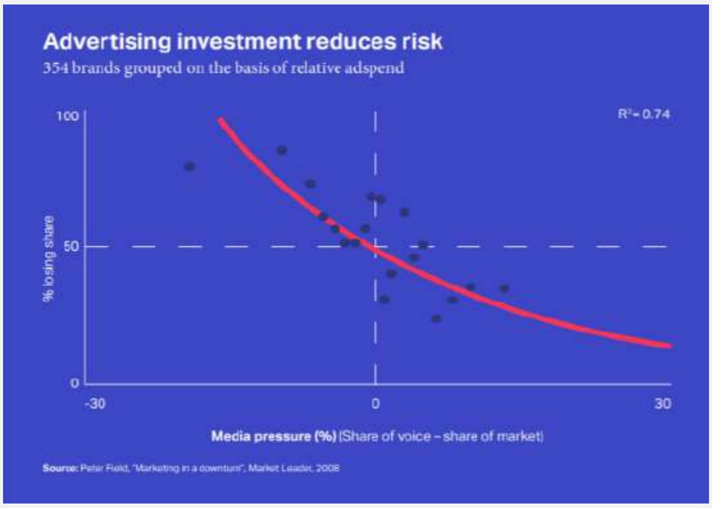


Chart 2

Consumers do not expect brands to stop advertising during the crisis, they expect them to play their part

The latest study by Kantar looks at consumers' attitudes during the pandemic. It reveals high expectations towards brands in times of crisis with 78% of consumers believing brands should help them in their daily lives, 75% saying brands should inform people of what they're doing and 75% think companies should not exploit the situation. Brands are also expected to take care of their employees and help the national effort. Only 8% of consumers thought brands should stop advertising.

COVID-19 Barometer: Consumer attitudes, media habits and expectations Click to read

Just 8% of consumers think brands should stop advertising due to the coronavirus outbreak Click to read

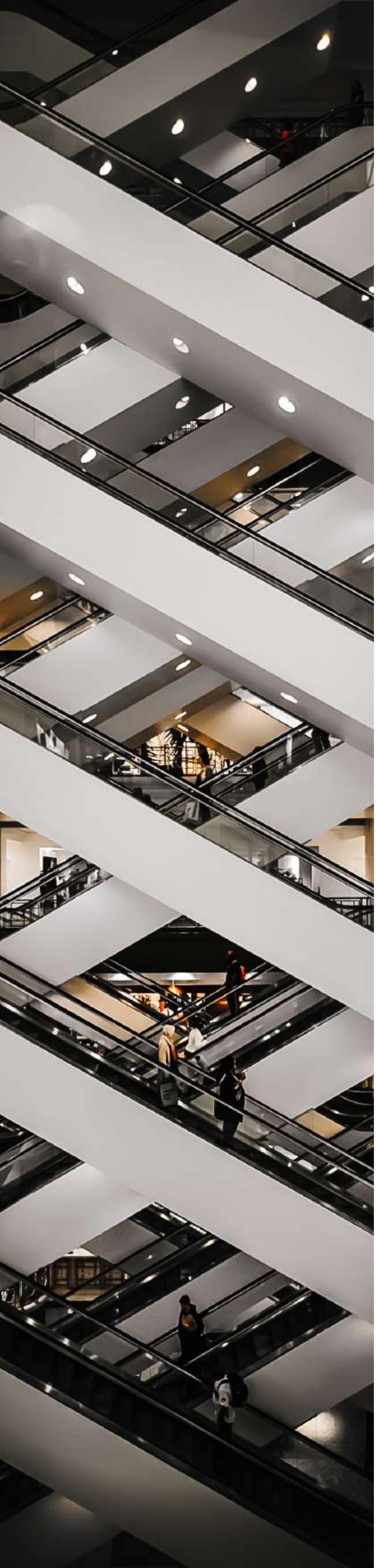
Brands in a pandemic world: insights from Kantar's COVID-19 Barometer Click to read

Category Deep Dive: Luxury

This week, the latest data and intelligence on COVID-19 and its impact on Luxury. We've split the latest (and best) research into three sections on the business, consumer and brand impact of the virus.

