



This is a living document

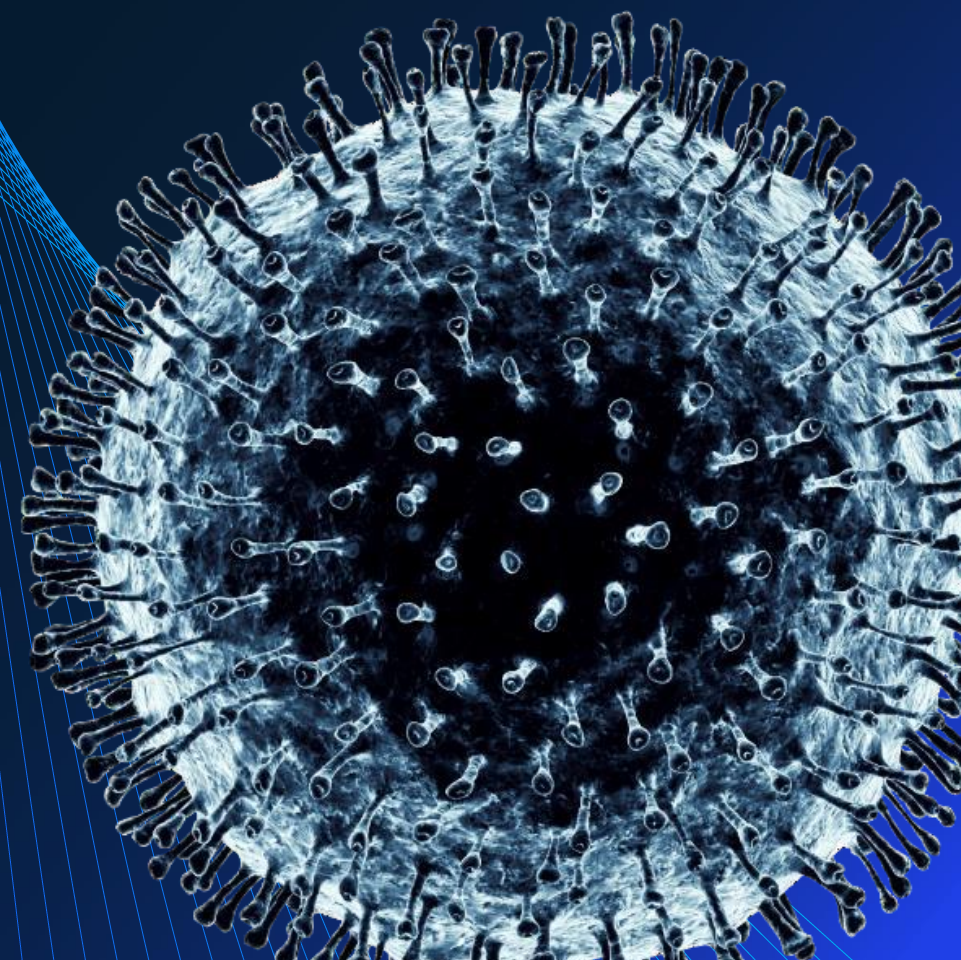
Status April 20, 2020

Will be updated as situation evolves

COVID-19 response strategies in Luxury

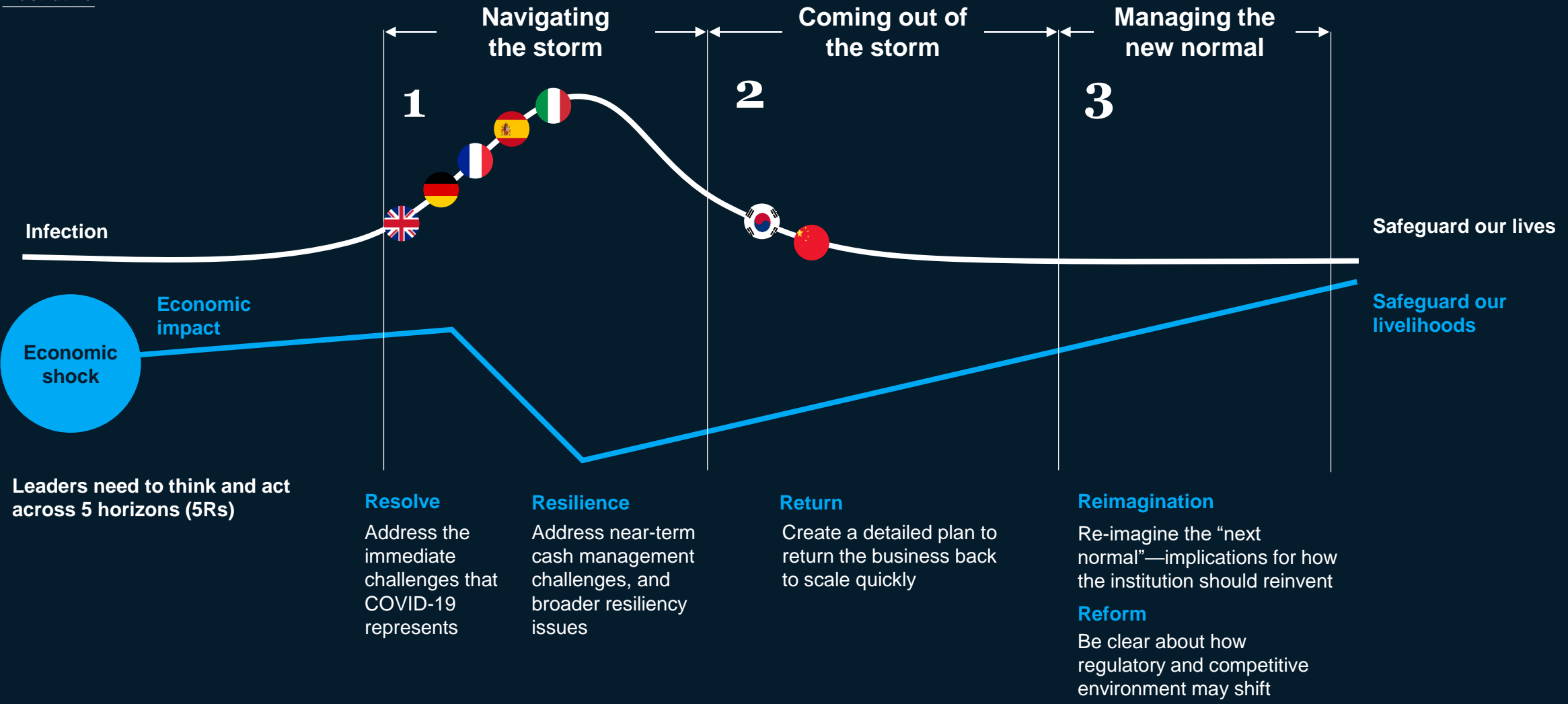
A perspective on how leading luxury companies act
now and how this crisis will change the industry

