

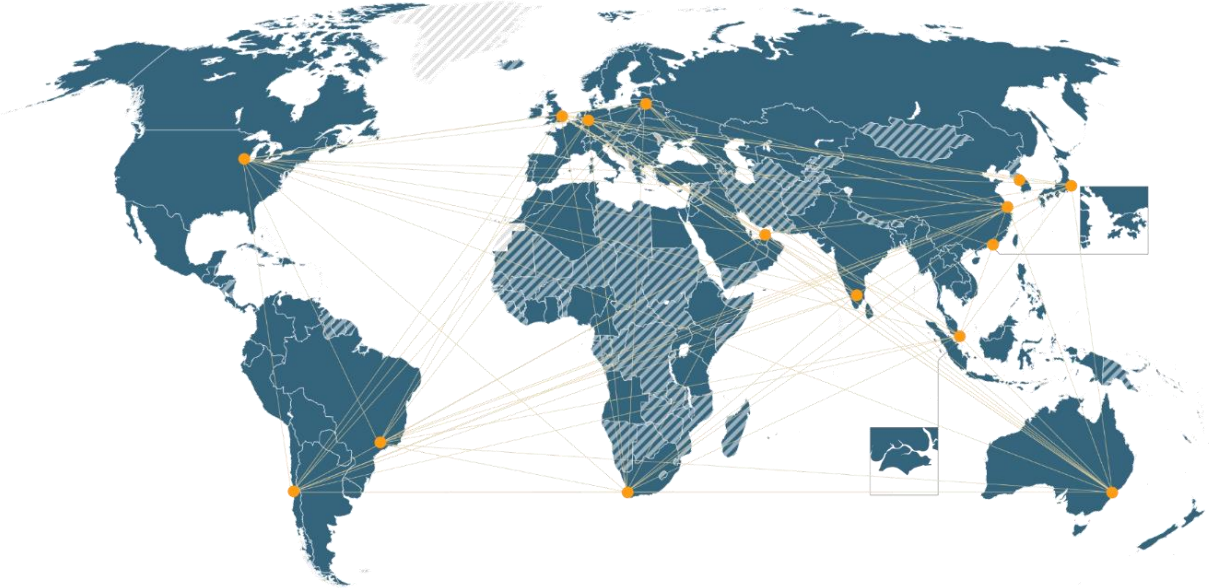
Luxury and COVID-19: Effects on the Industry

May 2020

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OVERVIEW

GLOBAL CONTEXT

INDUSTRY OVERVIEW AND IMPACT

KEY THEMES RESHAPING LUXURY

CONCLUSION



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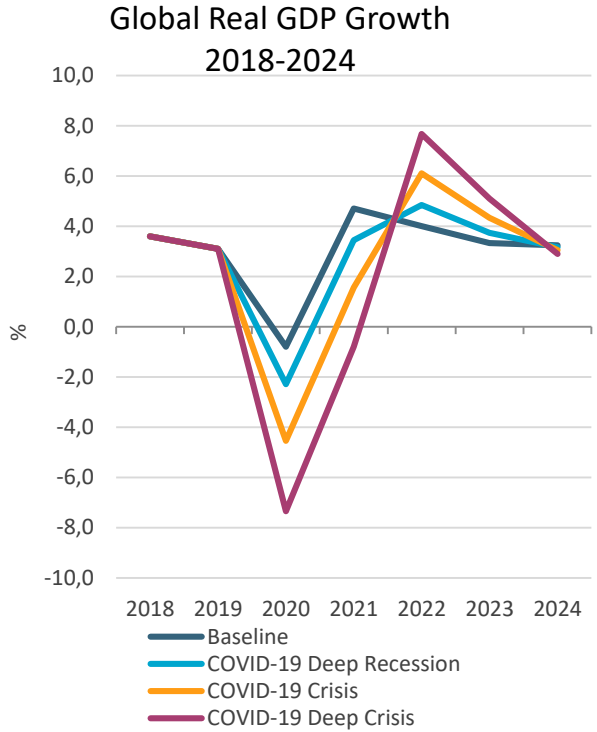
01.
Global Context

Global GDP is likely to contract in 2020 under the baseline scenario

The COVID-19 pandemic effects on the global economy are already being felt, and will be substantial, but the exact magnitude will depend on the length of COVID-19 restrictions.

COVID-19 will severely impact both the supply and demand sides of the economy. At the same time, monetary policy tools are almost exhausted due to the slow recovery from the Global Financial Crisis. Quantitative Easing programmes have limited effect on labour markets, consumer spending and other aspects of the real economy.

Thus, countries have to turn to fiscal stimulus. Our baseline forecast for global real economic growth in 2020 is in the -1.5 to 0.5% range, placing it in the bottom three growth rates for all years since 1961.



Source: Euromonitor International Macro Model

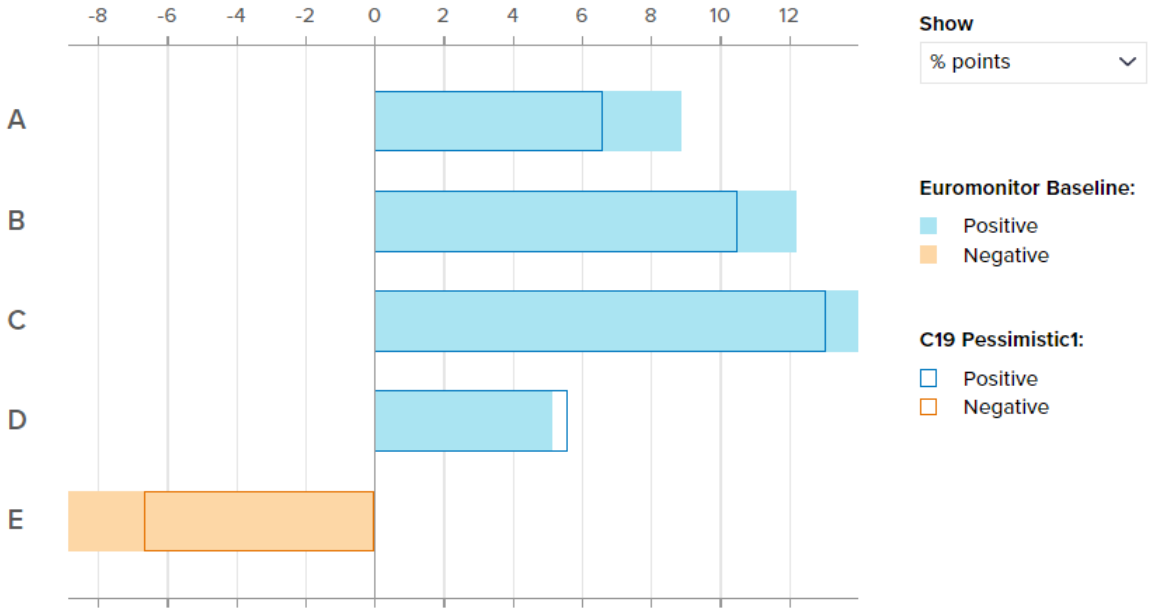
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Impacts on disposable income

WORLD C19 PESSIMISTIC1 SCENARIO FORECAST | Estimated probability: 25-35%

Number of Households by Disposable Income 2019-2024, constant prices, period % growth

Segments Thresholds USD: 0 ≤ E < 5,000 ≤ D < 15,000 ≤ C < 45,000 ≤ B < 100,000 ≤ A



Source: Euromonitor Income Distribution Model

Last updated on April 30, 2020 at 7:21AM GMT

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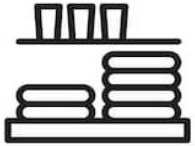
INDUSTRY IMPACT

The five-step consumer progression of COVID-19



Focus on preventative health

- Immunity-boosting H&W items
- Hygiene products (sanitisers/masks)
- Vitamins and dietary supplements (vitamin C)
- Disinfectants (wipes)



Stockpiling grocery essentials

- Sanitisers, liquid soap, toilet roll, bottled water
- Dried (pasta), canned/preserved, long-life (UHT milk) and preserved food, isotonic/functional beverages
- Baking ingredients (flour, yeast)
- Online sales surge



Avoidance of non-essential shops and services

- Foodservice closed
- International travel restricted
- Shopping centres, gyms, leisure centres, theme parks, etc, closed
- Home alternatives to compensate for reduced visits to restaurants, theatres, spas, beauty services clinics



Home seclusion

- Virtual living via virtual gyms/online gaming and socialising
- Home schooling (educational toys/books)
- Online shopping , home delivery and streaming
- Wider take-up of technology by older consumers
- Cocooning – DIY, gardening, home as wellbeing hub



A new normal?

