COVID-19 response strategies in Luxury

A perspective on how leading luxury companies act now and how this crisis will change the industry

April 20, 2020
We think about 3 main phases of the pandemic

Illustrative

1. Navigating the storm
   - Resolve: Address the immediate challenges that COVID-19 represents
   - Resilience: Address near-term cash management challenges, and broader resiliency issues

2. Coming out of the storm
   - Return: Create a detailed plan to return the business back to scale quickly

3. Managing the new normal
   - Reimagination: Re-imagine the “next normal”—implications for how the institution should reinvent
   - Reform: Be clear about how regulatory and competitive environment may shift

Leaders need to think and act across 5 horizons (5Rs)

Source: McKinsey analysis, in partnership with Oxford Economics
Navigating the storm
What is the impact on the industry?

Coming out of the storm
What are the priorities in managing the crisis?

Managing the new normal
How does the new normal look like after the crisis?
The global spread is accelerating

Impact to date

- China share of new reported cases April 13 – April 19: ~0.1%
- US share of new reported cases April 13 – April 19: ~37%
- Europe share of new reported cases April 13 – April 19: ~44%
- New countries or territories with cases April 19: 0

Reported confirmed cases: >2.4 M
Deaths: >165,900

Countries or territories with reported cases: >212
Countries or territories with more than 1000 reported cases: 81

1. Previously counted only countries; now aligned with WHO reports to include territories and dependencies, excluding cruise ship
2. Previously noted as community transmission in McKinsey documents; now aligned with WHO definition

Sources: World Health Organization, John Hopkins University (observed at 2100ET), CDC, news reports
... which has led to a disruption of the global luxury market

The luxury industry is facing its worst year in modern history

The State of Fashion 2020: Coronavirus Update — It’s Time to Rewire the Fashion Industry

Global Luxury Brands Are Hard Hit By Coronavirus Fallout

The luxury sector is bracing itself for its worst year in modern history, analysts warn

Coronavirus Threatens To Wipe Out 5 Years Of Gains In The Global Luxury Market

More than 40 percent of global luxury-goods production happens in Italy—and all the Italian factories, including small, family-based façonniers, have temporarily shut down.

The coronavirus epidemic could wipe out $43 billion of luxury sales in 2020

Luxury brands gear up to deal with massive inventory problem

Shuttered Stores, Fewer Tourists: Luxury Feels Coronavirus Effects
While luxury drove the economic profit rebound in the past years ...

Economic profit by value segment, % when indexed to 2010 economic profit as 100

Source: McKinsey Global Fashion Index (MGFI)
... we see demand and supply forces through COVID-19 at work that shape the outlook of the luxury industry for the worse

<table>
<thead>
<tr>
<th>Demand forces</th>
<th>Supply forces</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Duration of store closures</strong>: majority of countries have enforced lock downs in March with end dates still unclear; time lag between re-opening and recovery expected</td>
<td><strong>Inventory misalignment</strong>: retailers may be faced with excess spring/summer product, potentially requiring additional discounts</td>
</tr>
<tr>
<td><strong>Travel restrictions</strong>: border closures to non-EU countries disproportionately impact luxury spending which is highly reliant on tourists, esp. from China</td>
<td><strong>Disrupted distribution</strong>: multiple players (e.g., YNAP) forced to close warehouses due to health concerns, affecting online distribution also of brand.com</td>
</tr>
<tr>
<td><strong>Consumer sentiment</strong>: as consumers tighten their spend, discretionary categories like luxury suffer most; further impacted by most brands cutting their marketing spend</td>
<td><strong>Rebound of production capacity</strong>: production in Italy still fully halted and only slowly ramping back up in Far East</td>
</tr>
<tr>
<td><strong>Health concerns</strong>: physical distancing and hygiene practices are likely to continue beyond store closures, as consumer remain wary of the virus</td>
<td><strong>Wholesale closures</strong>: small wholesalers that account for ~60% of the global luxury market are most likely to experience liquidity shortfalls and existential threats</td>
</tr>
<tr>
<td><strong>Channel shift to ecommerce</strong>: channel mix likely to shift due to confinement as consumers increasingly get used to online shopping</td>
<td><strong>Impact of demand &amp; supply forces are regionally different</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Demand forces will have a larger impact</strong> in the near-term</td>
</tr>
</tbody>
</table>

Chinese international travel has come to a halt – outlook hinging on the virus spread

China’s weekly airline seat capacity for the international market

Continued uncertainty

International market continues to deteriorate for Chinese travelers given the uncertainty of the pandemic development abroad

Compared with week of March 30, airlines postponed the reintroduction of new capacity in week of April 06 from early April to early May, and plan a lower capacity recovery thereafter

Further postponements possible and hinging on overall virus spread

Source: OAG Aviation Worldwide
Also beyond China, travel bans change where luxury shopping takes place – many consumers will look into local purchases

### Impact of travel bans on luxury shopping behaviour

**Share of consumers surveyed (n=1059, screened for regular luxury consumption, monthly spend of EUR 500 – above 3.000)**

<table>
<thead>
<tr>
<th>Action</th>
<th>USA</th>
<th>UK</th>
<th>Italy</th>
<th>France</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switch to domestic purchase</td>
<td>27%</td>
<td>+10pp</td>
<td>-4pp</td>
<td>+2pp</td>
<td>-6pp</td>
</tr>
<tr>
<td>Switch to domestic purchase only if same quality and customer experience</td>
<td>27%</td>
<td>+6pp</td>
<td>-1pp</td>
<td>+1pp</td>
<td>+4pp</td>
</tr>
<tr>
<td>Switch to domestic purchase only if same prices</td>
<td>24%</td>
<td>-3pp</td>
<td>-1pp</td>
<td>+4pp</td>
<td>-4pp</td>
</tr>
<tr>
<td>Wait to be able to travel abroad to restart purchasing</td>
<td>15%</td>
<td>+1pp</td>
<td>+3pp</td>
<td>-5pp</td>
<td>-1pp</td>
</tr>
<tr>
<td>Switch to domestic consumption, but buying less</td>
<td>8%</td>
<td>-4pp</td>
<td>+2pp</td>
<td>+3pp</td>
<td>+3pp</td>
</tr>
</tbody>
</table>

Q: Now that travelling abroad become more difficult, what do you plan to do?