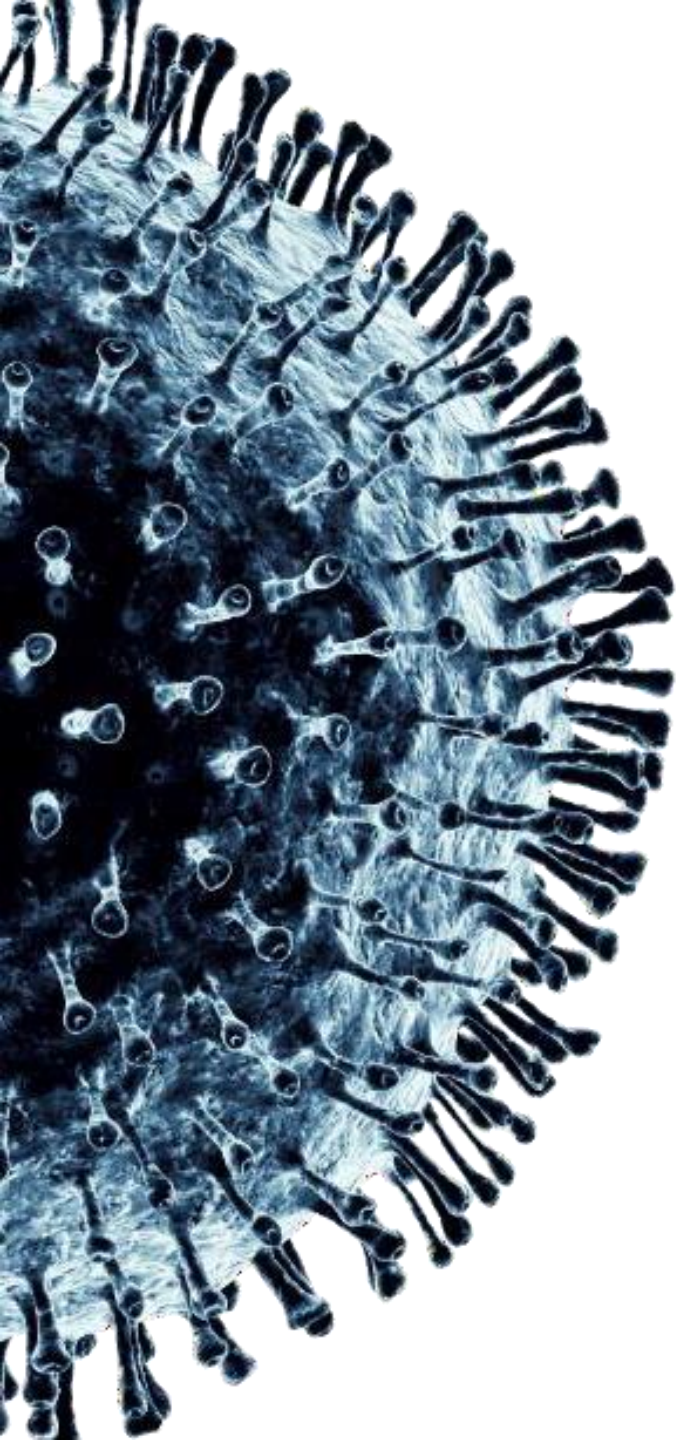
April 20, 2020



We think about 3 main phases of the pandemic

Illustrative





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

>2.4 M

Reported confirmed cases

>165,900

Deaths

Impact to date

>212

Countries or territories with reported cases¹

81

Countries or territories with more than 1000 reported cases¹

~0.1%

China share of new reported cases
April 13 – April 19

~37%

US share of new reported cases
April 13 – April 19

~44%

Europe share of new reported cases
April 13 – April 19

0

New countries or territories with cases
April 19

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

... which has led to a disruption of the global luxury market

The luxury industry is facing its worst year in modern history

March 19, 2020

For Luxury, an Acceleration of the Inevitable

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

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

Global Luxury Brands Are Hard Hit By Coronavirus Fallout

“Virus impact on fashion and luxury to be ‘worse than recession’”

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.

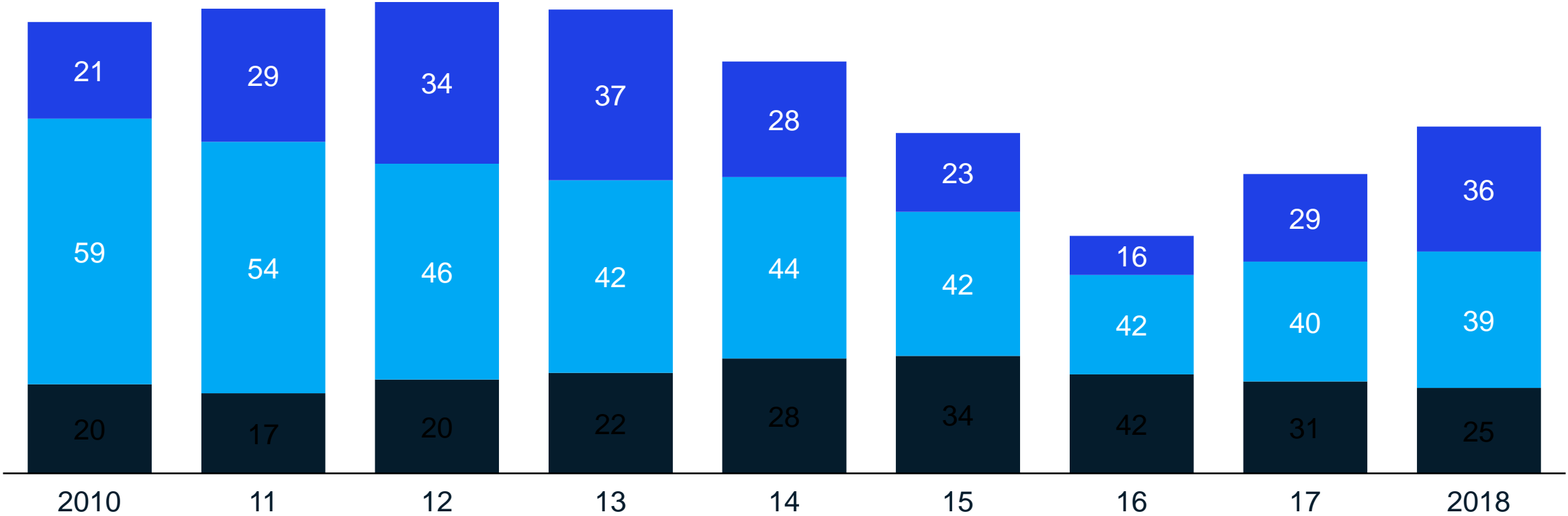
The coronavirus epidemic could wipe out \$43 billion of luxury sales in 2020

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



■ Luxury + Affordable luxury ■ Premium/Bridge + Mid-market ■ Value+ Discount

... we see demand and supply forces through COVID-19 at work that shape the outlook of the luxury industry for the worse

Demand forces



Duration of store closures: majority of countries have enforced lock downs in March with end dates still unclear; time lag between re-opening and recovery expected



Travel restrictions: border closures to non-EU countries disproportionately impact luxury spending which is highly reliant on tourists, esp. from China



Consumer sentiment: as consumers tighten their spend, discretionary categories like luxury suffer most; further impacted by most brands cutting their marketing spend



Health concerns: physical distancing and hygiene practices are likely to continue beyond store closures, as consumer remain wary of the virus



Channel shift to ecommerce: channel mix likely to shift due to confinement as consumers increasingly get used to online shopping

Supply forces



Inventory misalignment: retailers may be faced with excess spring/summer product, potentially requiring additional discounts



Disrupted distribution: multiple players (e.g., YNAP) forced to close warehouses due to health concerns, affecting online distribution also of brand.com



Rebound of production capacity: production in Italy still fully halted and only slowly ramping back up in Far East



Wholesale closures: small wholesalers that account for ~60% of the global luxury market are most likely to experience liquidity shortfalls and existential threats