- Globalisation knocked, return of local supply
- Premiumisation subdued
- Health paramount
- Mental wellbeing at forefront
- Strengthening of online
- Consumer re-set: city living diminished
- Sustainability shifts focus from anti-plastic to rewilding

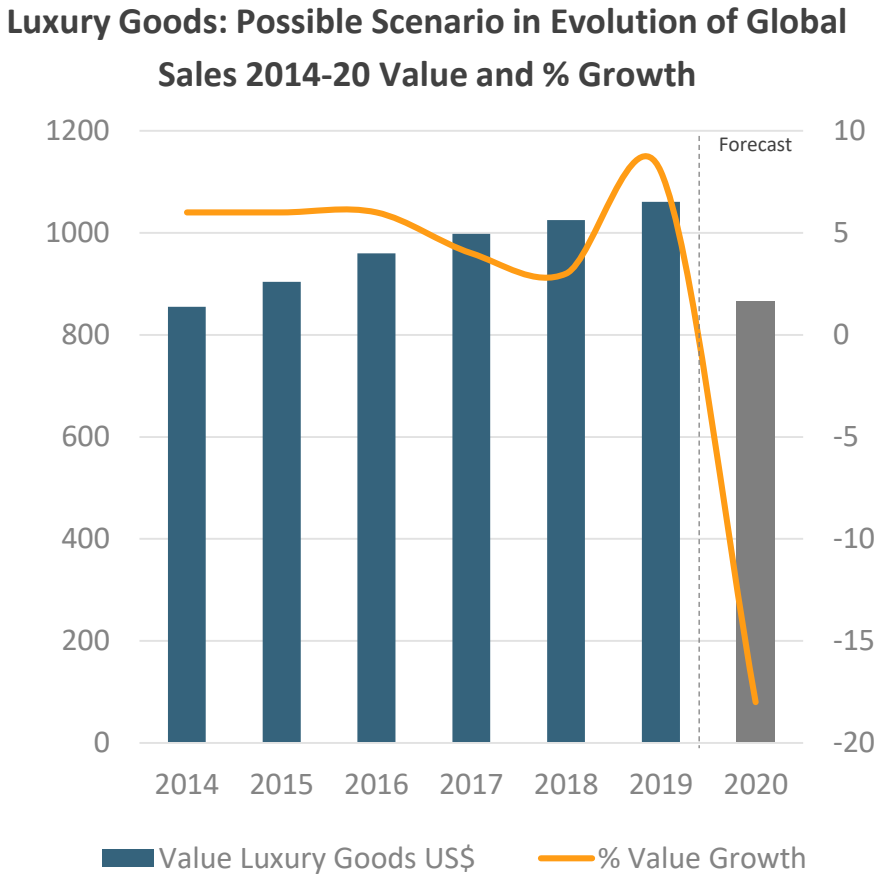
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02.

Luxury Goods Overview and Impacts

COVID-19 huge threat to the US$1 trillion luxury market

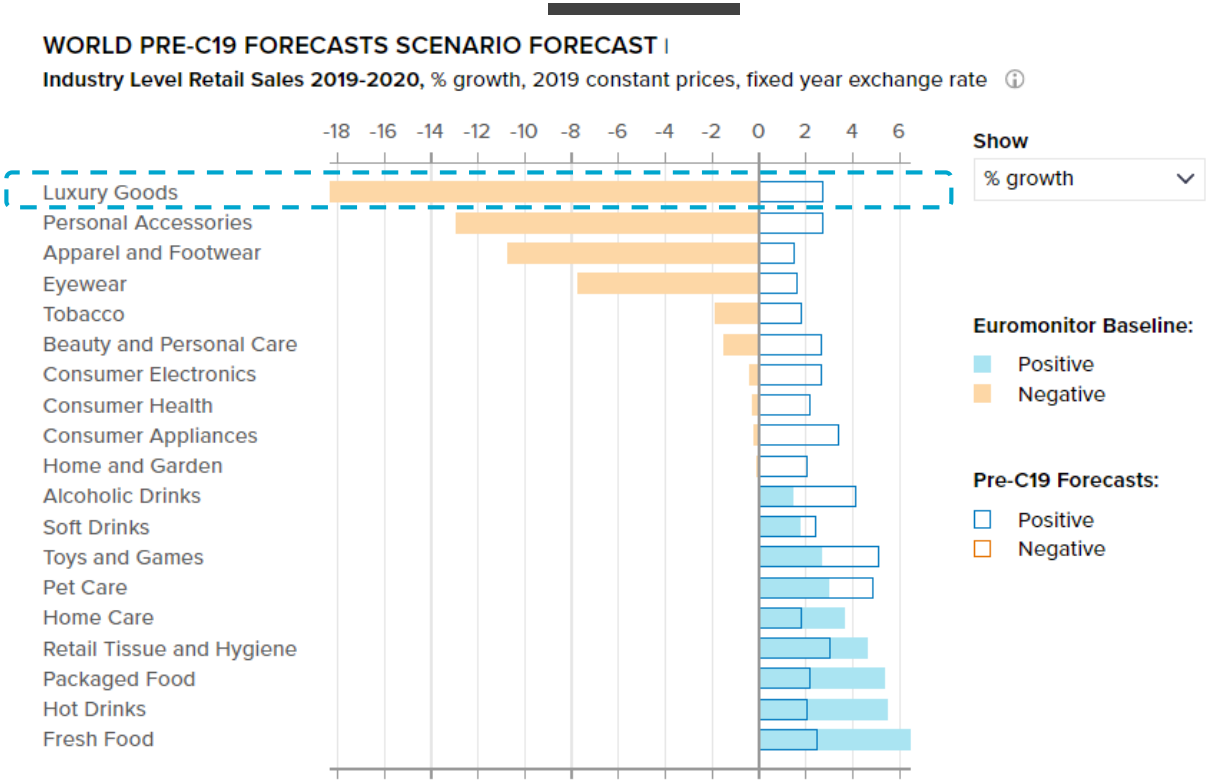


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INDUSTRY IMPACT

Luxury goods expected to be hardest hit across all fmcg markets



Source: Industry estimates

Last updated on May 11, 2020 at 6:46PM GMT

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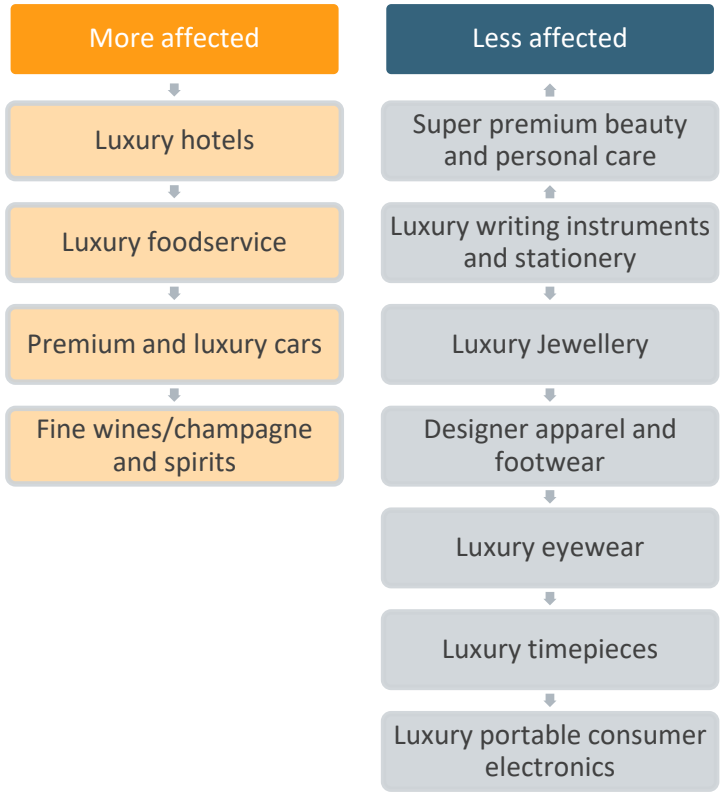
INDUSTRY IMPACT

No category in luxury goods immune to effects of COVID-19 storm

No luxury goods category is likely to “benefit” from the COVID-19 crisis, certainly not in the short term. That said, some categories and players are likely better-placed to weather the storm than others.