Source: McKinsey proprietary Luxury consumer survey, data collected April 9th – 13th 2020
Scenarios for the Economic Impact of the COVID-19 Crisis

Virus Spread & Public Health Response
Effectiveness of the public health response in controlling the spread and human impact of COVID-19

Rapid and effective Control of Virus Spread
Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective Response, but (regional) Virus Resurgence
Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues (regionally) for several months

Broad Failure of Public Health Interventions
Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)

Knock-on Effects & Economic Policy Response
Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

Ineffective Interventions
Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis

Partially Effective Interventions
Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Highly Effective Interventions
Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum
**Scenario A1 was voted ‘most planned for’ in a survey with >2,100 executives from around the world**

Most likely scenario, % of respondents  

**Virus Spread & Public Health Response**

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**Knock-on Effects & Economic Policy Response**

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

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1 Surveyed from April 2 to April 10, 2020; n=2,121 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures
We expect to see different phases of the recovery with key factors impacting them

Illustrative

‘Shock’ during lock down
- Peak sales drop impacts depth of the ‘shock’
  - “How much will sales drop off-/online in the initial weeks?”
- Duration of store closures impacts length of the ‘shock’
  - “How long will my stores be closed?”

Initial recovery as stores re-open
- Speed of initial ‘rebound’ impacts early slope
  - “How fast can I re-open stores?”
  - “How quickly will customers return, especially tourists?”
  - “Do I need to give discounts or can I sell full price?”

Mid- to long-term recovery of consumer sentiment & supply
- Consumer sentiment and supply factors impact long-term slope
  - “How will traffic and baskets evolve?”
  - “When will luxury spending get back to normal?”
  - “How much inventory should I order? When?”
  - “Will my suppliers and distributors be ready?”

Evolution towards the “new normal”
- Degree of recovery impacts sales rebound
  - “Will the market fully recover?”
  - “How many retailers default?”
- Shift to online impacts channel mix
  - “How much will sales shift to online?”
In ‘Scenario A3’, global luxury sales could drop by EUR 100-110 bn in 2020, while 2021 sees return to 2019 levels; ‘Scenario A1’ paints a darker picture

**Scenario A3 - Virus contained, growth rebound**
Monthly sales vs. 2019, %

**Scenario A1 - Virus resurgence; slow growth**
Monthly sales vs. 2019, %

Global sales vs. 2019
2020: EUR -100-110 bn
2021: EUR +2-12 bn

Global sales vs. 2019
2020: EUR -130-140 bn
2021: EUR -40-50 bn

Return of sales to 2019 levels
Q4 2020 Q2 2021 Q2 2021 Q2 2021
2020 vs. 2019 -18-22% -45-49% -40-44% -35-39%
2021 vs. 2019 +12-16% -5-1% -2+2% +0-4%

Return of sales to 2019 levels
Q2 2021 Q2 2023 Q4 2022 Q3 2022
2020 vs. 2019 -33-37% -53-57% -49-53% -46-50%
2021 vs. 2019 -4-0% -21-25% -16-20% -14-18%

Source: McKinsey analysis
Luxury CXOs confirm the severity of the crisis impact on their top line results already

Impact on company revenues from January 2020 until today

Share of CXOs surveyed (n=85, CXOs of luxury companies)

- 46% - 0% to -20%
- 33% -20% to -40%
- 8% -40% to -60%
- 13% > -60%

Q: By how much were your company’s revenues impacted from January 2020 until today?

Source: McKinsey proprietary Luxury CEO/CFO/CCO survey, data collected April 1st – 13th 2020 – European focus

Impact is felt massively

The impact of the crisis so far is significant – 80% of CXOs see declines of up to 40% on their topline
The wholesale channel (department stores and independent) will be hit particularly hard...

Deep dive independent Wholesale Italy
Companies exposed to liquidity risk

<table>
<thead>
<tr>
<th>% of total</th>
<th>1 month</th>
<th>2 months</th>
<th>3 months</th>
<th>4 months</th>
<th>5 months</th>
<th>6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Sample of analysis: 81 independent multi-brand wholesalers (excluding Department Stores) 2 Fondo Integrazione Salariale (FIS)</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

In order to survive the crisis, wholesalers are taking radical actions, some of which can have negative impacts on brands
- Online flash sales
- Engage in parallel trade
- Apply aggressive discounts

Brands need to proactively address the "ticking bomb" in wholesale
- Adapt terms for merchandise swap (e.g., refund 1 item from past season for every n new collection items purchased)
- Increase flexibility on payment days

Protect the brand

Source: AIDA, McKinsey analysis
... while from a category view, consumers postpone especially jewelry, watches, and eyewear purchases

<table>
<thead>
<tr>
<th>Q: Which product you would give up first?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
</tr>
<tr>
<td>1. Jewelry</td>
</tr>
<tr>
<td>2. Watches</td>
</tr>
<tr>
<td>3. Perfumes</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
</tr>
<tr>
<td>1. Eyewear</td>
</tr>
<tr>
<td>2. Watches</td>
</tr>
<tr>
<td>3. Jewelry</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
</tr>
<tr>
<td>1. Jewelry</td>
</tr>
<tr>
<td>2. Eyewear</td>
</tr>
<tr>
<td>3. Cosmetics</td>
</tr>
<tr>
<td><strong>France</strong></td>
</tr>
<tr>
<td>1. Jewelry</td>
</tr>
<tr>
<td>2. Eyewear</td>
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<td>3. Watches</td>
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<tr>
<td><strong>Germany</strong></td>
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<tr>
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</tr>
<tr>
<td>2. Eyewear</td>
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<tr>
<td>3. Watches</td>
</tr>
</tbody>
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<table>
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<th>Q: Which product you would give up last?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
</tr>
<tr>
<td>1. Clothing</td>
</tr>
<tr>
<td>2. Cosmetics</td>
</tr>
<tr>
<td>3. Bags and leather goods</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
</tr>
<tr>
<td>1. Clothing</td>
</tr>
<tr>
<td>2. Cosmetics</td>
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<tr>
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<td>2. Clothing</td>
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Source: McKinsey proprietary Luxury consumer survey, data collected April 9th – 13th 2020; n=1059, screened for regular luxury consumption, monthly spend of EUR 500 – above 3,000

Jewelry, watches & eyewear will be most impacted by reduction of consumer spend in this crisis
However, China provides a silver lining for the luxury industry.