01

Business
Impact



01 Business Impact

1. Luxury businesses buffeted as demand dries up

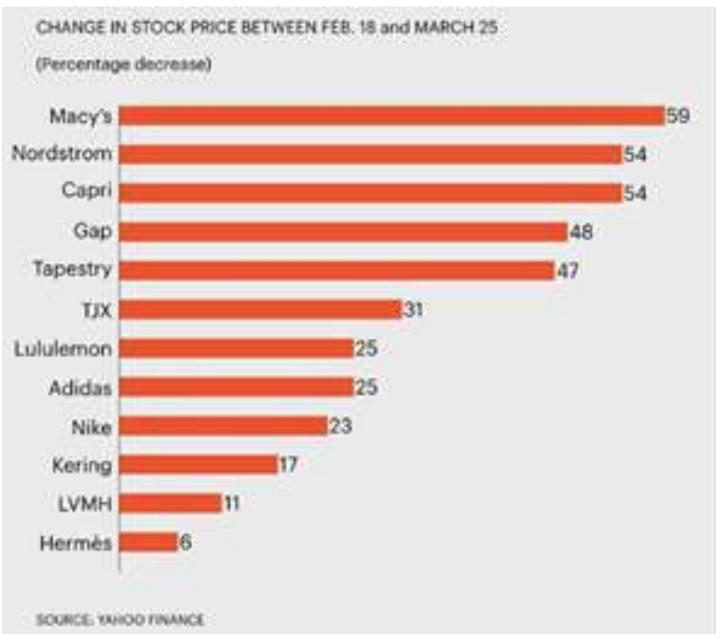
Luxury businesses are facing steep sales declines as the COVID-19 pandemic significantly weakens consumer demand and disrupts supply. Q1 revenue has been notably impacted with LVMH reporting a 10-20%[i] decline and Kering estimating a 15% reduction in sales[ii]. However, as the effects of the crisis intensify – it has rapidly spread from being a Chinese problem (already a major issue) to one affecting all regions – we expect the sales impact to become a lot worse. As the investment firm Bernstein described the global outlook: 'The first half of 2020 is likely going to be the worst in the history of the modern luxury goods industry.'[iii]

BCG is predicting that 'luxury brands should brace for a decline in sales between $85 and $120 billion in 2020, or around 29.2% of the $350 billion luxury market'.

Why is the business impact expected to be so extreme in luxury? The drivers of growth for the sector have been badly disrupted by the outbreak. Firstly, China, responsible for 80% of growth in luxury goods sales[iv] was the epicentre of the crisis and is now just beginning to open up. Secondly, tourism sales have dried up as airports and flights have gone into lockdown with a recovery not expected until the fourth quarter of this year.[v]

With consumer movement being severely restricted across a growing number of markets, shopping malls are having to close, badly exposing retailers including luxury brands.

Figure 1: Stores and mall retailers are faring worst[vi]
Source: Business of Fashion, March 27 2020



2. Luxury supply chain disrupted with smaller brands worst affected

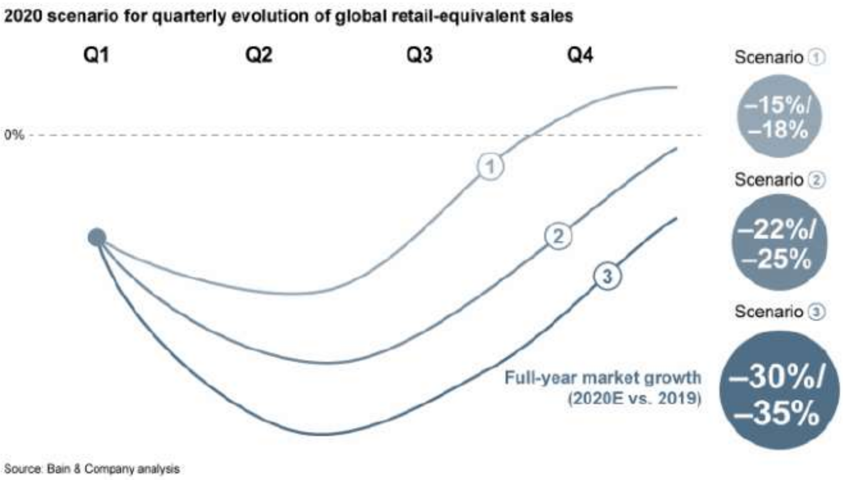
If you look beyond the big luxury players, the industry is made up of a network of thousands of small enterprises and artisanal manufacturers. The lockdown, especially in Northern Italy, has significantly impacted this fragile ecosystem. The crisis is likely to notably increase lead times and capacity is likely to be reduced, well into next year. Smaller fashion labels are also affected by the closure of factories in China. With OC&C strategy consultants reporting: 'Even if the demand comes back, there is a question mark in terms of whether the brands can provide enough new products in the next few months to meet the demand'[vii]