Large luxury goods conglomerates have substantially more capitalist resources, whilst luxury brands with significant equity in digital sales and a strong online presence will be better-placed to serve homebound consumers.

Owing to the forced closure of hotels, restaurants and services, teamed with the cull on all travel flows, experiential luxury will likely feel the biggest brunt of the outbreak.



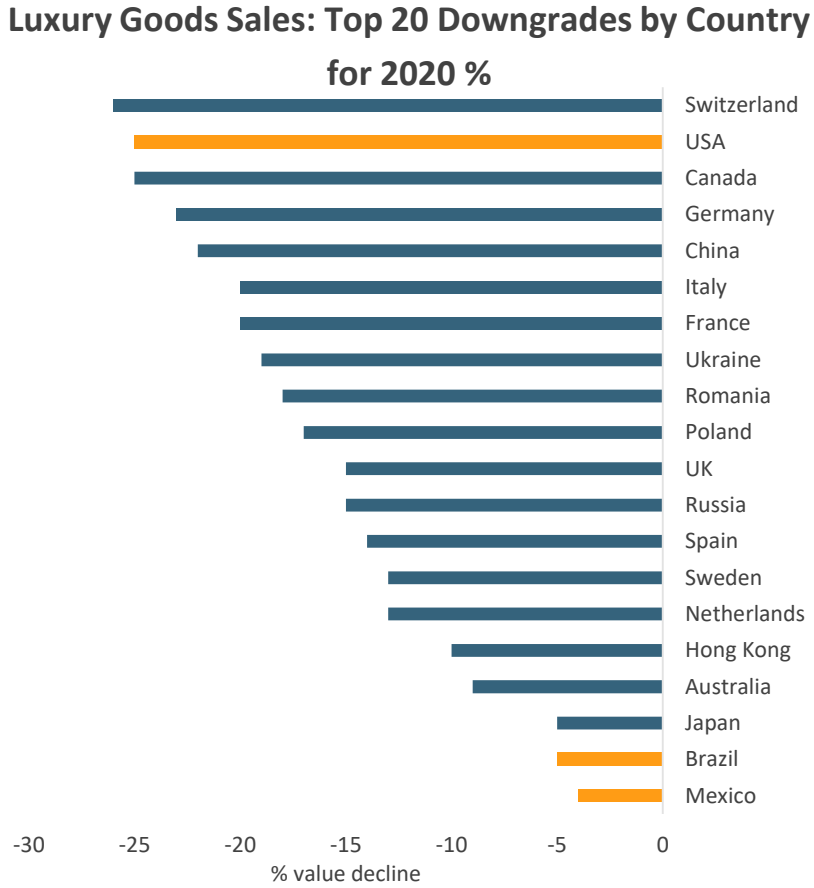
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No category immune to effects of COVID-19 storm

	Immediate spike - to normalisation	Immediate spike - to long-term shift	No impact	Immediate drop - to normalisation	Immediate drop - to long-term shift
Designer fashion				x	
Luxury alcoholic drinks					x
Luxury leather goods				x	
Luxury eyewear				x	
Luxury foodservice					x
Luxury hotels					x
Luxury jewellery				x	
Luxury timepieces				x	
Luxury cars					x
Luxury beauty				x	

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COVID-19 spurs downgrades in sales in all key markets



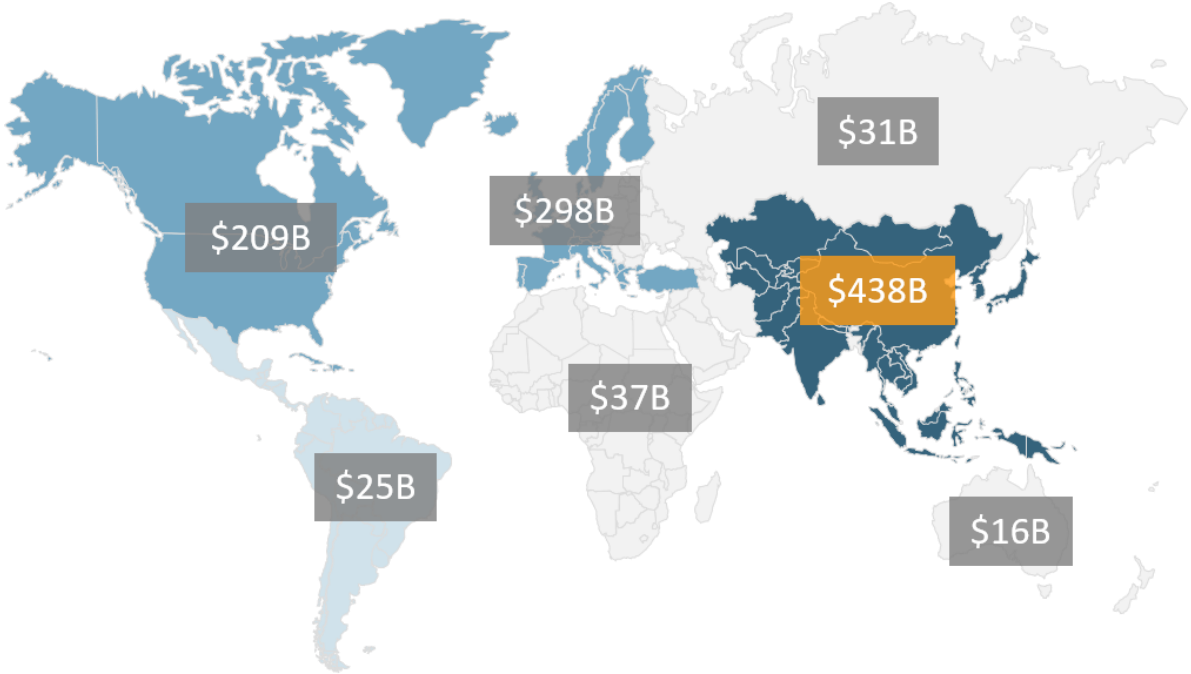
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Asia Pacific heavily exposed to outbreak

- Asia Pacific leads in global sales.
- China's luxury goods spending alone makes up 68% of Asia Pacific sales.
- Western Europe, the second largest region to suffer greatest overall decline
- Pre-COVID-19 political instability in key markets adds to further strain and challenges for the luxury industry