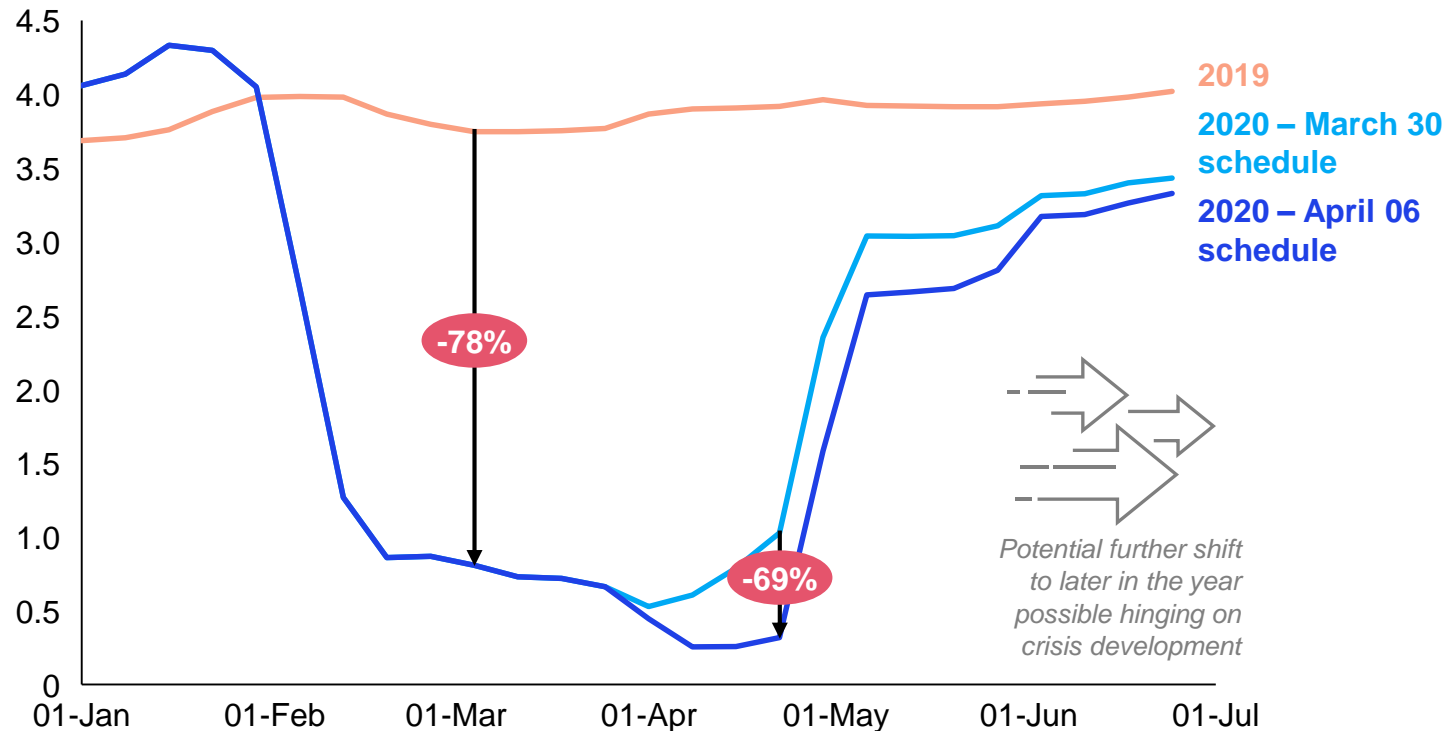
Impact of **demand & supply forces are regionally different**
Demand forces will have a larger impact in the near-term



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

China's weekly airline seat capacity for the international market

mn seat



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

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)

						
Switch to domestic purchase	27%	+10pp	-4pp	+2pp	+1pp	-6pp
Switch to domestic purchase only if same quality and customer experience	27%	+6pp	-1pp	+1pp	-	+4pp
Switch to domestic purchase only if same prices	24%	-3pp	-1pp	+4pp	-4pp	+3pp
Wait to be able to travel abroad to restart purchasing	15%	+1pp	+3pp	-5pp	-1pp	-1pp
Switch to domestic consumption, but buying less	8%	-4pp	+2pp	+3pp	+3pp	-


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

McKinsey & Company

Scenarios for the Economic Impact of the COVID-19 Crisis

GDP Impact of COVID-19 Spread, Public Health Response, and Economic Policies

 Basis for Luxury recovery scenarios

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

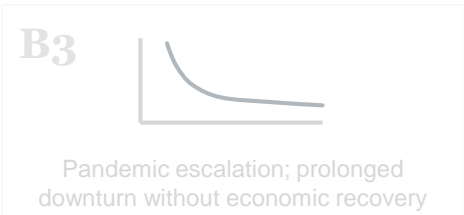
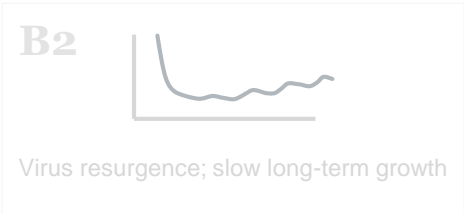
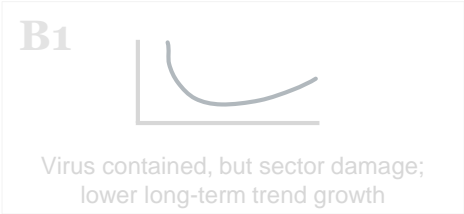
Strong public health response succeeds in controlling spread in each country within 2-3 months

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

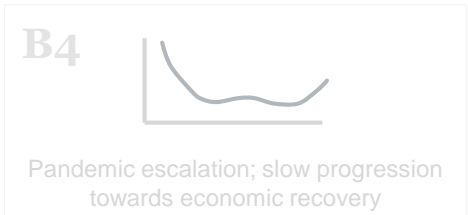
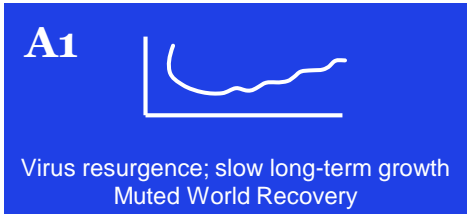
Broad Failure of Public Health Interventions

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



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

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)

Scenario A1 was voted 'most planned for' in a survey with >2,100 executives from around the world

Most likely scenario, % of respondents¹

■ Basis for Luxury recovery scenarios

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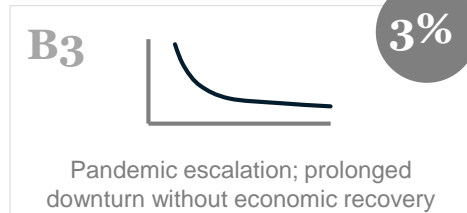
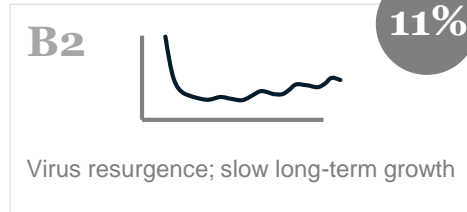
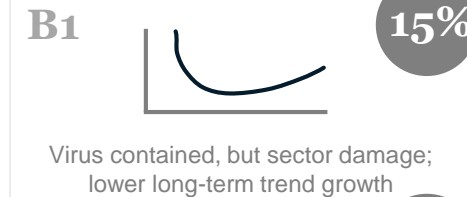
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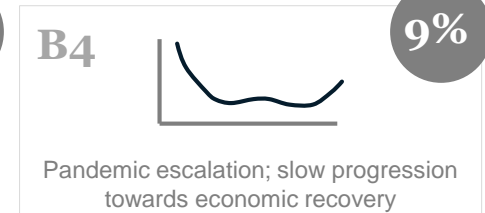
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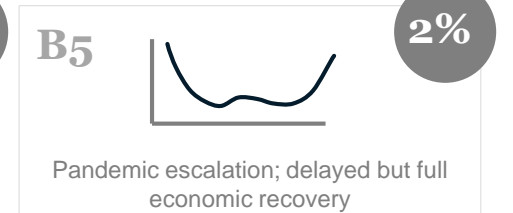
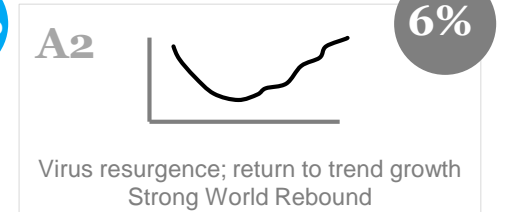
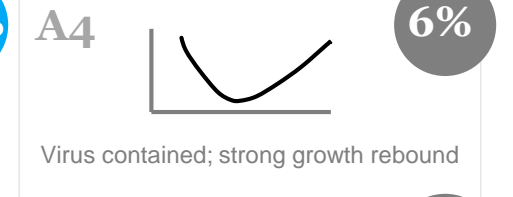
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Knock-on Effects & Economic Policy Response