3. A human crisis which makes the speed of recovery hard to predict

Luxury businesses weathered the last market shock in 2008 well and demand for luxury goods bounced back quickly. However, this time, wealthy consumers are not insulated from the impacts of the virus. This is a consumer not a financially-driven crisis as Javier Seara, BCG's global sector leader for fashion and luxury, states: 'What we are living through right now is more deeply and drastically on a human dimension, it has to do with existential anxiety more than financial anxiety.'[viii] This makes the speed and breadth of the recovery difficult to predict.

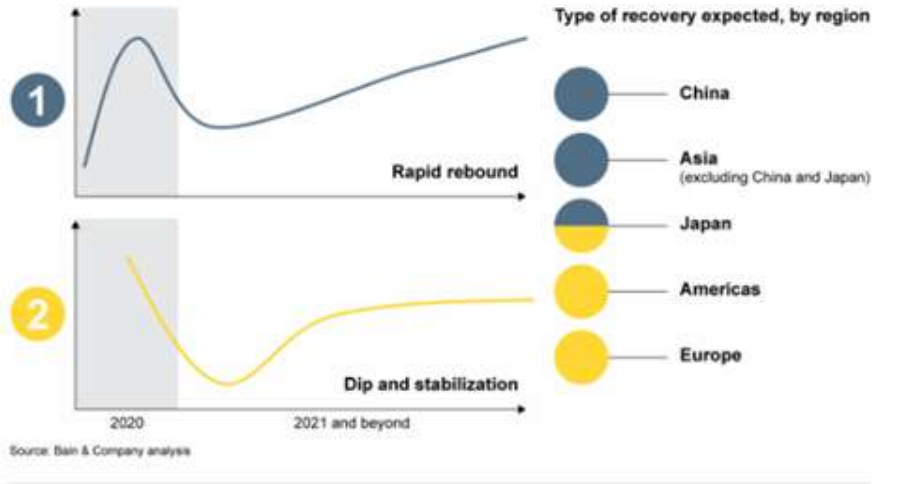
Figure 2: Personal luxury goods market could contract between 15-35% in 2020[ix]

Source: Bain, Luxury after COVID-19, March 26 2020



Bain believes that the range of contraction could be between 15-35% and the recovery is likely to be fragmented, with growth driven by China but also other Asian markets first. The Americas and Europe are likely to dip and stabilise rather than return to pre-crisis levels over the next few years.

Figure 3: The market recovery is likely to come in two shapes[x]
Source: Bain, Luxury after COVID-19, March 26 2020



As we will come on to, the luxury businesses that can best understand the shifts in luxury consumer outlook under this new paradigm will be the ones that bounce back best.