Hermès Reportedly Raked in $2.7M in Sales at Newly Reopened China Flagship

With Coronavirus Lockdown Lifted, Chinese Splurge on Big Luxury Brands
Companies say Chinese market for high-end goods is rebounding after most of their boutiques in the country reopened.

LVMH Sees Sharp Rebound in China After 15% Q1 Sales Drop
The world’s biggest luxury group said its top brands, including Louis Vuitton, saw sales in Mainland China rise by more than 50 percent in April.
Our rapid fire survey on luxury stores reveals critical changes

Survey scope 59 luxury brand store managers in China

Field work dates April 6-9, 2020

Cities covered Shanghai, Beijing, Shenzhen, Guangzhou, Chengdu, Hangzhou

Brands included in survey

Some interesting observations

Almost 90% of stores experienced improvements in store performance between 2H February vs. 2H March

However, wide spread in performance exists, with ~20% of stores already back to levels similar to March last year and ~50% of stores still showing sales >50% below last year's levels

Young(er) luxury consumers are contributing to the rebound: ~55% of stores surveyed had on average younger customers vs. pre COVID-19, while none had older customers

Shifts in product category performance observed, with RTW suffering most - limited “dress up” occasions due to social distancing and brands experiencing supply bottlenecks for new season due to arrive in March

Source: China luxury (apparel, bags & shoes, jewelry & watches) store manager survey (Apr 2020), N=59
Young(er) consumers lead the recovery

Customer age groups compared to same time last year
Share of responses, N=59

<table>
<thead>
<tr>
<th></th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significantly younger</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>Somewhat younger</td>
<td>29</td>
<td>44</td>
</tr>
<tr>
<td>About the same</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>Somewhat older</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Significantly older</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Q. How has the traffic mix changed between last year and [time period] in terms of age distribution?

Source: China luxury (apparel, bags & shoes, jewelry & watches) store manager survey (Apr 2020), N=59; luxury executive interviews

Contribution to luxury fashion sales recovery by category
Luxury executive assessment, March 2020

- Handbags
- Small leather goods
- RTW
- Shoes

With limited/no social occasions to attend, RTW was hardest hit by the crisis. Furthermore, depending on lockdown dates and local weather, seasonal items will hit as well

~China luxury executive

While traffic rebounded strongly, we observed a shift to younger customers with extra money to spend from cancelled trips and social occasions

~South Korea luxury brand GM
For luxury, online engagement intensified during the crisis in China

Tmall Women's Day (March 8) luxury category sales
Index 2019 = 100

WeChat luxury fashion mini program traffic
Index January 2020 = 100

COVID19 has taught us many lessons, [...] and the importance of e-commerce cannot be downplayed anymore. This is a huge wake up call for everyone in the industry.
~Asia luxury executive

Demand for luxury brands has remained strong throughout the crisis...
~China luxury executive

Source: Business of Fashion, March 26; Luxury executive interviews, April 2020
Coming out of the storm

What are the priorities in managing the crisis?

Managing the new normal

How does the new normal look like after the crisis?
CEOs are short-term most concerned around the demand drop, excess stock & discounts

Key risks for the luxury sector in the short term

Share of CXOs surveyed (n=85, CXOs of luxury companies)

- Drastic drop in consumption: 28%
- Excess stock to dispose of: 25%
- Aggressive discount policies by wholesalers and marketplaces: 20%
- Cash tension to manage: 17%
- Inability to produce/develop new collections in some geographies: 5%
- Loss of internal skills: 5%

Q: What are the main risks for the luxury sector in the short term?

Source: McKinsey proprietary Luxury CEO/CFO/CCO survey, data collected April 1st – 13th 2020 – European focus
What does this mean for luxury players across the globe?

**Inventory backlog**
Leftover volumes can increase by 3x for apparel – clear strategy on what to do about it is needed to protect the brand.

**Return of the store**
Store re-openings will pose new challenges given travelers will not come back short-term and new operational requirements need to be mastered.

**Digital acceleration**
Consumers and executives are seeing a massive acceleration in the online channel – now is the time to act quickly and with full steam.
## Inventory management

### Key hypotheses for the Luxury industry

<table>
<thead>
<tr>
<th></th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Excess stock in-store, delays next season</td>
</tr>
<tr>
<td></td>
<td>Brands will have excess inventory for Summer 2020 collection, and may experience delay in getting Fall 2020 products</td>
</tr>
<tr>
<td>2</td>
<td>Supply chain disruption</td>
</tr>
<tr>
<td></td>
<td>Stay in close touch with suppliers to ensure their financial sustainability and ensure orders get prioritized when they re-open</td>
</tr>
<tr>
<td>3</td>
<td>Small brands &amp; fashion items</td>
</tr>
<tr>
<td></td>
<td>Brands most affected will be small to medium fashionable brands who don’t control their distribution and aren’t seen as “investment values”</td>
</tr>
<tr>
<td>4</td>
<td>Upcycling &amp; sustainability</td>
</tr>
<tr>
<td></td>
<td>Focus on upcycling and developing sustainability capabilities to recycle components of excess inventory and engage consumers</td>
</tr>
<tr>
<td>5</td>
<td>Wholesale distribution</td>
</tr>
<tr>
<td></td>
<td>Think carefully through liquidation strategy – wholesale partners will likely consider aggressive discounting and need to be managed</td>
</tr>
</tbody>
</table>
Leftover volumes can increase by 3x for apparel following the sales drop

### Leftover of total planned sales volume for typical luxury brand

<table>
<thead>
<tr>
<th></th>
<th>Seasonal lines</th>
<th>Continuity lines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Luxury Apparel Buy SS 2020</strong></td>
<td>48</td>
<td>4</td>
</tr>
<tr>
<td><strong>Typical Leftovers (75% ST for apparel, 95% for accessories)</strong></td>
<td>36</td>
<td>12</td>
</tr>
<tr>
<td><strong>Planned Sales SS 2020</strong></td>
<td>36</td>
<td>4</td>
</tr>
<tr>
<td><strong>Leftovers due to closures and lower sales</strong></td>
<td>19</td>
<td></td>
</tr>
<tr>
<td><strong>Sales drops without leftovers</strong></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Forecast Sales SS 2020</strong></td>
<td>17</td>
<td>2</td>
</tr>
</tbody>
</table>

- **3x** Leftover could triple in apparel, reaching 150% of sales

Source: McKinsey interpolation of different analysts forecasts (incl. UBS, Bernstein, etc.)