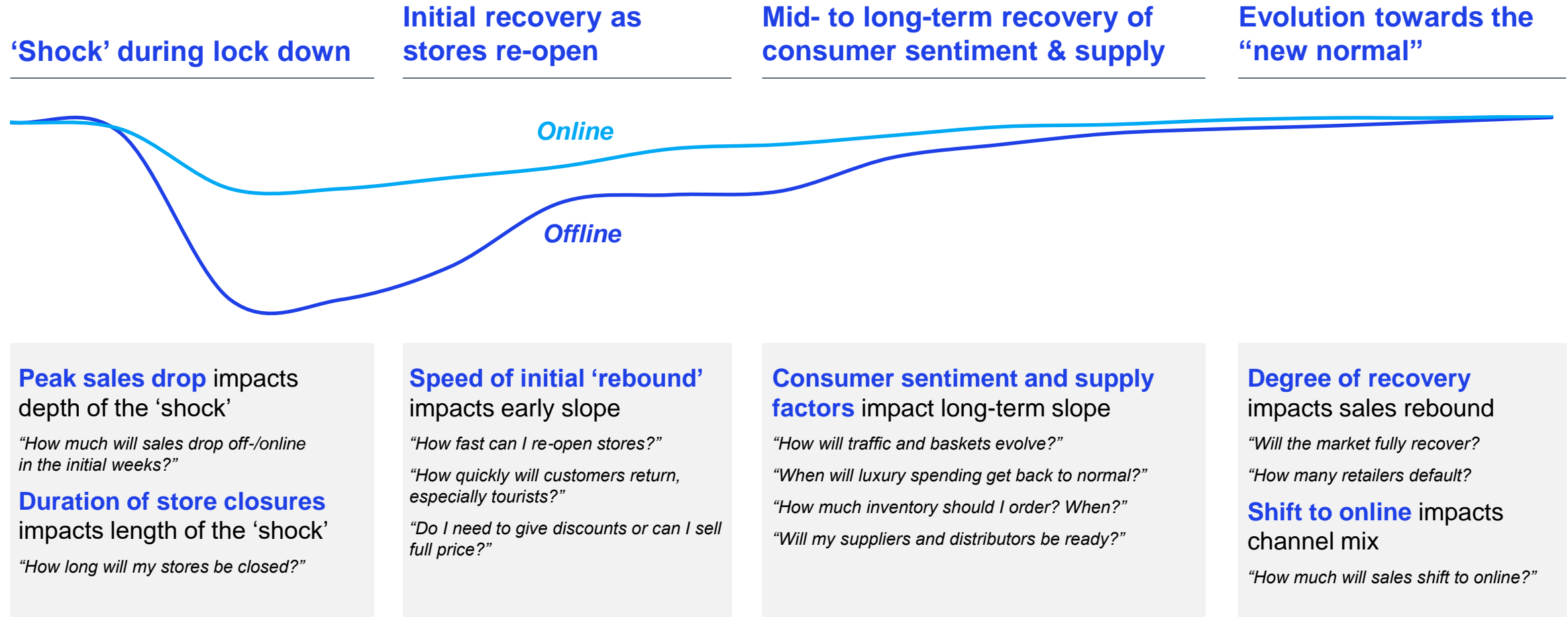
Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

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

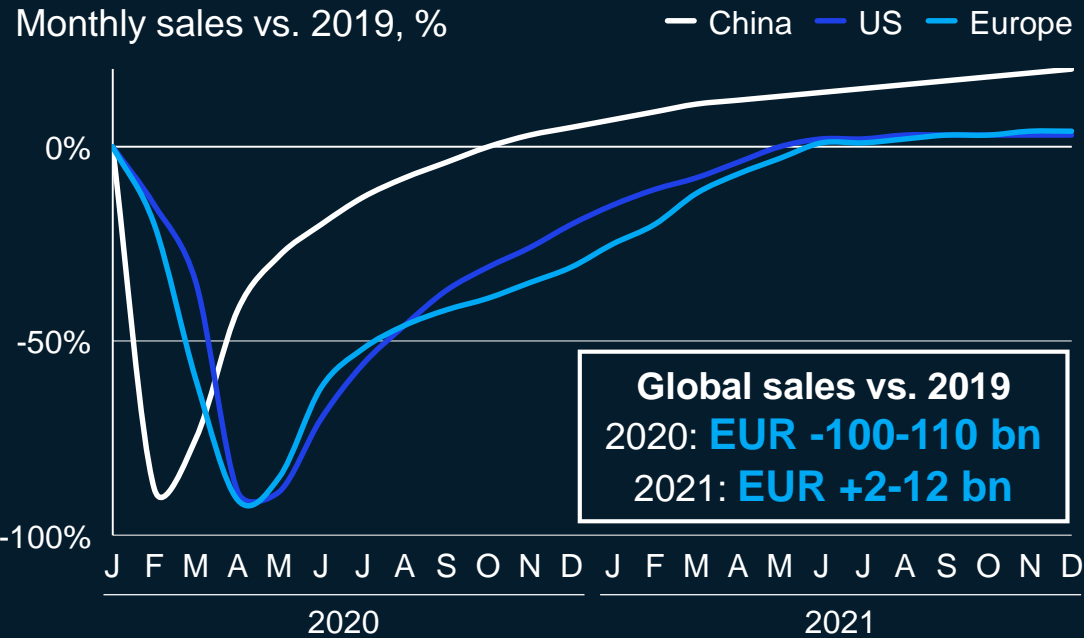
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— Offline — Online



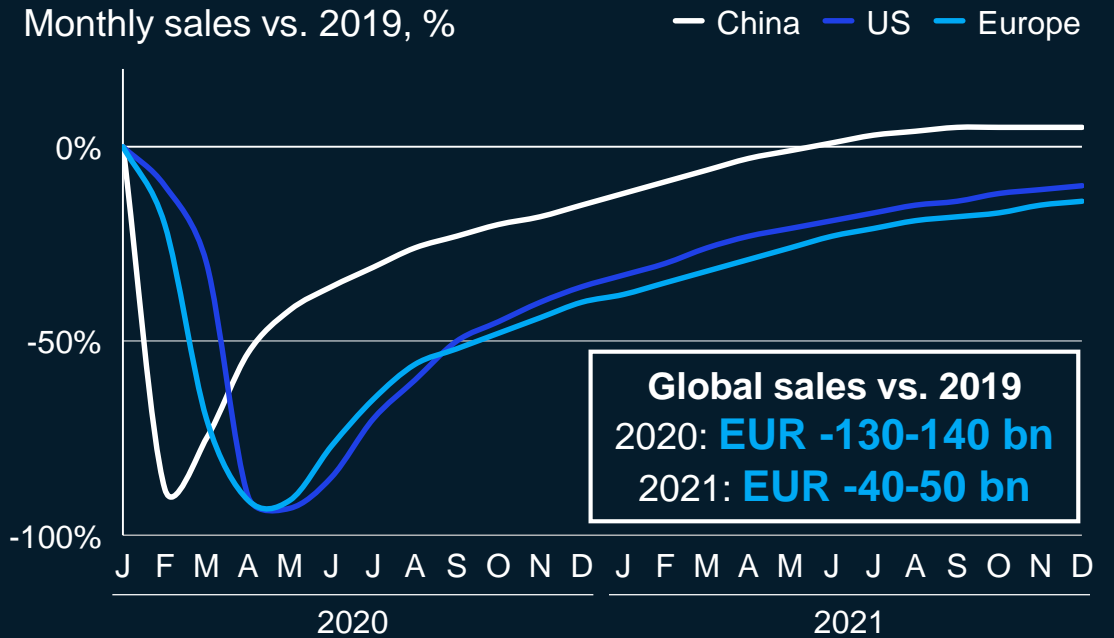
In 'Scenario A3', global luxury sales could drop by EUR 100-110 bn in 2020, while 2021 sees return to 2019 levels; 'Scenario A1' paints a darker picture