02

Consumer
Impact

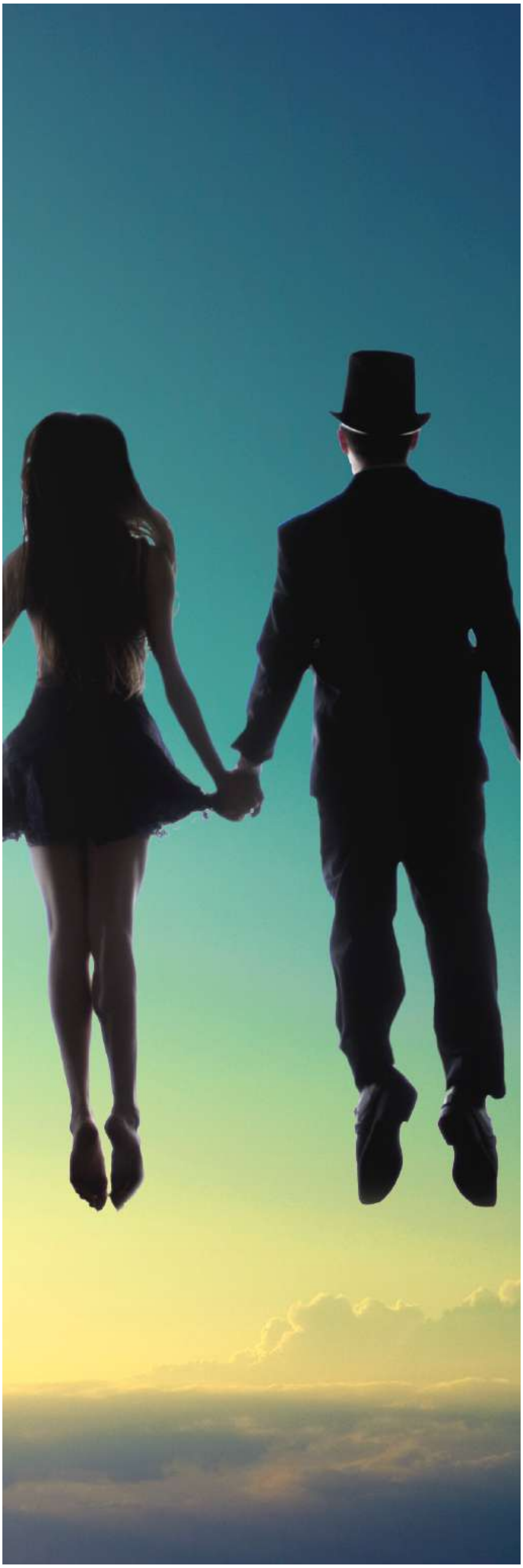
02 Consumer Impact

1. Record lows in consumer sentiment spark calls for luxury brands to review pricing structures

With Forbes speculating that Coronavirus could wipe out five years of gains in the global luxury market,[xi] there's no denying that the crisis has (and will continue to) hit the sector hard. While global store closures and restrictions on air travel have clearly impacted store and airport sales, declining consumer confidence means this is by no means offset by e-commerce. Globally, online searches for luxury goods are down 76%[xii] and session length on luxury websites is down 8.3% compared to January 2020.[xiii]

> Luxury items provide a sense of possibility and freedom to dream. When you are in the middle of a crisis, it is hard to dream"
>
> **Chris Gray**
>
> *PsyD, founder of consumer psychology consultancy Buycology (interview in Forbes, 15 March)*[xiv]

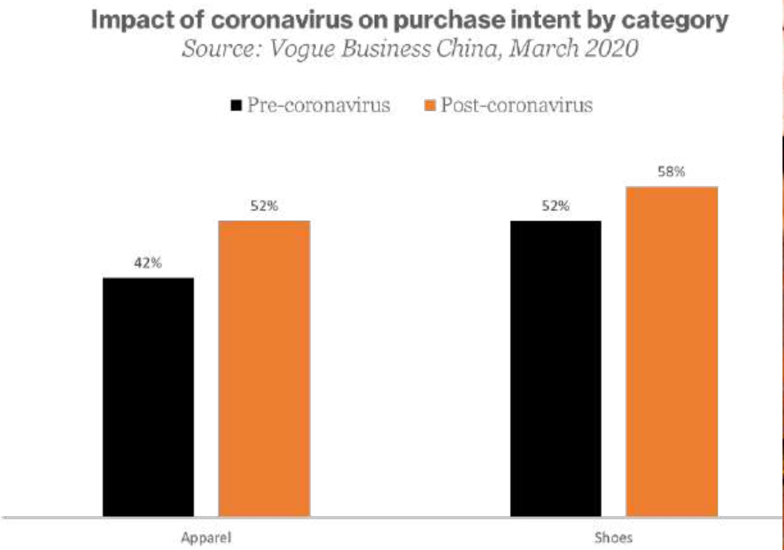
The coronavirus is increasingly weighing on global consumer sentiment and in March the Eurozone saw its biggest monthly fall since records began in 1985.[xv] The impact on the luxury sector is particularly clear; high wealth consumers are 15% more likely to expect COVID-19 to impact their personal finances than the average adult.[xvi] In light of this escalating financial concern, Bain suggests that luxury brands should be innovative with their pricing structures to reflect the reduced spending power of many middle-class customers.[xvii]