Luxury Goods Regional Value Sales US$ bn 2019

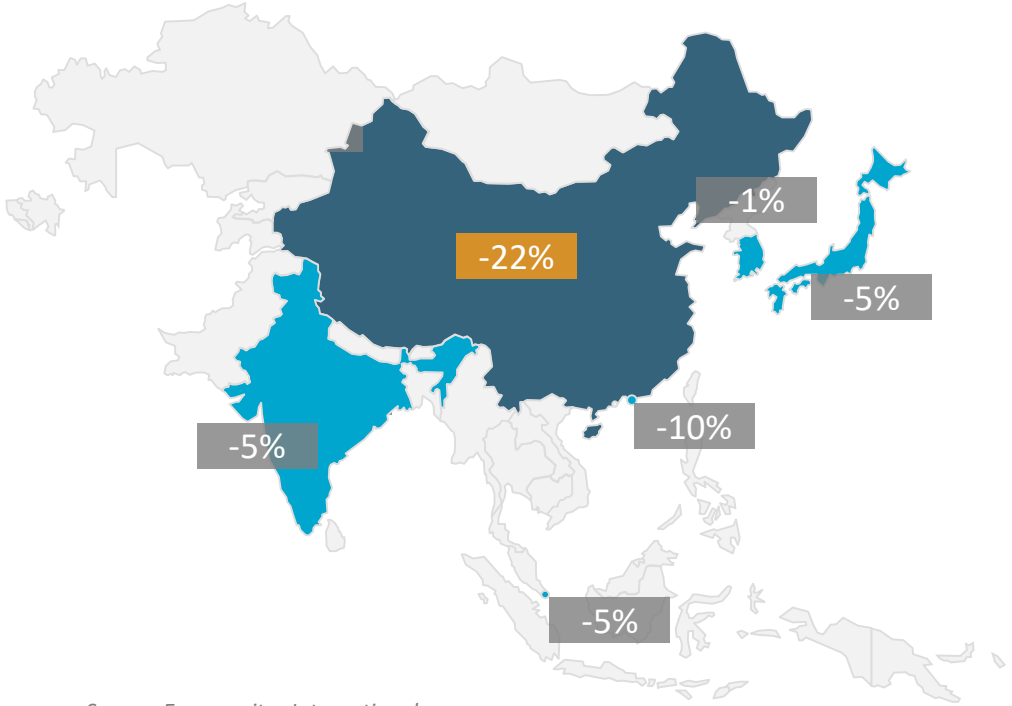


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Outlook for Asia Pacific

- China was the first country to be hit by the pandemic but the first to reopen
- China set to experience loss in sales to the tune of US$67 billion with severe economic damage
- Biggest economic contractions in Japan, Hong Kong and Singapore
- Hong Kong's luxury goods market was already suffering impact from widespread protests
- Expectations for Asia driven down further by cull on travel flows from Mainland China

Asia Pacific: Possible Scenario in Evolution of Luxury Goods Performance 2020



Source: Euromonitor International

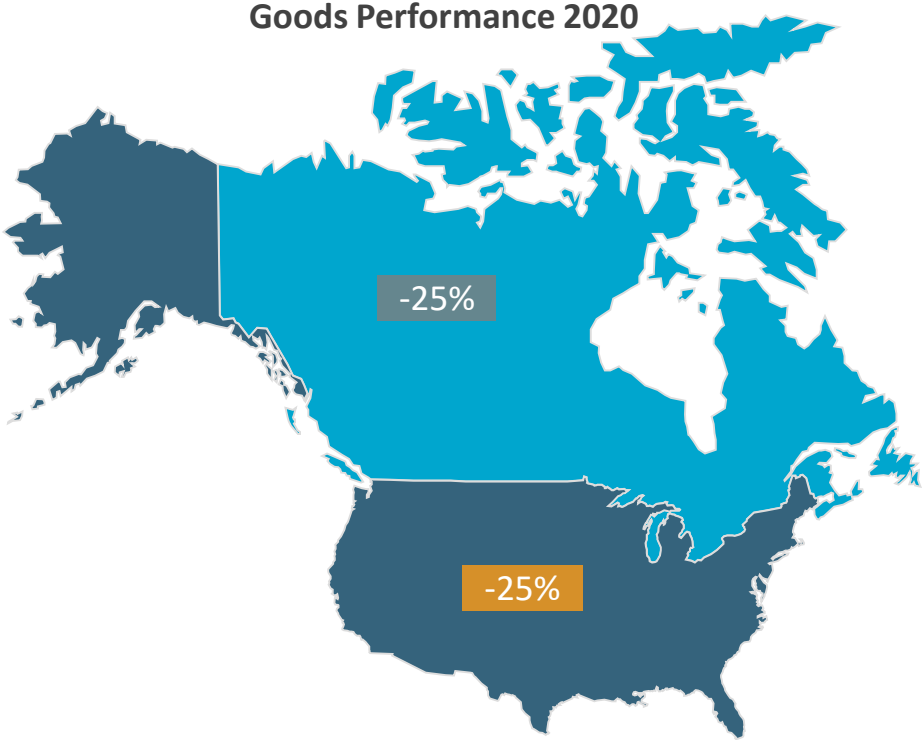
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Outlook for North America

- US economy to face deepest recession since the Great Depression
- The US economy expected to contract by 5.8% in 2020, down 7.5 percentage points since January 2020
- US set to experience second biggest loss in luxury sales to the tune of US$52 billion
- Expectations for US luxury goods sales driven down further by cull on travel flows
- Outlook for Canada remains poor as they record the highest ever drop in GDP

North America: Possible Scenario in Evolution of Luxury Goods Performance 2020



Source: Euromonitor International

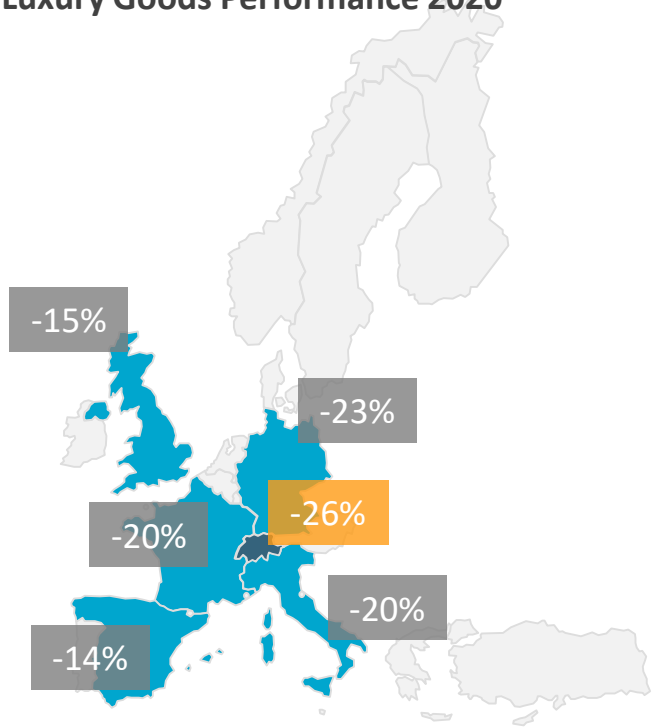
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Outlook for Western Europe

- Eurozone among the worst hit regions in the world
- Western Europe is home to the worlds biggest luxury goods conglomerates
- Economy in Italy expected to contract by -9% in 2020, Spain by -8%, France and UK by -7% and Germany by -6%.
- Switzerland and Germany will see deepest global contractions in luxury sales in 2020
- UK facing further headwinds as Brexit negotiations currently at a standstill adding to further challenges ahead

Western Europe: Possible Scenario in Evolution of Luxury Goods Performance 2020



Source: Euromonitor International

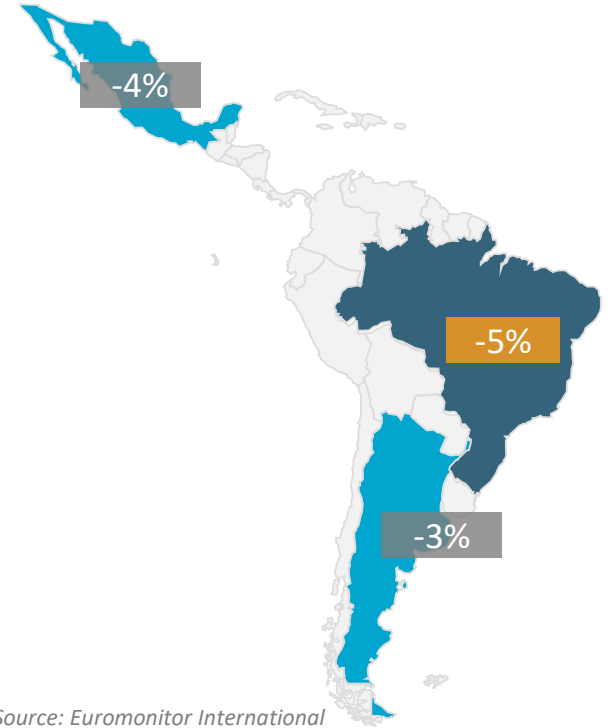
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Outlook for Latin America