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**Strong impact on apparel**

- **Historical leftovers levels are a blend of wholesalers (lower) and retailers (higher) performances**
- **Continuity products are considered as carryover to the following Spring Summer season**
- **Overall leftovers almost triple for apparel**, reaching 150% of expected SS2020 sales when calculated at retail price
- **Accessories leftovers grow proportionally (x3), but with a much lower incidence on sales (ca. 30%)**
**3: Highly seasonal brands with wholesale footprint will face most significant liquidation challenge**

### Need for inventory liquidation for H2 2020

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Distribution</th>
<th>Fashion/seasonality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td>Negotiation with wholesale partners required to align on liquidation strategy</td>
<td>Strong liquidation with little control from brand</td>
</tr>
<tr>
<td>Owned channels</td>
<td>Limited liquidation required if financials allow inventory carry over</td>
<td>High liquidation required, but liquidation strategy in control of the brand</td>
</tr>
</tbody>
</table>

**Brands most impacted will be …**

- **Brands with high degree of fashion** (e.g., ready-to-wear, high proportion of seasonal collections)
- **Brands with limited own distribution** (e.g., non concession department stores)
- **Small/medium size brands** given consumers typically seek out “investment brands” in times of crisis
- **De-stockers will also favor large brands for their investments**, growing pressure on small/medium brands
5: Brands need to carefully consider available liquidation strategies

Range of liquidation strategies

<table>
<thead>
<tr>
<th>Levers to explore</th>
<th>Key considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaying selling time</td>
<td>For permanent collections (e.g., leather goods) or delays selling of times to “in-season”</td>
</tr>
<tr>
<td>Geography arbitrage</td>
<td>Shift inventory to regions which rebound faster (e.g., China), or who are in other hemisphere</td>
</tr>
<tr>
<td>Upcycling</td>
<td>Some players further ahead in efforts to recycle most components/materials</td>
</tr>
<tr>
<td>VIP gifts</td>
<td>Special gift to delight VIP customers and re-engage on current collection</td>
</tr>
<tr>
<td>Personnel sale</td>
<td>Limitations in volume that can go through this channel</td>
</tr>
<tr>
<td>Factory outlets</td>
<td>For ad hoc inventory liquidation, but usually visible given high cross shopping between outlet and full price</td>
</tr>
<tr>
<td>Online shopping club</td>
<td>Will likely get surge of luxury inventory; speaks to consumers desire to shop remotely (e.g., Vente Privee, Gilt)</td>
</tr>
<tr>
<td>Pre-owned channels</td>
<td>Inventory typically fueled by consumers but potential outlet for brands for Summer 20 season</td>
</tr>
<tr>
<td>Re-selling</td>
<td>Likely to increase through department stores (e.g., parallel market) or through de-stockers in geographies with lower footprint (e.g., Brazil)</td>
</tr>
<tr>
<td>Discounting in full price own stores</td>
<td>Likely to be used by small/medium size brands</td>
</tr>
<tr>
<td>Offprice wholesalers</td>
<td>Will get surge of high quality inventory including luxury (e.g., Schusterman)</td>
</tr>
<tr>
<td>Discounting in full price wholesale</td>
<td>Tight collaboration needed, wholesale partners likely to host large discount events right after lockdown ends to get rid of excess inventory</td>
</tr>
</tbody>
</table>

Varying impact on brand image

Upcycling is the most sustainable and brand building approach, but brands are on varied levels of sophistication.

Online shopping clubs likely to get a surge of high quality inventory, together with offprice wholesalers.

Wholesale partners (e.g., marketplaces, department stores) likely to very aggressively discount through “Black Friday” type events, and need to be tightly managed for brand image.
Store re-opening planning ...

<table>
<thead>
<tr>
<th></th>
<th>Key building blocks for the Luxury industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Store safety</td>
</tr>
<tr>
<td></td>
<td>Provide a safe store environment and develop emergency protocols minimizing risk of infection for both employees and customers</td>
</tr>
<tr>
<td>2</td>
<td>Regain traffic</td>
</tr>
<tr>
<td></td>
<td>Activate customers to regain traffic and to deepen relationships – from eCommerce back to stores</td>
</tr>
<tr>
<td>3</td>
<td>Optimize store network</td>
</tr>
<tr>
<td></td>
<td>Renegotiate lease costs, selectively close stores temporarily (e.g., in tourist destinations) and evaluate long-term closures where sensible</td>
</tr>
<tr>
<td>4</td>
<td>Flexibly staff personnel</td>
</tr>
<tr>
<td></td>
<td>Flexibly adjust personnel to operative requirements by e.g., limiting opening hours or simplification of operations</td>
</tr>
<tr>
<td>5</td>
<td>Manage shortages &amp; overstock</td>
</tr>
<tr>
<td></td>
<td>Restart production and deal cautiously with overstock and ensure supply chain visibility</td>
</tr>
</tbody>
</table>
... with concrete activities in each of the 5 areas