2. Analysts predict pent-up demand could lead to 'revenge spending' but warn that it won't offset decline

Coined during the Chinese Cultural Revolution, the term 'revenge spending' describes a surge in spending among recently isolated consumers. As China gradually resumes normality, analysts are speculating as to how much this phenomenon will bolster the luxury market post-pandemic. On the one hand, when the high-end Hangzhou Tower in China mall re-opened for five hours on 22 February, it achieved more sales than on the same date a year ago.[xviii] According to research by Vogue Business in China, both shoes and apparel are seeing an uplift in purchase intent compared to before the pandemic (see figure 4).[xix]

Figure 4: Luxury shoes and apparel see a boost in purchase intent post-Coronavirus



"People get worn out. They react with a desire to buy things that show the world that they are here and safe. After a period of emotional crisis, the rebound spending is about identity building and showing the world that you are in a good place" - Chris Gray, Psy.D., founder of consumer psychology consultancy Buycology (interview with Forbes, 15 March 2020)

However, Jingdaily warns against an over-reliance on 'revenge spending', citing a rise in conscious spending among wealthy Chinese consumers.[xx] On a global basis, Morningstar does expect luxury demand to bounce back but not until the fourth quarter (20%-25% growth for Chinese buying with some pent-up demand) and expects a strong recovery into 2021 on a very low comparable basis.[xxi]

3. As all eyes are on brand responses to the crisis, Coronavirus could spark a shift from aesthetics to ethics

The Coronavirus pandemic is so significant that it has paused conversation around topics like diversity, sustainability and gender non-conformity which had previously dominated the luxury industry. That said, there is undeniably a heightened focus on brand actions, behaviours and response to the crisis. With that in mind, Bain predicts that when we come out of the pandemic, ethics will become as important as aesthetics for consumers. The theory is backed up by Dr Martina Olbertova, founder of Meaning. Global, who foresees a shift in the luxury market toward wellness and wellbeing. That means luxury that is good for the individual, good for the planet and good for society. She sees luxury consumers leaning toward more experiential luxury and away from the materialistic expression of it.

One area where this may become particularly relevant is the fate of luxury stock left unsold due to the pandemic. A plethora of luxury brands were castigated in the press in 2019 when it was revealed they destroyed unsold stock.[xxii] As consumers are set to emerge from this with a heightened focus on ethics, Vogue Business have suggested brands will need to think more creatively about how they deal with the issue. Whether it's selling off-season, donating to the needy, re-purposing stock, or otherwise, consumers will be looking to brands to do better than just destroy stock.

4. As consumers seek digital experiences, brands who innovate now will thrive in the long run

The accelerated shift to digital shopping during COVID-19 has been well documented across multiple sectors and it's no different for luxury. While luxury brands have been historically sceptical in their adoption of e-commerce, a Vogue Business survey conducted in China in March found that more Chinese consumers would choose to buy luxury goods online (68%) than at a brand's flagship store (65%).

While in-store experiences aren't going anywhere, Bain suggests that some digital shopping habits built during the outbreak will stick, especially if brands raise their game in online assortment, user experience and digital marketing. Such habits could be particularly valuable when it comes to product discovery, given 70% of luxury purchases are researched online before purchase.[xxiii] As consumers have more spare time and are spending more time on their phones and cameras, virtual showrooms, AR product viewings, and gaming could prove highly valuable. In fact, JOOR reported a 400% uplift in value of orders placed via their virtual showrooms during the pandemic[xxiv] and Shopify found that viewing a product through AR makes consumers 65% more likely to make a purchase.[xxv] So, although luxury purchasing is certainly not top of consumer priorities right now, digital experiences definitely are. Digital innovation in product discovery could prove to be a real opportunity, particularly for non-seasonal luxury products like jewellery and watches.