Scenario A3 - Virus contained, growth rebound



				Global
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%

Scenario A1 - Virus resurgence; slow growth

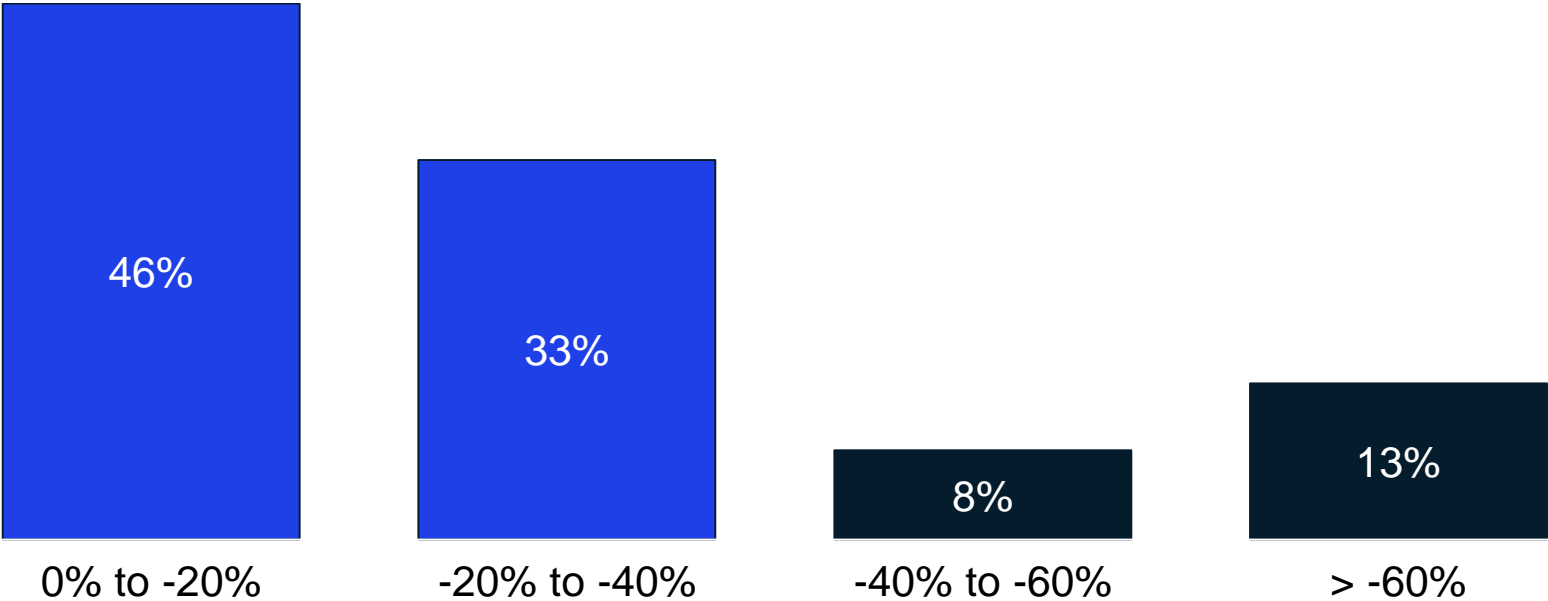


				Global
Return of sales to 2019 levels	Q2 2021	Q2 2023	Q4 2022	Q3 2022
2020 vs. 2019	-33-37%	-53-57%	-49-53%	-46-50%
2021 vs. 2019	-4-0%	-21-25%	-16-20%	-14-18%

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)



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



Camera Nazionale della Moda Italiana

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

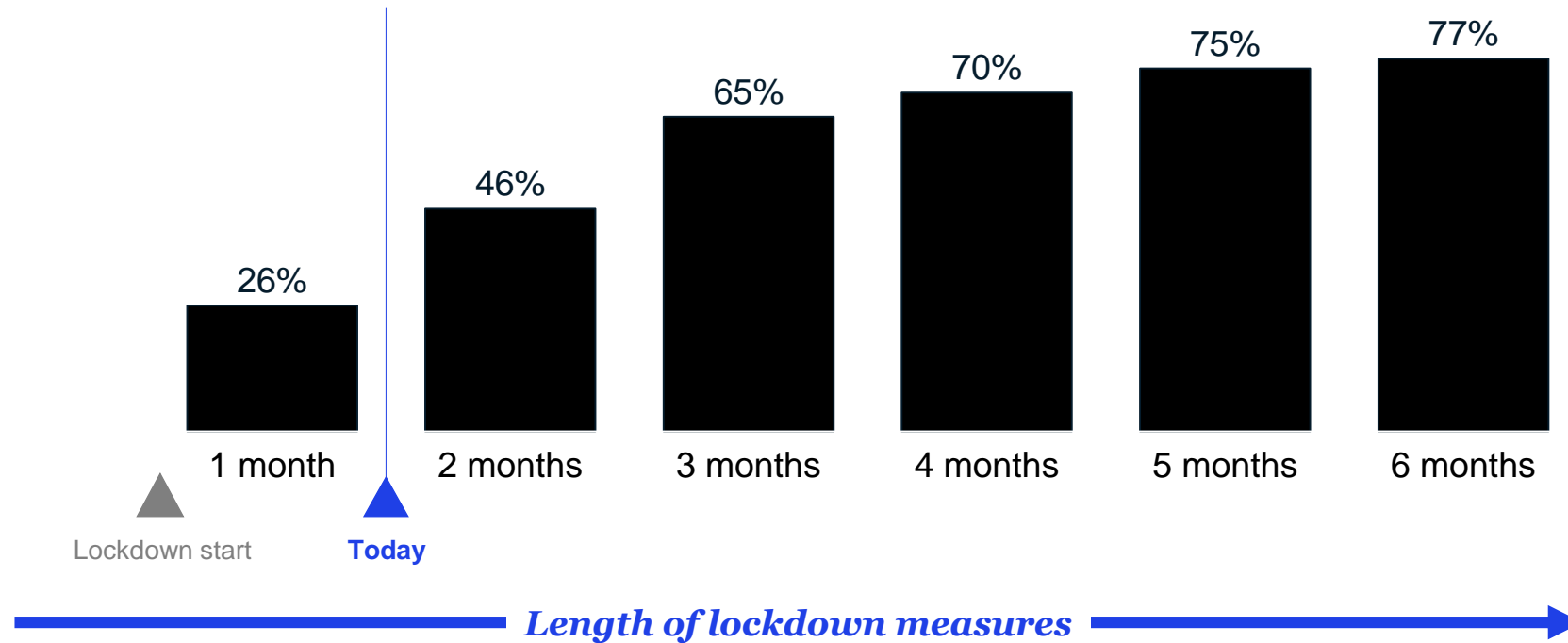
The wholesale channel (department stores and independent) will be hit particularly hard ...

Deep dive independent Wholesale Italy



Companies exposed to liquidity risk

% of total¹



¹ Sample of analysis: 81 independent multi-brand wholesalers (excluding Department Stores)

² Fondo Integrazione Salariale (FIS)

Protect the brand

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

... while from a category view, consumers postpone especially jewelry, watches, and eyewear purchases



Q: Which product you would give up first?



- 1. Jewelry
- 2. Watches
- 3. Perfumes



- 1. Eyewear
- 2. Watches
- 3. Jewelry



- 1. Jewelry
- 2. Eyewear
- 3. Cosmetics



- 1. Jewelry
- 2. Watches
- 3. Eyewear



- 1. Jewelry
- 2. Watches
- 3. Eyewear

Q: Which product you would give up last?