- The Latin American region was already facing difficulties both politically and economically
- One if the regions biggest success stories for 2019 was that Brazil had returned to growth
- The crisis spells bad news for regional developments with economic contracts of 6% in Argentina, 5% in Brazil and 7% in Mexico
- As the virus advances major impacts are expected in luxury goods and hospitality
- Regional sales impacted further owing to lack of E-commerce and strong store-based channels

Latin America: Possible Scenario in Evolution of Luxury Goods Performance 2020



Source: Euromonitor International

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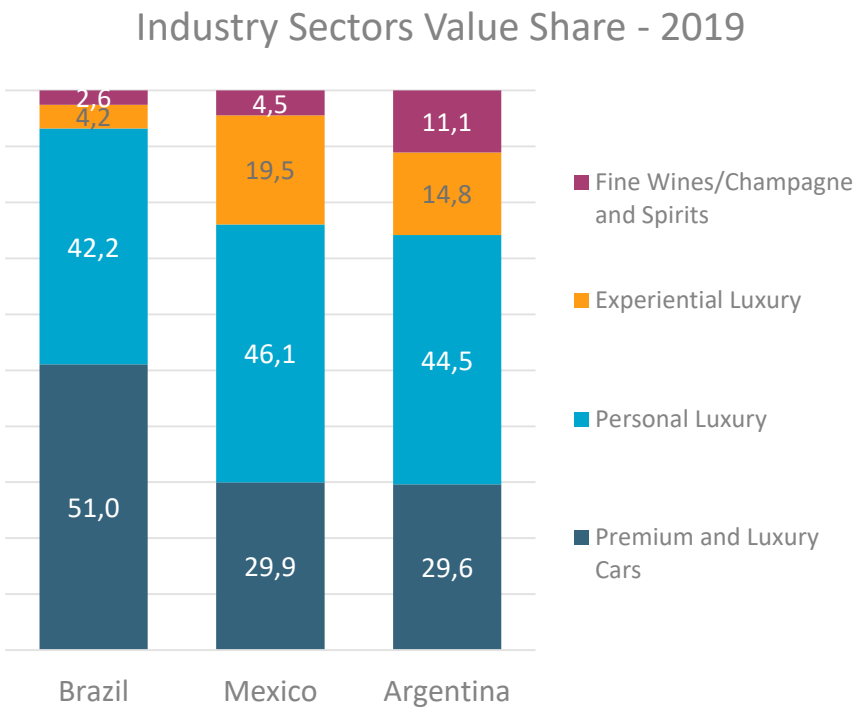
Repatriation to potentially help local sales



- Repatriation of sales can offer opportunities to brands already stablished in the country
- **Brazilians spent almost USD 4 billion in luxury goods in USA, France and Italy** - personal luxury sales in Brazil were of USD 3.2 billion
- Low dependency on tourism also mitigates negative effects in Brazil; However, Argentina should register worse results, as 20% of its sales are made by tourists
- Despite foreseeing opportunities, brands have to carefully analyse a potential trade down ahead. Brands like Zara outperformed during the last crisis, with consumers opting to lower priced items

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Experiential luxury to hit hard sales in Mexico and Argentina



- Brazil is expected to be less impacted in Latin America, with the majority of sales coming from durable goods. Luxury cars was one of the less impacted categories over the last crisis, potentially allowing Brazil to recover faster versus other Latin American countries.
- Mexico sees a strong issue in the higher dependency on experiential luxury. This sector is also responsible for leveraging the sales performance of personal luxury in the country.
- Argentina has similar scenario as seen in Mexico, with stronger influence of international inbounds to maintain the same levels of personal luxury consumption.

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03.

Key Themes Reshaping Luxury

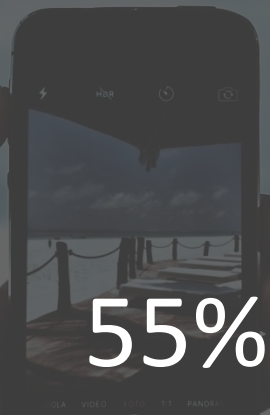
Digital

Wellness

Experience

Sustainability

Innovation and connectivity at the core



4 bn

Number of Internet users globally in 2020

55%

Percentage of population using the internet in 2020

51%

Digital commerce executed via a mobile device in 2020

Digital sales explode as full potential of omnichannel unlocked

Possible Growth Scenario for Personal Luxury Goods in Retail Channels: 2020



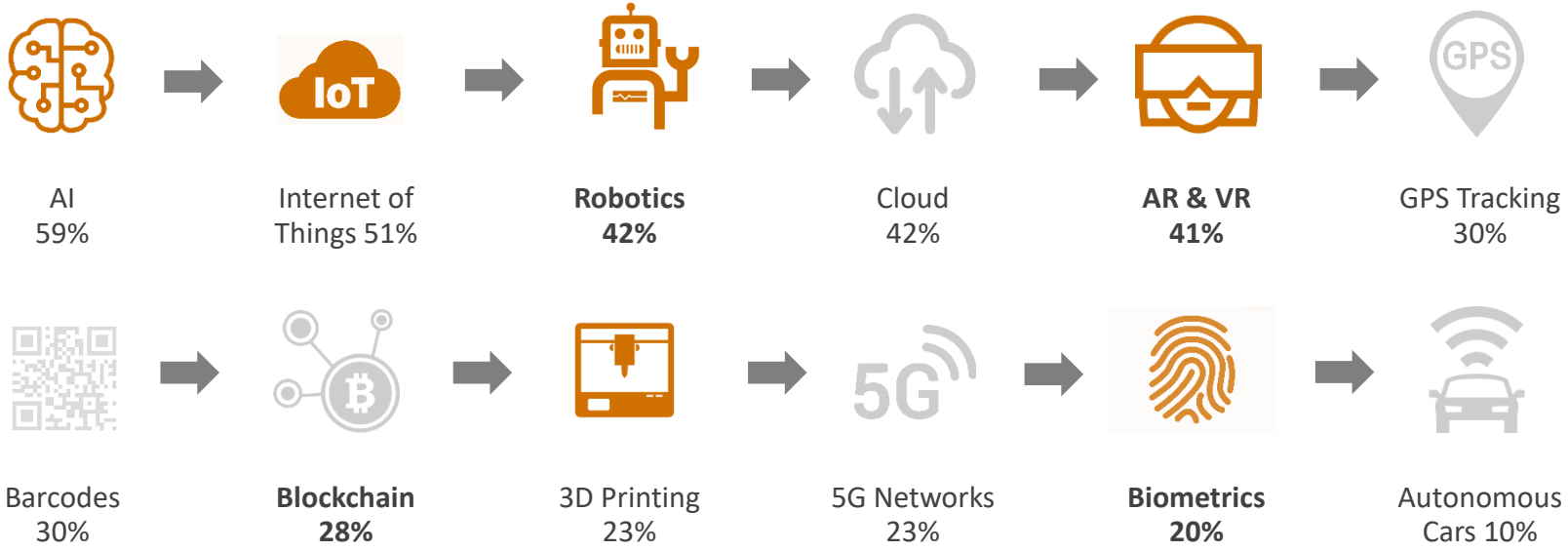
Source: Euromonitor International Estimates

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Consumer behaviour and consumption patterns shift further to digital

Technologies Expected to Impact Businesses the Most in Next Five Years



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Super apps become more pronounced

Burberry uses its innovative technology to stay connected to its customers

- The expansion of digital has created a craving for human connections
- With physical stores closed many retailers now rely purely on technology to engage with customers
- Chat-based commerce, such as chat-bots, will be gaining further ground
- UK-based luxury brand Burberry has focused on such digital tools to offer more personalised recommendations and better customer service
- In light of the COVID-19 outbreak, this investment could not have come at a better time