<table>
<thead>
<tr>
<th>Store safety</th>
<th>Regain traffic</th>
<th>Optimize store network</th>
<th>Flexibly staff personnel</th>
<th>Manage shortages &amp; overstock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Split staff into fixed groups scheduled together to minimize risk of infections across teams in stores and production</td>
<td>Leverage CRM and loyalty data to target local customers, proving to be more important than ever, and bring them back to physical stores (inform about re-openings, targeted offline exclusive offers)</td>
<td>Renegotiate leases for stores, change from fixed to variable rent</td>
<td>Limit opening hours to core traffic times only and plan ahead for step-wise extension of hours</td>
<td>Restart production on most demanded and profitable items with safety measures in place</td>
</tr>
<tr>
<td>Emphasize staff hygiene through hand sanitizers and protective equipment (masks/ gloves/sneeze guards) reinforced through trainings</td>
<td>Shift investments to social media channels focusing on image building and customer engagement incl. promoting communities through virtual gatherings and sales events</td>
<td>Evaluate continued temporary store closure for stores in tourist destinations</td>
<td>Flexibly allocate staff toward operative needs; ramp down as long as stores closed</td>
<td>Communicate shortages as ‘exclusivity’</td>
</tr>
<tr>
<td>Offer customers protective equipment at the entrance and overcommunicate hygiene measures</td>
<td>Launch new partnerships to increase digital reach</td>
<td>Evaluate permanent closure of underperforming locations or locations expected to be hit by crisis for longer</td>
<td>Rethink and simplify operations management structure in stores and regions</td>
<td>Be cautious of your liquidation strategy; wholesalers will likely discount aggressively</td>
</tr>
<tr>
<td>Check health of staff &amp; customers at entrance and limit # of people allowed in store</td>
<td>Test new solutions to push traffic incl. virtual showrooms</td>
<td>Complete refurbishment and maintenance work now to avoid business disruption later</td>
<td>Shift accumulated “non-working” hours to peak times later in year</td>
<td>Introduce newness only selectively, keeping majority of new product for fall season</td>
</tr>
<tr>
<td>Develop scenario based protocols on how to react, e.g., in case of factory worker, staff or customer infections</td>
<td>Strengthen your brand by meaningful communication</td>
<td>Unleash waitlisted or limited edition products to create buzz</td>
<td>Be prepared for different scenarios and take into account demand/supply impact on different locations</td>
<td>Focus on upcycling and developing sustainability capabilities to recycle components of excess inventory</td>
</tr>
</tbody>
</table>

Source: Management interviews, press research, store visits in Shanghai
## List of preparation & planning measures

<table>
<thead>
<tr>
<th>Area of Preparation</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define hygiene standards and train staff</td>
<td>Liaise with local authorities on health &amp; hygiene requirements and recommendations. Define staff and customer hygiene guidelines (e.g., requirements for masks, minimum distances). Conduct staff trainings around excellent service on health &amp; safety measures if possible still during lock down via WebEx solutions.</td>
</tr>
<tr>
<td>Minimize risk of infections</td>
<td>Adjust rosters to split staff into “isolated” groups and ensure that infected staff can recover. Evaluate targeted processes to check staff &amp; customer health/temperature. Consider limits on number of people allowed in store and factors areas (potentially more than before COVID-19).</td>
</tr>
<tr>
<td>Ensure availability of protective equipment</td>
<td>Organize required quantities of protective equipment (sanitizer, masks, gloves, sneeze guards). Qualify suppliers and start central procurement. Plan warehouse capacity and allocation/replenishment mechanism.</td>
</tr>
<tr>
<td>Prepare stores and over-communicate on measures taken</td>
<td>Increase hygiene standards, esp. store and factory cleaning procedures. Define changes to operational processes (e.g., click &amp; collect, fitting room usage). Define required changes to store/factory concept or layout (changed queues, distances between shelves and working stations), place orders for materials or renovations and create briefing for execution. Significantly rethink and increase comms and create required VM and marketing materials.</td>
</tr>
<tr>
<td>Establish emergency protocols</td>
<td>Develop scenario based protocols on how to react, e.g., in case of staff or customer infections. Establish central response team to enact protocols quickly.</td>
</tr>
</tbody>
</table>

### Moment of change

Opportunity for the industry to come together and jointly drive “safe retailing” measures

Learnings to be taken from grocery retail
2: Luxury brands are regaining traffic in numerous ways – key is to target local customers early

<table>
<thead>
<tr>
<th>Demonstrate purpose</th>
<th>Drive customer engagement</th>
<th>Communicate meaningfully</th>
<th>Target local customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hermès has both been an early contributor to the recovery efforts in Milan, Rome and across Paris region (€ 20 mn). In addition factories stayed open to produce hand sanitizers and masks (20k).</td>
<td>Online pop-up stores: Louis Vuitton and Prada opened sales-associate driven popup shops on WeChat</td>
<td>Dior clearly listed delivery and customer service times on its website</td>
<td>Brands now need to double down on local customers with travel restrictions potentially remaining</td>
</tr>
<tr>
<td>LVMH donated $2.2 mn to the Chinese Red Cross, while Kering and Richemont donated $1.1 mn and $1.4mn respectively; Hermès supported a Chinese Foundation for medics with ¥5 mn</td>
<td>Product-driven livestreaming: Shanghai based luxury eco brand Icicle launched sales livestreams</td>
<td>Prada notified customers on changes in store operations via WeChat and website</td>
<td>– Dolce &amp; Gabanna initiated its campaign #Orgogliozitaliano to appeal to national sentiment</td>
</tr>
<tr>
<td>Hermès produces hand sanitizer at perfume plant</td>
<td>Virtual events: Dior and Lanvin hosted cloud fashion shows – Lavin even leveraging VR; another luxury brand hosted yoga w. celebrities</td>
<td>Burberry notified its stakeholders incl. suppliers, delivery partners and employees on shop closures</td>
<td>– Richemond’s Yoox Group offers its “You try, we wait” service in Dubai once lockdown is lifted</td>
</tr>
<tr>
<td>Louis Vuitton launched the “Love has no fear” campaign on the platform Weibo generating 4.2 billion views in the first week</td>
<td>Campaigns: Prada leverages influencers to push the campaign #pradaacronym on WeChat and Douyin</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gestures: Hermès invited VIP customers for dinner, Chanel sent fruit baskets to key customers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Local first

In a first step to regaining traffic particular focus should be on engaging local customers including both VIP’s and millennials showing to have more robust demand.
### 5: Watch brands are freezing production & postponing launches

**Impeding production**
- Social distancing measures driving closure of production facilities
- Hampered cross-border movement of workers (e.g., from France to Switzerland)

**Shutting down sales and marketing channels**
- Closure of stores and physical point of sales in important hubs
- Shutdown of travel and tourism
- Cancellation of trade shows such as Baselworld following ban of public gathering

**Aggravating macro-economic environment**
- Surging gold prices
- Strengthening Swiss Franc as investors flock to safe haven assets
- Uncertain economic outlook affecting consumers’ discretionary spending

### COVID-19 is heavily impacting the Swiss luxury watch industry

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1. Launches of prestige brands Breguet, Blancpain, Glashütte Original, Jaquet Droz, and Harry Winston following the cancellation of “Time to Move” event

Source: Press search, expert interview

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### Selected case examples

**Rolex Group**
- Has shut down all its plants in Switzerland from March 17th
- Cancelled April 20 product launch

**Swatch Group**
- Has put 70% of its production staff on reduced working hours since March 23rd
- Cancelled 2020 product launches

**Audemars Piguet**
- Announced a shutdown of all its production sites and offices in various countries beginning March 18th and limited new launches

**Patek Philippe**
- Also shut down production from end of March – postpones all 2020 launches to 2021

**Hublot**
- Has shut down production until further notice

**Breitling**
- On April 6th, Breitling became the first brand to reopen its production following an end of March shut down

---

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Hublot has shut down production until further notice.