- 1. Clothing
- 2. Cosmetics
- 3. Bags and leather goods



- 1. Clothing
- 2. Cosmetics
- 3. Bags and leather goods



- 1. Clothing
- 2. Bags and leather goods
- 3. Perfumes



- 1. Perfumes
- 2. Clothing
- 3. Cosmetics



- 1. Clothing
- 2. Cosmetics
- 3. Perfumes

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



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



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

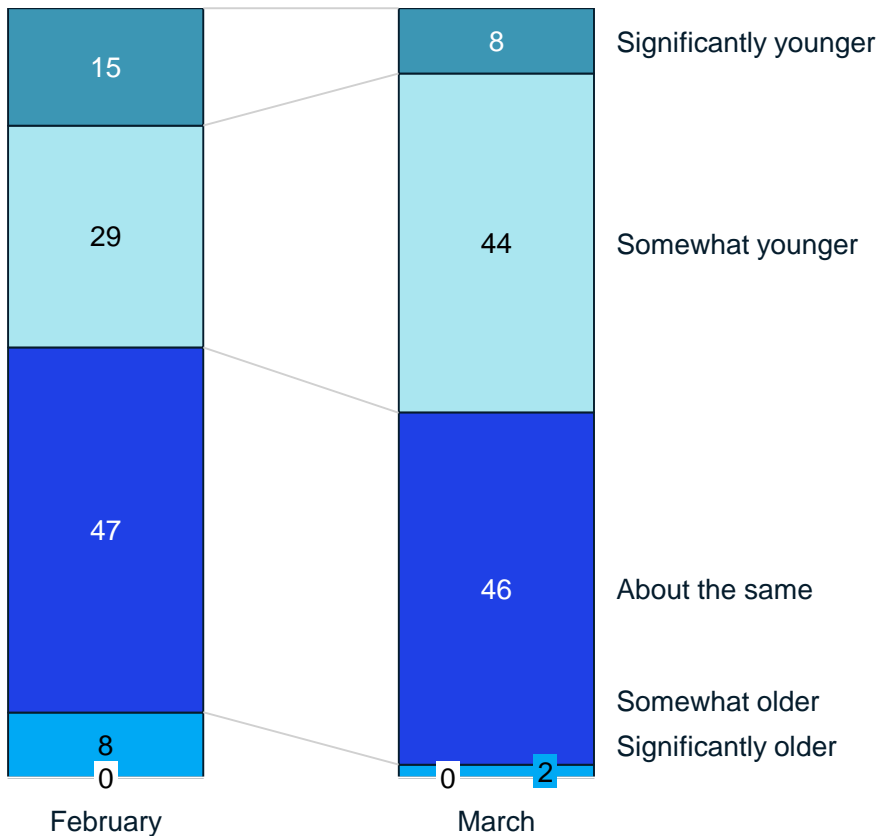
Young(er) luxury consumers are contributing to the rebound: **~55%** of stores surveyed had on average younger customers vs. pre COVID-19, while none had older customers

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

Young(er) consumers lead the recovery

Customer age groups compared to same time last year

Share of responses, N=59



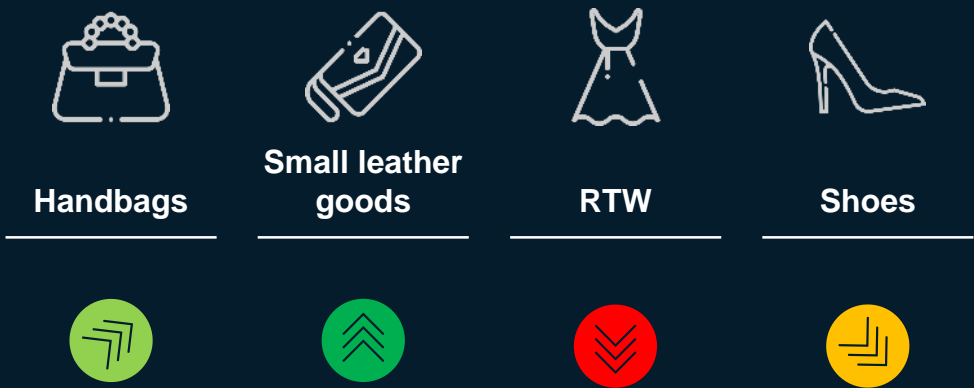
Q. How has the traffic mix changed between last year and [time period] in terms of age distribution?

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



||

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

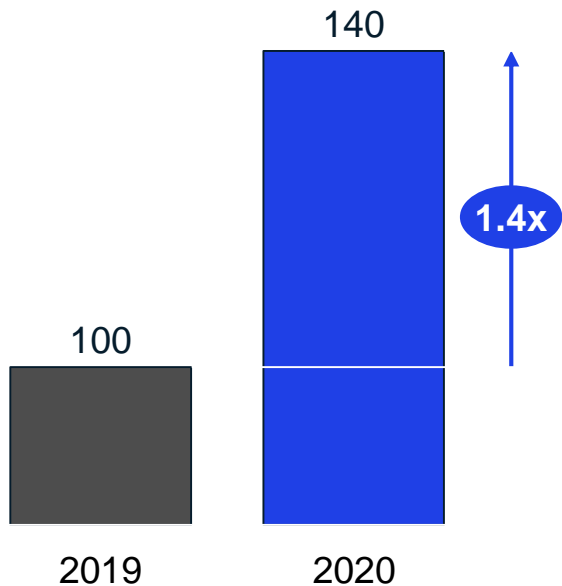
~South Korea luxury brand GM

||

For luxury, online engagement intensified during the crisis in China

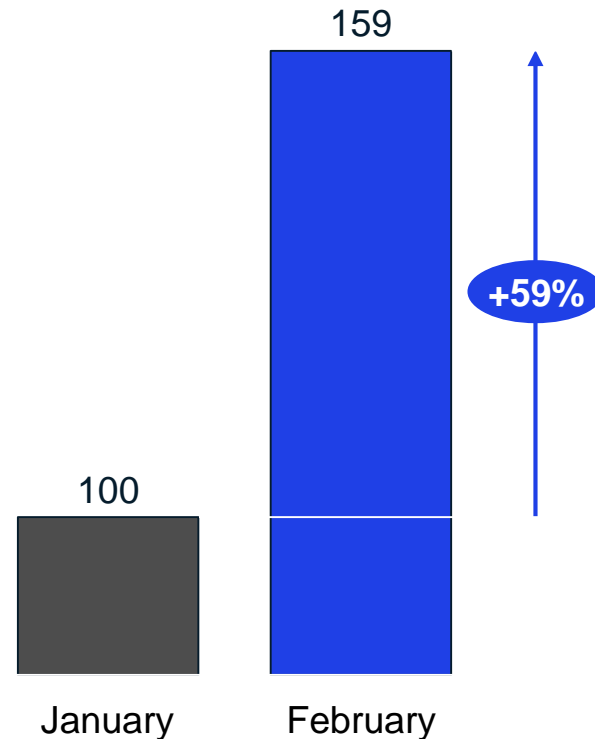
Tmall Women's Day (March 8) luxury category sales

Index 2019 = 100



WeChat luxury fashion mini program traffic

Index January 2020 = 100



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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