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Image Source: Pexels

Luxury wellness redefined



42%

high income consumers follow an at-home fitness pregame

40%

high income consumers take measures to manage stress, anxiety and mental health

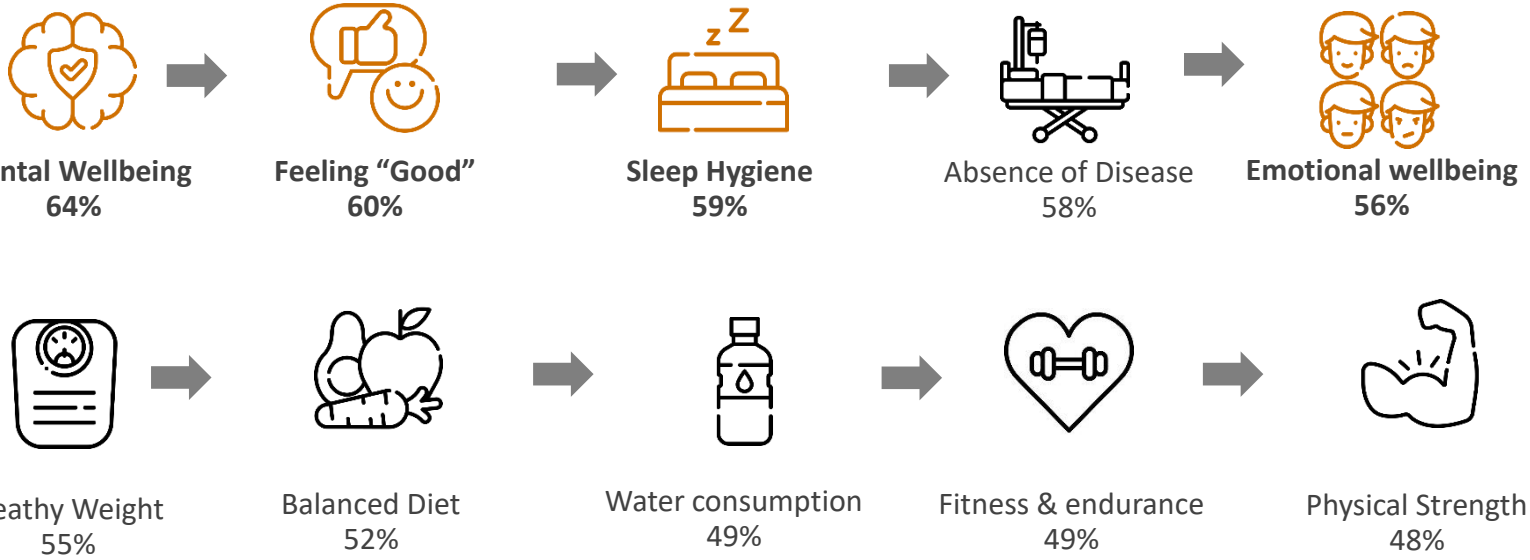
473

US$ billion global spend on Health and wellness in 2019

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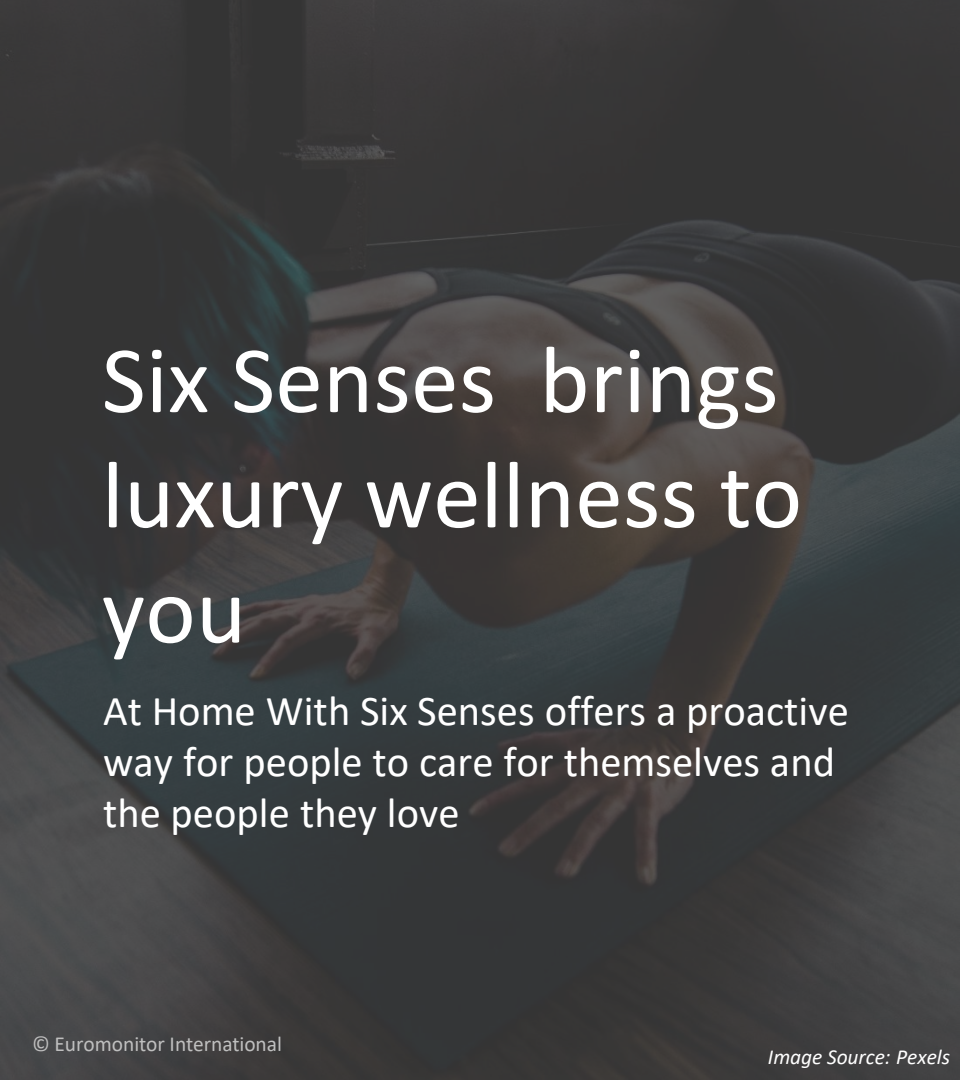
Mental wellbeing to rise in importance in light of pandemic

Global Top 10 Most Important in Meaning of "Being Healthy" 2020



Source: Euromonitor International's Health and Nutrition Survey, 2019

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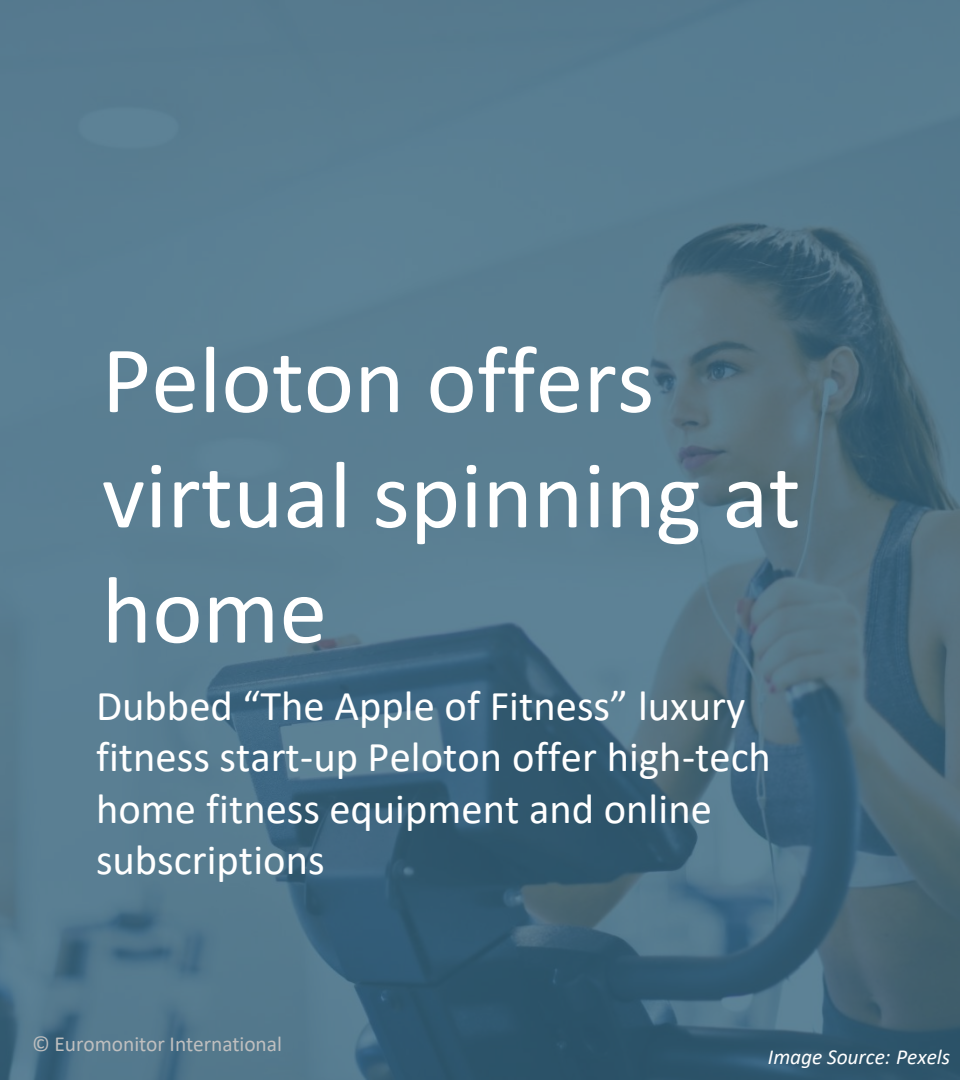
Six Senses brings luxury wellness to you