Breitling became the first brand to reopen its production following an end of March shut down on April 6th.
Digital sales growth

Key hypotheses on eCommerce in times of COVID-19

1. **eCom penetration**
   
   Online is fast becoming a must-have for luxury brands - COVID-19 will provide a boost to eCom penetration in the mid and long run

2. **Transparency**
   
   First things first: Be transparent about the situation with your customers and show them you care

3. **Merchandise view**
   
   Take a merchandise perspective – there are relative winner and loser categories and fashionable items are in demand

4. **e-tailers**
   
   Consider how e-tailers play out for you at this point – having them as partners can enable you to still serve customers

5. **Innovative & personalized marketing**
   
   Focus on innovative and personalized marketing levers to engage, surprise and reward consumers

6. **Customer loyalty**
   
   CRM takes on an even more important role for luxury brands - work hard on your database to stay connected
Traffic is coming back for luxury in Europe

Daily traffic for top 100 European luxury eCom shops, split by country
Including multibrand and monobrand sites

Source: Similarweb, April 6th 2020; McKinsey COVID-19 Apparel & Fashion survey, N=>6000, 27/3-29/3 2020, Edited.com, access March 27, 2020

Luxury consumers browse online as lockdown continues!

Recovery has started in UK, Germany, and France - traffic is coming back for luxury online – especially around the Easter weekend

Traffic in Italy continues to be low throughout the lockdown, yet recovery is ongoing

This is true for both, multi-brand & mono-brand sites

38% of luxury consumers\(^1\) state they browse fashion eCommerce sites daily during this crisis

1. Consumers with > 500 EUR monthly clothing spend
1: ... and luxury players expect online penetration to increase

Before the crisis

Online has been relatively small for luxury but is becoming a must-have

Pre-crisis channel split in Western Europe, in percentage of sales for 2019

<table>
<thead>
<tr>
<th>Category</th>
<th>Online</th>
<th>Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel &amp; Footwear</td>
<td>19</td>
<td>81</td>
</tr>
<tr>
<td>Personal Luxury Goods</td>
<td>12</td>
<td>88</td>
</tr>
</tbody>
</table>

Luxury executives expect the online share to grow significantly over a 2 year horizon

Share of CXOs anticipating this range of eCom share for their business (n=85, CXOs of luxury companies)

### eCom share

<table>
<thead>
<tr>
<th>Range</th>
<th>In one year</th>
<th>In two years</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10%</td>
<td>50%</td>
<td>27%</td>
</tr>
<tr>
<td>10% - 20%</td>
<td>29%</td>
<td>33%</td>
</tr>
<tr>
<td>20% - 30%</td>
<td>19%</td>
<td>23%</td>
</tr>
<tr>
<td>30% - 50%</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>&gt; 50%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Q: How much do you think will be the online incidence on overall revenues?

Source: Euromonitor, McKinsey proprietary Luxury CEO/CFO/CCO survey, data collected April 1st – 13th 2020 – European focus
**1: As a result, online is fast becoming a must-have for luxury brands**

Now is the time luxury consumers\(^1\) experiment with fashion online …

**30\%** state they use this time to try new brands (vs. 20\% of average fashion consumers)

**16\%** of shoppers take the opportunity to browse fashion online shops for the first time (vs. 13\% of average fashion consumers)

… and a share of all consumer segments identified state they will **continue to shop online rather than offline after the crisis** because they have gotten used to it:

Split per segment

<table>
<thead>
<tr>
<th>Consumer description of own type</th>
<th>Practical shopper</th>
<th>Time-pressed shopper</th>
<th>Bargain hunter</th>
<th>Creative shopper</th>
<th>Shopaholic</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>13%</td>
<td>14%</td>
<td>20%</td>
<td>24%</td>
<td></td>
</tr>
</tbody>
</table>

1. Consumers spending >500 EUR per month on apparel

Source: McKinsey COVID-19 Apparel & Fashion survey, N=>6000, 27/3-29/3 2020, Edited.com, access March 27, 2020, Euromonitor access April 9th

**Key principles of running your eCom in times of COVID-19**

- **With eCom being the only available sales channel during lock-down, sustaining eCom operations should be the top priority**

- **Re-allocate marketing spend** wisely to higher ROI channels from most affected channels (OOH/print) if possible and **monitor its returns** on conversion – this is crucial when operating under cash constraints

- **Revise targeting strategy** while ensuring brand equity is not damaged (e.g., specific news sites)

- **Increase test & learn mentality** (e.g., daily tests) and integrate **small teams across departments**
2: Be transparent with your customers & show you care

Consumers appreciate brands who show social purpose in creative and sensitive ways

45% of consumers appreciated companies showing concern and helping to mitigate the medical and social challenges of the Corona crisis

LVMH

Several luxury brands repurpose their factories to manufacture hand sanitizer, masks and medical overalls

GUCCI

GUCCI makes charitable donations and encourages the GUCCI community to do so as well

MONCLER

Moncler gives 10 M euros to finance a new emergency hospital dedicated to covid 19

Only 10% of consumers consider it inappropriate for brands to promote their businesses in this time of crisis

Tailor messaging across channels ensuring safety and business support continuity to build trust with customers

46% of consumers state they value honest communication on how the crisis is affecting service levels

Top features for apparel eCom in past 4 weeks vs. over next 4 weeks

(5: very important, 1: not important; + = higher importance over next 4 weeks)

Free delivery
Free return process
Reliable customer service
Clear communication about delivery times and process
On-time delivery
Health & safety policies for deliveries

Example of proactive information on changed service levels

Digital advertising creative Pop-up banner on the website

Digital acceleration

Sebastian Heiner

The current health crisis touches all. We hope that you and your loved ones are safe and well. We continue to offer home delivery; for any assistance, please contact our Client Services.

