

How Luxury Is Reinventing Itself



By Andy J. Yap , INSEAD Assistant Professor of Organisational Behaviour; Lewis Lim, Nanyang Business School Associate Professor of Marketing Practice; and Charlene Y. Chen, Nanyang Business School Assistant Professor of Marketing

Luxury brands must secure a place in the hearts and minds of their customers, their partners and the public.

As companies try to ride out the severe economic impact of the Covid-19 pandemic, certain industries are more badly affected than others. In particular, the luxury sector is likely to take one of the worst hits. Sales for this year's spring season are **70 percent lower** than last year's. Swiss watch industry exports are expected to decline by **25 percent** this year, the biggest drop in half a century. The **future of fine dining** is also far from certain.

The problem of the luxury industry is three-fold. First, consumers who feel control-deprived tend to **buy more functional products** than hedonic ones, as it helps them regain a sense of certainty in their lives. As such, consumer demand for luxury goods and services tends to fall to a greater

extent compared to that for functional ones in times of crisis. Indeed, discretionary goods and services have been among the **worst-performing asset classes** since the outbreak of Covid-19.

Second, the luxury industry is traditionally reliant on tourism and high-touch selling modes in-store. Hence, many brands are behind the times in terms of digital marketing. They need to up their game in the areas of online assortment and user experience.

Third, as consumers shun unnecessary spending, luxury brands need to stay connected to their various stakeholders. Beyond their exclusive customer base, they must work harder to gain or maintain the trust of their partners and the public.

Here are our three recommendations for luxury brands to thrive in these challenging times, based on our fieldwork and interviews with industry leaders.

Keep customer relationships warm and strong

Luxury brands need to somehow re-create the highly personalised nature of the in-store experience. With the reduction of retail traffic and cancellation of events, they must find ways to stay in touch with customers and keep them excited about the brand.

We are not talking about mass corporate emails and livestream events, but about mobilising frontline salespeople to nurture the best customers. For example, luxury fashion label Tom Ford assigns each customer to a personal stylist who curates merchandise based on the customer's needs and provides video consultations.

In some cases, even C-suite leaders could be involved in this individualised effort. François-Henry Bennahmias, CEO of Audemars Piguet, notes: "This is the best time for us to go back to our address book and re-connect with many of our loyal clients. The human touch is what makes our brand special during these challenging times."

At the order fulfilment stage, brands must find ways to make the delivery experience extra special, says Alvin Soon, president of Breitling Asia. "When we launched the Breitling Navitimer Swiss Air Boeing 777 limited edition a few years ago, the watch was available only as an inflight purchase and the Swiss Air pilot would come out to the cabin to hand the watch to the

passenger who had ordered it,” Soon recounted.

Of course, it may not be possible or practical to provide such a unique experience for every purchase. Short of a big fanfare, even a simple text to say “hello and take care” from the sales personnel or a humble video message from the brand’s CEO could help keep the customer-brand relationship warm and human.

Support both upstream and downstream channel partners

While letting go of suppliers or terminating dealership contracts may seem an easy way out in response to lower demand, luxury brands must earn the respect of their channel partners, both upstream and downstream. They should build trust by treating them as an extended part of the brand’s family.

Indeed, brands must be prepared for market recovery and keep a long-term view, combining it with crisis communication that shows empathy and emphasises that “We are in this together”. As Matthieu Dupont, president of Montblanc South East Asia & Oceania, told us: “The safety of our employees and partners is the utmost priority. We need to be flexible and adaptive to all the changes Covid will bring.”

One way brands can work closely with their channel partners is by helping transfer or even swap stocks to smooth out supply. For example, with the shutdown of luxury watch factories in Switzerland, brand regional HQs can coordinate across channels to find the necessary stock of watches to match customer demand.

Brands should also manage potential channel conflicts. For instance, differential pricing and discounts across channels may result in cannibalisation. In exchange for their cooperation, brand owners can display empathy by relaxing terms concerning the key performance indicators typically found in distributorship contracts. German automaker Porsche, for example, is guaranteeing payouts, extending finance and easing up on dealer performance objectives during this turbulent period.

Engage the entire public, not just affluent consumers

Luxury brands are supposed to be great and people expect great brands to lead during a human crisis. With many big firms contributing to the fight against coronavirus, luxury companies face high expectations from the

public.

The top management of Italian luxury menswear group Zegna **donated** €3 million to support Italy's health care system. The firm also manufactures face masks and personal protective equipment for medical staff. As Billy Joel Legaspi, a store supervisor at Zegna, told us: "I am incredibly proud that Zegna is acting in accordance with our belief – our actions today will shape our tomorrow and we know that each one of us must do our part."

Swiss luxury watch brand Breitling provided another example. Along with the brand's celebrity ambassadors, the CEO posted a video message on Weibo (a Chinese social media platform), cheering on frontline medical workers and encouraging people in lockdown.

Publicity about these efforts needs to strike the right balance to avoid appearing nonchalant about the coronavirus or being seen as attempting to cash in from it. These messages should thus exclude any form of commercial content. For example, the **hand sanitisers that LVMH produced** for French hospitals come in plain packaging.

Beyond the tangible goods and offerings luxury brands provide, people seek authentic values that they can connect with emotionally. For too long, luxury brands have only stood for excess and ostentation; it is time they truly inspire a whole generation and stand for something great.

Andy J. Yap is an Assistant Professor of Organisational Behaviour at INSEAD and the Academic Director of INSEAD's **Centre for Organisational Research**.

Lewis Lim is an Associate Professor of Marketing Practice at Nanyang Business School and the Academic Director of the Nanyang Professional MBA Programme.

Charlene Y. Chen is an Assistant Professor of Marketing at Nanyang Business School.

Don't miss our latest content. Download the free **INSEAD Knowledge app** today.

Follow INSEAD Knowledge on **Twitter** and **Facebook**.

Find article at

About the author(s)

Andy J. Yap is an Assistant Professor of Organisational Behaviour and the Academic Director of the Centre for Organisational Research at INSEAD.

Download the free Knowledge App