At Home With Six Senses offers a proactive way for people to care for themselves and the people they love

- In-house experts and wellness gurus offer help to stay well in lockdown through these uncertain times
- As travel bans and social distancing measures are imposed, the brand is offering a range of content that global communities can tap into remotely from their homes
- Videos, tutorials, articles and advice are offered to support their six pillars of health: mindfulness, eat sleep, move, live naturally and connect
- The aim is to remain solution-oriented and support their customers resilience and physical and mental well-being

© Euromonitor International

Image Source: Pexels



Peloton offers virtual spinning at home

Dubbed “The Apple of Fitness” luxury fitness start-up Peloton offer high-tech home fitness equipment and online subscriptions

- Internet connectivity and streaming capabilities have led to the rise of at-home luxury fitness
- Tech-enabled at-home fitness offers personalisation, convenience and access to first-class instructors
- Wealthy consumers are increasingly turning to at-home workouts to maintain their fitness during the pandemic
- Peloton members have access to unlimited classes for an initial fee of £6000 for the bike and treadmill plus monthly membership
- Despite plunges in global stock markets Peloton’s shares have been rising since the outbreak

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Image Source: Pexels



Luxury wellness in the safety of your own home

Luxury company Klafs at Guncast is seeing a rise in consumers wanting to transform their home into safe wellness sanctuaries

© Euromonitor International

Image Source: Pexels

- The at-home luxury wellness sphere has been growing substantially
- What was once reserved for the very best luxury hotels or destination spas and exclusive residential developments is now moving more into the home
- Luxury hotels are also rolling out more personalised tools to help calm travellers, including in-room saunas and fully-functioning spas and wellbeing apps
- This shift in consumer behaviour is looking like it will continue to accelerate on the back of the pandemic, with demand for at home wellness already growing at a rapid pace

The new experiential luxury consumer



60%

high income consumers rate spending money on experience as important

50%

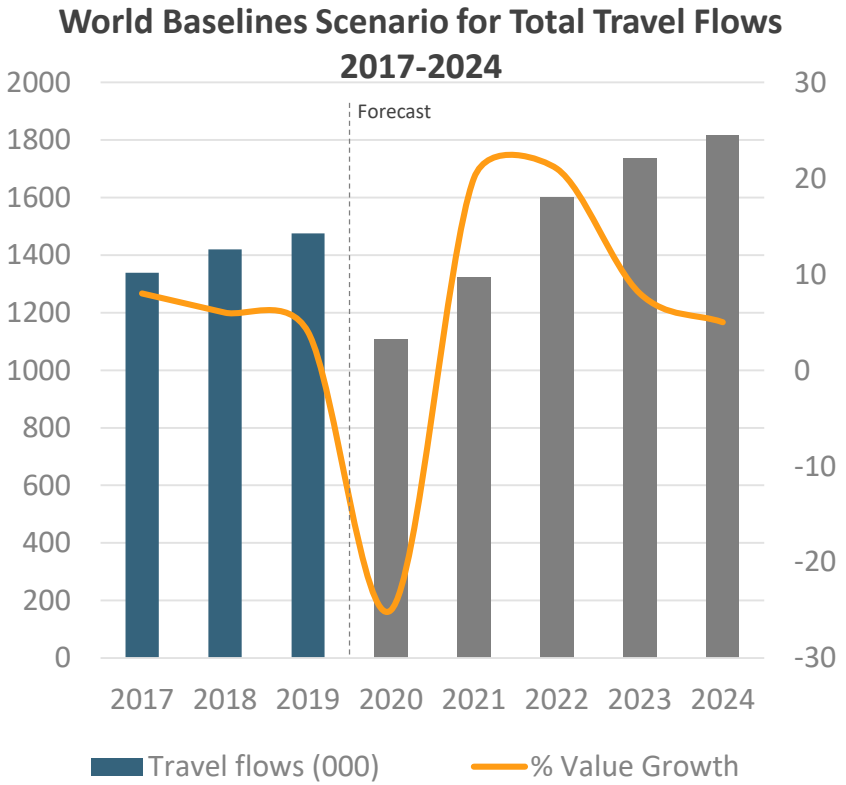
high income consumers value online virtual experiences

9 billion

global population by 2030 with greater expectations for unique experiences

Image Source: Ventana Big Sur

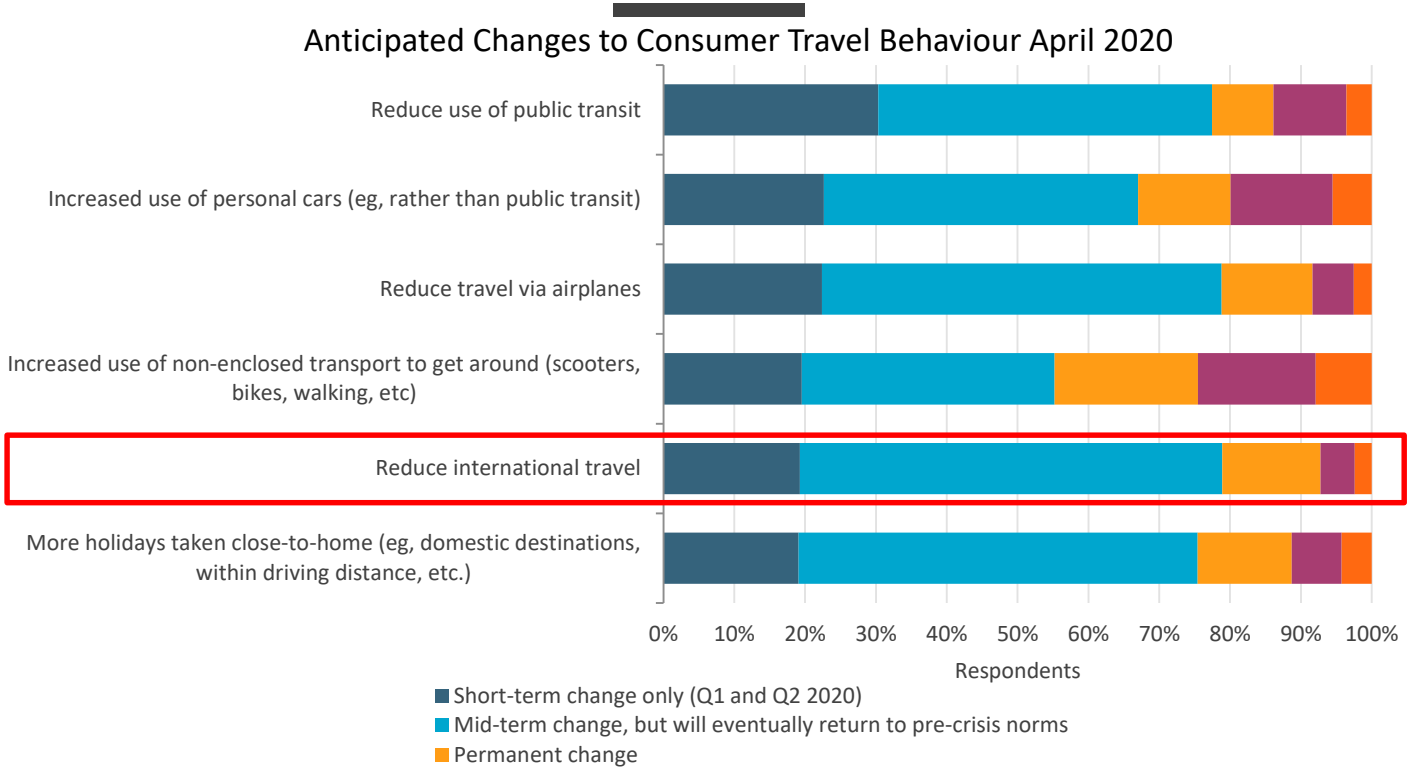
Outlook for luxury travel bleak impacting key players in hospitality