Burberry

Burberry Official Site | Shop Online with Free Shipping


Burberry

Digital acceleration

Sebastian Heiner

The current health crisis touches all. We hope that you and your loved ones are safe and well. We continue to offer home delivery; for any assistance, please contact our Client Services.

Burberry

Burberry Official Site | Shop Online with Free Shipping

3: Take a merchandise perspective – there are relative winner and loser categories

While casual categories are on the rise, Luxury consumers will also purchase fashion pieces right now

Stated change in basket share since lockdown, in % of respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Less spend</th>
<th>Same spend or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casual wear</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Homeware</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Sportswear</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Fashion pieces</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Swimwear</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>Business wear</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Special occasion</td>
<td>56</td>
<td>44</td>
</tr>
</tbody>
</table>

Luxury consumers are most prone to shop for fashion items online during lockdown, with 26% of consumers stating they now spend more on fashionable items than before.

Still this relative surge in demand for some categories will not compensate overall losses

 Consumers across continental Europe state an average decrease in eCom luxury consumption of -20%.

Luxury companies react:
Since lock-down, new product drops in eCom have decreased significantly across all product categories.

Consumers with >500 EUR monthly fashion spend

Companies have to carefully review volume planning and manage inventory levels (incl. offline stock).
Consider leveraging upcycling trend by creating new collections out of current excess of products in stock.
Adjust product mix to reduce variety/range (e.g., fewer "transitional" items, extension of heavier summer items).
Consider new needs and changed behaviors when designing product mix (e.g. expanding share of casual or home wear).
Postpone product delivery of next collection (e.g. FW20 by 1-2 months) and postpone market of future ones (e.g. SS21 to mid-June).
Equip to increase online assortment and digital sampling.
**4: Luxury players are more open to partner with e-tailers ...**

Key elements luxury brands consider when they re-think their online activities in light of the crisis

*Share of CXOs surveyed (n=85, CXOs of luxury companies)*

- **Increased # of partnerships with e-tailers**: 32%
- **Creation of mini flash collections online-only (e.g. see now buy now)**: 24%
- **Omnichannel development through customer care levers**: 23%
- **Personal engagement**: 18%
- **Creation of regional digital operations centers**: 3%

Q: Based on this moment of discontinuity, how will the online channel be rethought?

*Source: McKinsey proprietary Luxury CEO/CFO/CCO survey, data collected April 1st – 13th 2020 – European focus*
Luxury brands need to consider how e-tailers play out for you

During and after COVID-19, qualitative e-tailers can be a source to maintain fulfillment to customers

Some of the most critical countries for the fashion luxury value chain are among the most severely affected by COVID-19 (e.g., Italy, France)

During COVID-19, e-tailers benefit from at times more advanced online operations, providing higher stability and reduced risk of service level impairment — although they may experience some disruption in their business as well as a consequence of lockdown measures

After COVID-19, as overall online penetration increases, such e-tailers will further benefit from these strengths, widening the gap with non-specialized players

But: Luxury brands should consider that promotions are happening (and increasing) across multi-brand websites due to stock pressure and to drive client engagement, hence set-up and managing terms and conditions with partners accordingly

Farfetch supports its partners by taking over fulfillments and offering storage space in their warehouses for free

Farfetch supports its partners by taking over fulfillments and offering storage space in their warehouses for free

Most marketplaces were able to maintain worldwide deliveries and react to the crisis in a quick & agile way

Examples of Covid-19 response in etail

Source: 2020, CNMI – Camera della Moda survey

Actions to take

If you are present on e-tailers
Assess the reliability of each e-tailer in this mutated context
Consider improving fulfillment resilience by shifting more SKUs to high-end e-tailer fulfillment

If you are not present on e-tailers
Strategic review required in light of COVID-19 to assess if and which e-tailer might be a good partner — it will take 4-8 weeks to integrate
Consider using your own stores to bridge gaps in fulfillment and optimize inventory
**5: Use creative & personalized forms of engagement**

Browsing fashion contents is a daily habit for up to **42%** of luxury consumers …

Share of luxury consumers planning to engage in the following activities online on a daily basis during the next 4 weeks:

- **Browsing in fashion online shops**: 36%
- **Getting fashion inspiration in social media**: 42%
- **Watching videos about fashion**: 30%
- **Reading fashion blogs and articles**: 29%

… and results in purchase. **20%** purchased in response to marketing on social networks

- **‘McQueen Creators’ project** encourages social media followers to create art based on selected looks from the brand’s fashion collections
- **Ferragamo Trivia** creates a “virtual walk” through the history of the brand, with an engaging storytelling for customers and prospects on social media

**China is re-activating luxury consumers with innovative and personalized digital formats**

- **Sales Associate-driven**
  - **WeChat pop-ups**
  - **Louis Vuitton**
    - WeChat mini program

- **Product-driven livestreaming**
  - **Burberry**
    - KOL livestream

- **App with digital features including virtual try-ons**
  - **GUCCI**
    - launched new app to engage customers

**New digital formats** have been integral to start recovery in China, innovative, **tech-enabled marketing** boosts digital engagement - e.g. sales-associate-driven virtual pop-ups, livestream commerce, virtual reality, broadcasted influencer-curated assortments

**Live streams have proven particularly successful**, replicating the ‘See Now, Buy Now’ experience of B&M commerce. The personal and interactive format attracts young consumers and is no longer reserved just for KOLs and celebrities - for instance sales associates now host live-streaming events every day through their personal accounts

**Platforms continue to stand strong** and tap into this opportunity around "live commerce": Alibaba’s Taobao with Taobao Live is only one example of successful formats

---

6: CRM takes on an even more important role for luxury brands

Higher spending consumers are the most sensitive to personalized advice during and after lock-down

Share of consumers stating which offers would help them to shop online during and after lock-down

- Substantially above avg.
- Substantially below avg.