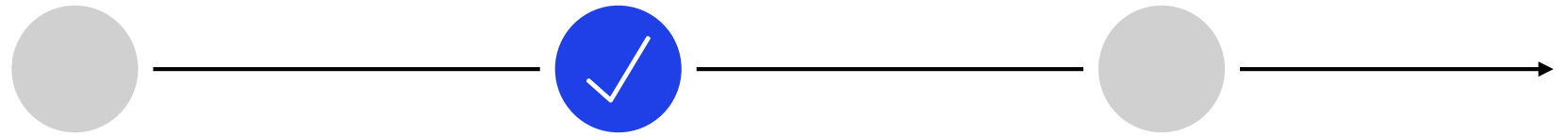
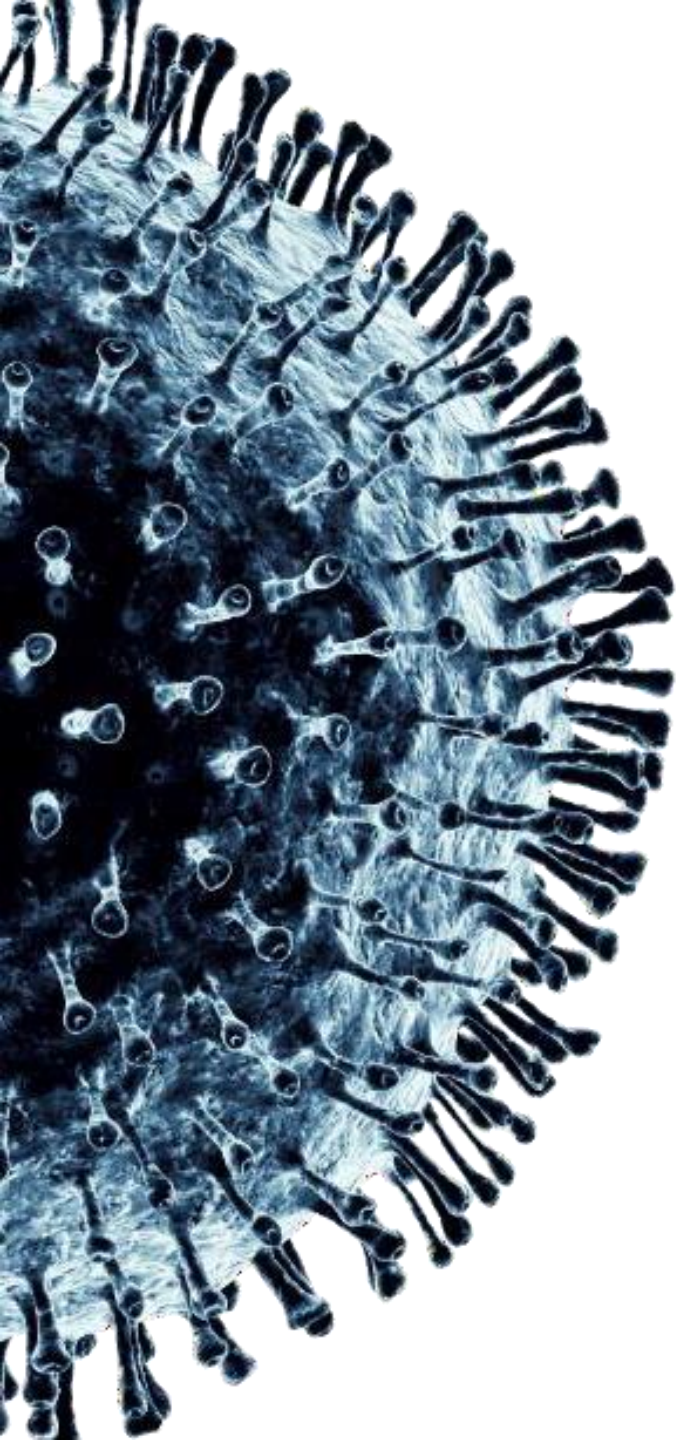
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Demand for luxury brands has remained strong throughout the crisis...

~China luxury executive

||



Navigating the storm

What is the impact on the industry?

Coming out of the storm

What are the priorities in managing the crisis?

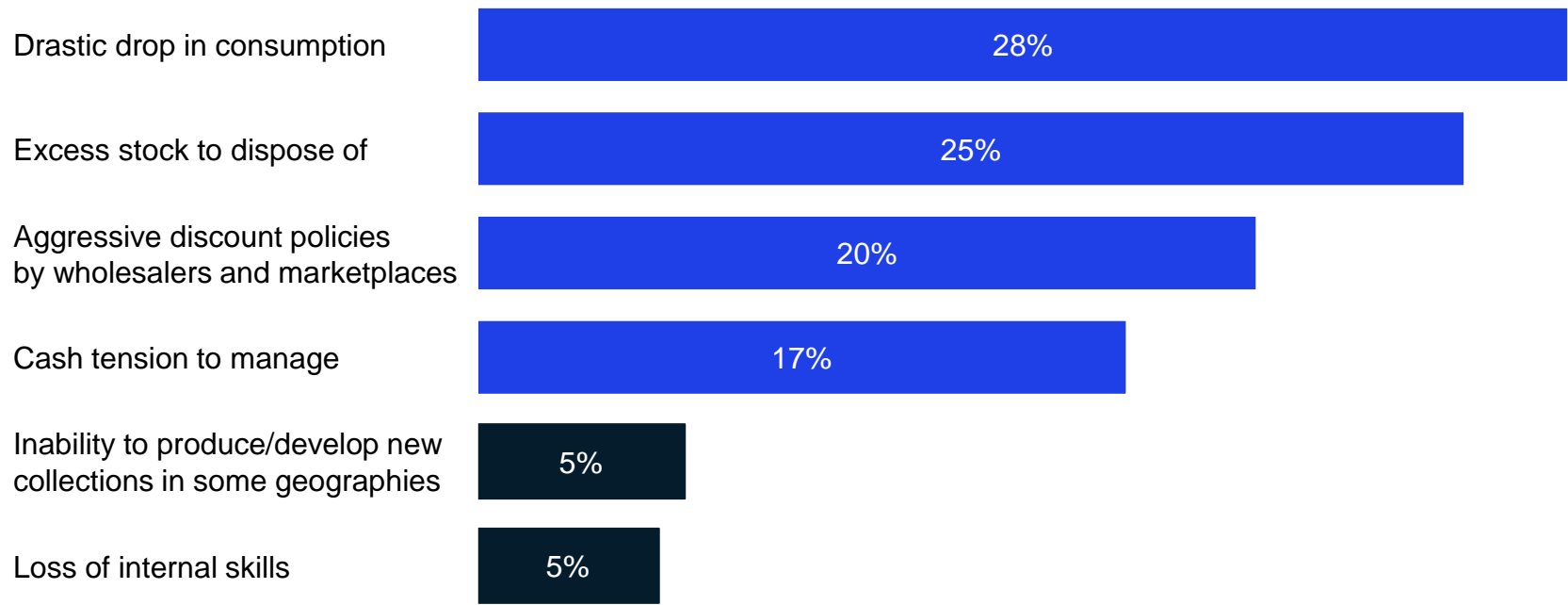
Managing the new normal

How does the new normal look like after the crisis?

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)



Demand drop, excess stock & discounts

CXOs are particularly concerned around the drop in consumption and resulting issues around excess stock and discounting

On top, cash is a key consideration for many players

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



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

1

Excess stock in-store, delays next season

Brands will have **excess inventory** for **Summer 2020** collection, and may experience **delay** in **getting Fall 2020** products

2

Supply chain disruption

Stay in close touch with suppliers to **ensure their financial sustainability** and **ensure orders get prioritized** when they re-open

3

Small brands & fashion items

Brands most affected will be **small to medium fashionable brands** who don't control their distribution and aren't seen as "investment values"

4

Upcycling & sustainability

Focus on **upcycling and developing sustainability capabilities** to recycle components of excess inventory and engage consumers

5

Wholesale distribution

Think carefully through liquidation strategy – **wholesale partners** will likely consider aggressive discounting and need to be managed



Leftover volumes can increase by 3x for apparel following the sales drop

Leftover of total planned sales volume for typical luxury brand

EUR bn

Seasonal lines Continuity lines

Total Luxury Apparel Buy SS 2020

48

4

Typical Leftovers (75% ST for apparel, 95% for accessories)