- The travel lockdown is having a huge impact on the global luxury travel and hotel market
- Global travel flowed set to contract by -25%
- Political and economic uncertainty, an increase in protectionism and the risk of a sharper slowdown in China are amongst the biggest challenges
- Chinese consumers are paramount to the health of the luxury industry
- Many purchases will now move away from abroad and will happen in Mainland China

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Travel behaviour to affect sales in mid-term



Source: Euromonitor International COVID-19 Voice of the Industry Survey, April 2020
Q: How do you think consumers will change their travel-related behaviours as a result of the COVID-19 pandemic? N=2827

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Luxury hotels open doors to care workers and bring luxury home

Hotels around the world open their doors and kitchens

- Luxury hotels and hospitality services are already suffering significant losses due to closures and falling global demand.
- In a philanthropic move many luxury hotels are opening their doors to frontline health workers and using their kitchens to supply food to hospitals and the vulnerable
- Whilst luxury foodservice has been severely impacted many luxury hotels and restaurants are offering home delivery foodservice
- For those missing the experience of the luxury hotel service, some are also providing online tutorials explaining how to replicate these services at home

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Image Source: Pexels

From sustainability to purpose

33%

high income consumers buy from brands that share same social values

65%

high income consumers give back to those in need

30%

high income consumers buy from purpose driven brands

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LVMH amongst first to help in fight against COVID-19

LVMH converts its factories to make hand sanitizer

- LVMH, the French luxury goods conglomerate, was one of the first luxury companies to pledge to help in the fight against COVID-19
- In March 2020 its perfumes and cosmetics division began making large quantities of alcohol hand gel sanitiser and supplied face masks to help French hospitals
- LVMH has a reputation for stepping up in times of crises. The fire at Notre Dame Cathedral was one of their most recent relief projects
- COVID-19 has already cost LVMH up to 20% in revenue, yet it continues to help to fight the virus

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Image Source: Pexels

Owner of Gucci to produce its own PPE

Kering is also playing its part in helping to combat COVID-19

- The world's second largest personal luxury goods company Kering is also playing its part in helping to combat COVID-19
- In March 2020, Kering announced that it was planning to provide the French healthcare service with PPE
- They also plan to convert a numbers of their workshops to manufacture PPE themselves
- The company also made a generous donation to the Institute Pasteur to support its research into COVID-19
- Kering 's Q1 2020 revenue saw a loss of -16.4% in sales on a comparable basis

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Image Source: Pexels



04.
Conclusion

Key takeaways and outlook

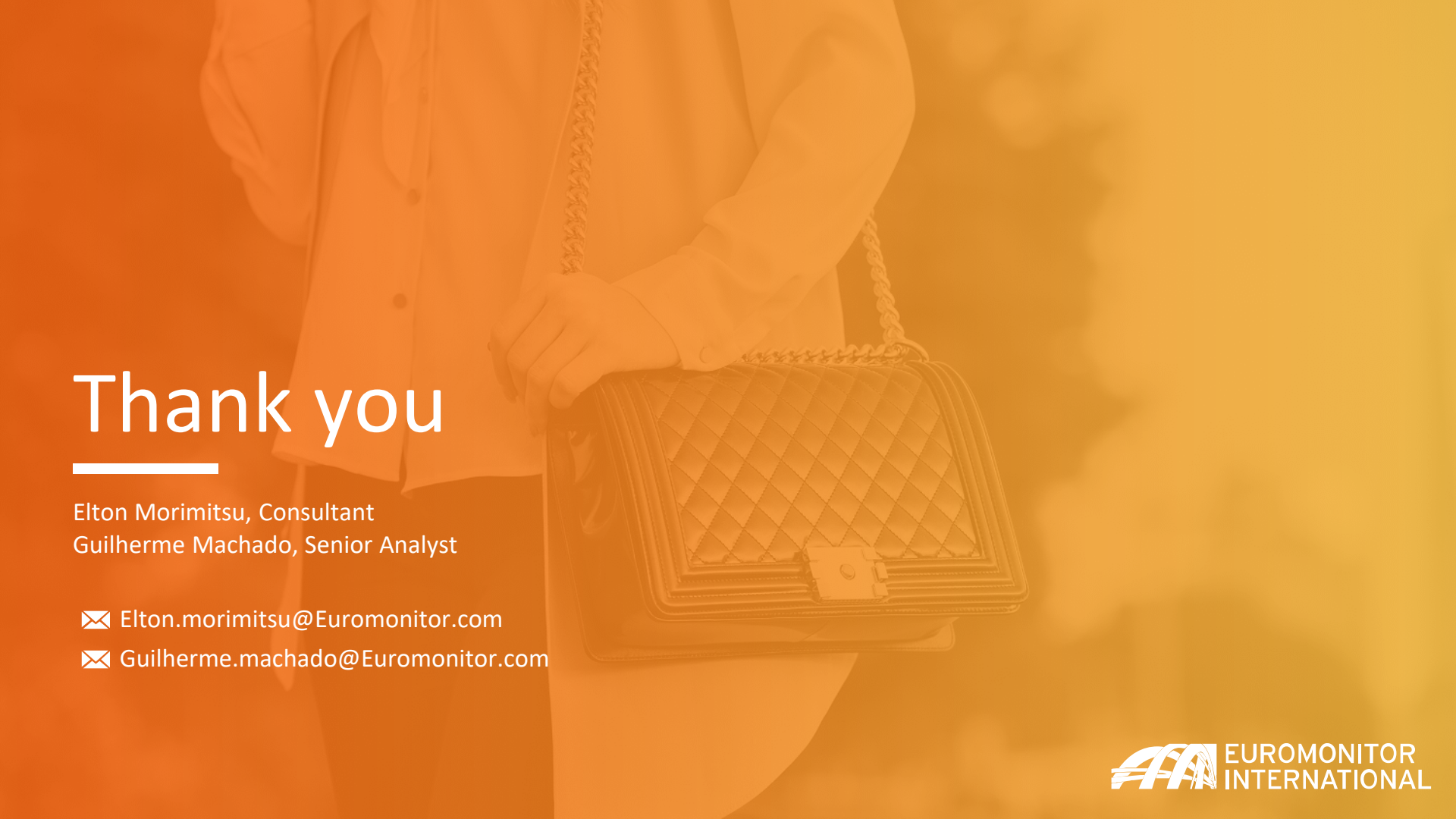
Staying relevant has never been more important. Consumers across all income groups will be feeling the effects. Brands need a 360-degree customer strategy

New luxury focuses on delivering what the consumer really wants. Its intuitive, personalised and high tech.

Luxury brands with purpose may be more resilient to unexpected situations and should find inspiration from innovating and embracing sustainability

Experience, wellness and their perception will become a critical part of the equation. Digital will play a lead role here.

Establishing and maintaining empathy will increase in importance. No amount of technology can replace the human element here.



Thank you

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