03

Brand
Impact

03 Brand Impact

1. Luxury brands support the fight against COVID-19 by repurposing their manufacturing and donating funds

Across the industry, luxury brands are drawing on their manufacturing capabilities to help fight against COVID-19. Within 72 hours of the government's plea for industry support, LVMH had produced 15 tons of hand sanitizer gel for health authorities across its Christian Dior, Givenchy and Guerlain production sites. Many brands have followed suit with L'Oréal and Hermès also pausing their beauty product manufacturing to produce free hand sanitizer.

Luxury clothing manufacturers are helping to produce basic surgical masks and medical uniforms. Kering have announced that the French workshops of Balenciaga, Gucci and Yves Saint Laurent are preparing to manufacture masks for the French and Italian health services. Gucci and Prada are both using their facilities to produce medical overalls for public health workers. Burberry have announced that they are repurposing their trench coat factory in Castleford, Yorkshire, to make non-surgical gowns and masks for patients in UK hospitals.

Many automotive brands have pledged to support existing ventilator makers to increase the rate of production. Ford announced that it is working with 3M and GE Healthcare to produce ventilators while Ferrari and Fiat have partnered with Siare Engineering, Italy's top ventilator manufacturer. In the US, GM and Tesla are also helping to meet the demand for life-saving equipment. Elon Musk has already purchased 1,255 ventilators for use in New York and promises to produce hundreds of ventilators as soon as he can:

> "Giga New York will reopen for ventilator production as soon as humanly possible. We will do anything in our power to help the citizens of New York."
> **Elon Musk**
> *Tesla CEO*

Many fashion houses have also rushed to donate money to combat COVID-19 with a lot of donations pouring into Italy's hard-hit health system. Kering has donated to the Pasteur Institute, a nonprofit organization dedicated to the study of diseases and vaccines. Bulgari has also contributed to research into COVID-19, supporting the

department at the Istituto Lazzaro Spallanzani in Rome. Other brands have generously donated to hospitals around Italy: Prada is funding new ICUs in three of Milan's hospitals, Giorgio Armani contributed nearly $1.4 million to hospitals in Italy, Donatella Versace has pledged more than $200,000 to the intensive care units of the San Raffaele hospital in Milan and Moncler have given €10 million to support the construction of a hospital with 40 intensive care units in Milan.

> We cannot and must not abandon [Milan]. It is everyone's duty to give back to the city that has given us so much,"
>
> **Remo Ruffini**
>
> *Moncler CEO*

2. Brands launch online initiatives to boost sales

As the outbreak takes its toll on an industry heavily dependent on bricks and mortar stores, brands are having to adapt to boost online sales. Luxury brands are working hard to provide consumers with ecommerce opportunities and online content that substitutes for the traditional in-store experience.

Live-streaming is becoming increasingly important to luxury brands as digital initiatives are being used to attract online consumers, particularly those in China who account for 40% of the global spend on luxury.[xxvi] In February, Dior combatted disruptions to Paris Fashion Week by live-streaming its AW20 show on Weibo. It also leveraged the fame of Chinese brand ambassadors, Angelababy and Sophie Zhang, whose combined Weibo following is over 106 million.

Louis Vuitton hosted an exclusive Valentine's Day pop-up store on WeChat which allowed customers to place orders online. Ensuring they provided the quality customer experience expected from a store, the brand gave pre-sale consultations and post-sale customer services online. Style advisors also shared exclusive offline promotions to customers using QR codes. Despite the outbreak, Louis Vuitton doubled its online sales compared to last year's Valentine's season.

Burberry is offering complementary shipping from its online store. It has also produced specific crisis FAQs to provide information on store closures, order times and safety measures around shipments from countries affected by COVID-19. Like many brands it has extended its returns policy and is providing 24/7 customer support

via phone, email, LiveChat and social media. These practical measures demonstrate how brands can ease the e-commerce experience to encourage online orders.

Bottega Veneta has launched 'The Bottega Residency', a cultural initiative which aims to entertain viewers who are at home due to social distancing measures. The Bottega Residency will host writers, musicians, chefs, film directors and performers. Over the course of each weekend, the residency intends to mirror an average weekend with events such as breakfast with celebrity chefs and Sunday film nights. It will be available via Instagram, YouTube, Weibo, WeChat, Line, Kakao, Spotify, Apple Music, SoundCloud, as well as on the Bottega Veneta website.

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Thank you