Actions to take

- Identify and stay connected with your top customers / VIPs and engage them via personal and private online shopping experiences (e.g., leveraging channels like WeChat)

- Engage high and mid value segments with tailored and relevant communication, leveraging on a data-driven personalization engine or A/B testing tools to differentiate contents by target group

- Reactivate Asian luxury consumers in their home countries – identify travelers based on international sales and location-based data (e.g. WeChat, Weibo) and engage them with tailored local experiences, stronger offerings, and deeper connection with consumers in tier-two and -three cities

- Invest in your database – Collect info about newly acquired customers and leads to keep them loyal beyond the crisis

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Luxury brands should double-down on customer segmentation and CRM enrichment to create personalized and relevant contents for their customers, delivered in the right formats & channels


Digital acceleration

Dior sales staff engaging with VIP customers and KOLs during the crisis with gift sets

LOUIS VUITTON

Valentine’s Day pop-up store on WeChat, featuring store assistants on live chat ready to communicate in real-time with shoppers. Online sales double compared to last year
Deep dive Watch Industry: A prolonged crisis may push more brands in an historically offline industry to reconsider eCom

An increasing willingness to buy luxury via e-commerce has traditionally been ignored by most luxury watchmakers …

<table>
<thead>
<tr>
<th>Likelihood to buy luxury online in next 12 months, by age group</th>
<th>Percentage of consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probably will</td>
<td>Definitely will</td>
</tr>
<tr>
<td>Post-90s</td>
<td>30</td>
</tr>
<tr>
<td>Post-80s</td>
<td>22</td>
</tr>
<tr>
<td>Post-65s/70s</td>
<td>7</td>
</tr>
</tbody>
</table>

… but following COVID-19 crisis, even the most exclusive brands such as Patek Philippe are beginning to go online

<table>
<thead>
<tr>
<th>Patek Philippe</th>
<th>Patek Philippe allowed sales of its watches online for the first time in history as of 20 March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENEVE</td>
<td>Certain products of the exclusive luxury brand are now online for the first time in history, through e-commerce platforms of distribution partners such as Watches of Switzerland, London Jewelers and Berry's</td>
</tr>
</tbody>
</table>

Could this prove to be the final nudge for the maison to begin e-commerce through their own channels? And will other luxury brands that breathe the same rarefied air follow suit?

<table>
<thead>
<tr>
<th>Hublot</th>
<th>Hublot launches a “temporary retail strategy” focused on its Digital Boutique, offering “a remote 3-D facilitated access to products, knowledge, and know-how” and “bespoke customer service.”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Source: Press search, McKinsey
Navigating the storm

What is the impact on the industry?

Coming out of the storm

What are the priorities in managing the crisis?

*Inventory management*
*Store re-opening planning*
*Digital sales growth*

Managing the new normal

How does the new normal look like after the crisis?
For ~50% of luxury shoppers, the meaning of luxury has changed

26%  
Spending time with my loved ones

24%  
Be safe

50%  
As always, luxury means being able to buy products of superior quality and design

Q: How do you best define “luxury” now?

Source: McKinsey proprietary Luxury consumer survey, data collected April 9th – 13th 2020; n=1059, screened for regular luxury consumption, monthly spend of EUR 500 – above 3.000; Italy, France, Germany, UK, US
Almost every CXO expects fundamentals to change while 44% even expect a new era of luxury

Impact on the luxury sector
Share of CXOs surveyed (n=85, CXOs of luxury companies)

- I expect that we will return to normal but some of the fundamental elements of the sector will be changed: 54%
- We will enter a new era of luxury where the new rules of the game have to be redefined: 44%
- I expect a few months of decline but the sector will then return to but normal: 2%

Q: How deeply will COVID 19 impact the luxury industry?

Source: McKinsey proprietary Luxury CEO/CFO/CCO survey, data collected April 1st – 13th 2020 – European focus

No going back

Almost no CXOs expect to return to normal
44% of the respondents believe that the sector will see the rules of the game redefined and entering a new era of luxury
Recovery from the pandemic will coincide with a recessionary market, compelling fashion players to ramp up resilience planning and adapt their operating models. Companies surviving the immediate crisis will have made bold and rapid interventions to stabilize their core business before seeking out new markets, strategic opportunities and future pockets of growth in a global fashion industry undergoing dramatic transformation.

Survival Instincts
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Discount Mindset
As deep discounting plagues retailers for the remainder of 2020, a decade-long build-up of bargain shopping culture will be exacerbated by a rise in anti-consumerism, a glut in inventory and cash-strapped consumers looking to trade down or turn to off-price channels. To reach increasingly frugal and disillusioned consumers, brands must find inventive ways to regain value and rethink their broader business mission.

Digital Escalation
Social distancing has highlighted the importance of digital channels more than ever and lockdowns have elevated digital as an urgent priority across the entire value chain but, unless companies scale up and strengthen their digital capabilities in the recovery phase of the crisis, they will suffer in the longer term. Consumers will continue to demand more in this space and brands must act fast to deliver.

Darwinian Shakeout
The crisis will shake out the weak, embolden the strong and accelerate the decline of companies that were already struggling before the pandemic, leading to massive waves of consolidation, M&A activity and insolvencies. To secure their future, companies must adapt to the new market environment by evaluating divestment and acquisition opportunities to strengthen their core and capture whitespaces that emerge from the reshuffle.

Innovation Imperative
To cope with new restrictions, mitigate the damaging impact of the pandemic and adapt to economic and consumer shifts, companies must introduce new tools and strategies across the value chain to future-proof their business models. Fashion players must harness these innovations and scale up those that work in order to make radical and enduring changes to their organizations — and to the wider industry — after the dust settles.
Key questions to ask yourself

**Survival Instincts**
How are you hedging against future trade disruptions and leading your organization to thrive in the new normal?

**Discount Mindset**
What is your company’s strategy to deal with excess stock in an innovative way that infuses value in your products and protects your brand image?

**Digital Escalation**
How are you accelerating your digital channel to counteract lost offline sales and prepare for a new consumer reality?

**Darwinian Shakeout**
What is your strategic positioning in the market and what could be potential acquisition and divestment opportunities to maintain it or tap into emerging white space in the market?

**Innovation Imperative**
What innovations have you pivoted as a COVID-19 response that are worth anchoring into the organization?
Disclaimer

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