12

Planned Sales SS 2020

36

4

40

Leftovers due to closures and lower sales

19

Sales drops without leftovers

2

Forecast Sales SS 2020

17

2

3x

Leftover could triple in apparel, reaching 150% of sales

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

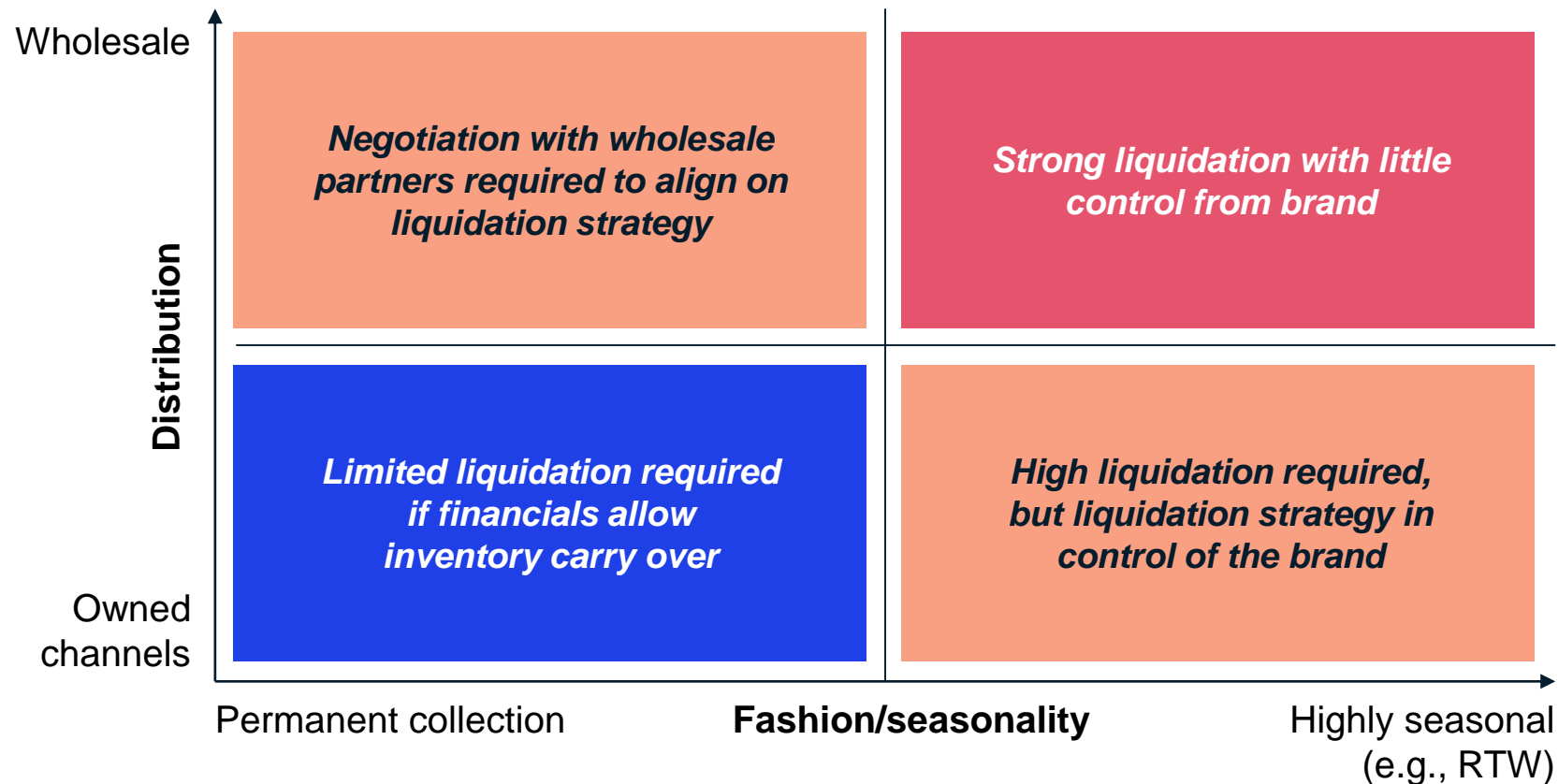
Overall leftovers almost triple for apparel, reaching 150% of expected SS2020 sales when calculated at retail price

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



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

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

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 ...

Key building blocks for the Luxury industry

1

Store safety

Provide a safe store environment and develop emergency protocols minimizing risk of infection for both employees and customers

2

Regain traffic

Activate customers to regain traffic and to deepen relationships – from eCommerce back to stores

3

Optimize store network

Renegotiate lease costs, selectively close stores temporarily (e.g., in tourist destinations) and evaluate long-term closures where sensible

4

Flexibly staff personnel

Flexibly adjust personnel to operative requirements by e.g., limiting opening hours or simplification of operations

5

Manage shortages & overstock

Restart production and deal cautiously with overstock and ensure supply chain visibility



... with concrete activities in each of the 5 areas

— Deep-dive on next pages ● Consistently planned by majority of players ● Only planned by few players

Store safety



- Split staff into fixed groups scheduled together to minimize risk of infections across teams in stores and production
- Emphasize staff hygiene through hand sanitizers and protective equipment (masks/ gloves/sneeze guards) reinforced through trainings
- Offer customers protective equipment at the entrance and overcommunicate hygiene measures
- Check health of staff & customers at entrance and limit # of people allowed in store
- Develop scenario based protocols on how to react, e.g., in case of factory worker, staff or customer infections

Regain traffic



- 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)
- Shift investments to social media channels focusing on image building and customer engagement incl. promoting communities through virtual gatherings and sales events
- Launch new partnerships to increase digital reach
- Test new solutions to push traffic incl. virtual showrooms
- Strengthen your brand by meaningful communication
- Unleash waitlisted or limited edition products to create buzz

Optimize store network



- Renegotiate leases for stores, change from fixed to variable rent
- Evaluate continued temporary store closure for stores in tourist destinations
- Evaluate permanent closure of underperforming locations or locations expected to be hit by crisis for longer
- Complete refurbishment and maintenance work now to avoid business disruption later

Flexibly staff personnel



- Limit opening hours to core traffic times only and plan ahead for step-wise extension of hours
- Flexibly allocate staff toward operative needs; ramp down as long as stores closed
- Rethink and simplify operations management structure in stores and regions
- Shift accumulated “non-working” hours to peak times later in year

Manage shortages & overstock



- Restart production on most demanded and profitable items with safety measures in place
- Communicate shortages as ‘exclusivity’
- Be cautious of your liquidation strategy; wholesalers will likely discount aggressively
- Introduce newness only selectively, keeping majority of new product for fall season
- Focus on upcycling and developing sustainability capabilities to recycle components of excess inventory
- Ensure supply chain visibility and ensure production incl. raw materials for next season are secured
- Be prepared for different scenarios and take into account demand/supply impact on different locations



1: A safe store environment requires preparation & planning

List of preparation & planning measures

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

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



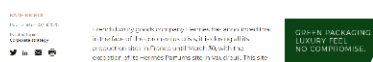
Demonstrate purpose

Hermès has both been an **early contributor** to the **recovery efforts** in China, as well as in **financially supporting hospitals** in Milan, Rome and across Paris region (**€ 20 mn**). In addition factories stayed open to produce hand sanitizers and masks (20k).

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**

Louis Vuitton launched the “**Love has no fear**” campaign on the platform **Weibo** generating **4.2 billion views** in the first week

Hermès produces hand sanitizer at perfumes plant



Drive customer engagement

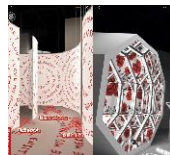
Online pop-up stores: Louis Vuitton and Prada opened sales-associate driven popup shops on WeChat

Product-driven livestreaming: Shanghai based luxury eco brand Icicle launched sales livestreams

Virtual events: Dior and Lanvin hosted cloud fashion shows – Lanvin even leveraging VR; another luxury brand hosted yoga w. celebrities

Campaigns: Prada leverages influencers to push the campaign #pradaacronym on WeChat and Douyin

Gestures: Hermes invited VIP customers for dinner, Chanel sent fruit baskets to key customers



Communicate meaningfully

Dior clearly listed **delivery and customer service times** on its website

Prada notified customers on **changes in store operations** via WeChat and website

Burberry **notified it's stakeholders** incl. suppliers, delivery partners and employees on shop closures



Target local customers

Brands now need to **double down on local customers** with travel restrictions potentially remaining

- Dolce & Gabbana initiated its campaign #OrgogliolItaliano to **appeal to national sentiment**
- Richemont's Yoox Group offers its “**You try, we wait**” service in **Dubai** once lockdown is lifted



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

COVID-19 is heavily impacting the Swiss luxury watch industry

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 Baselwatch 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

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 launches¹**



Audemars Piguet announced a **shut down 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**



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

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



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

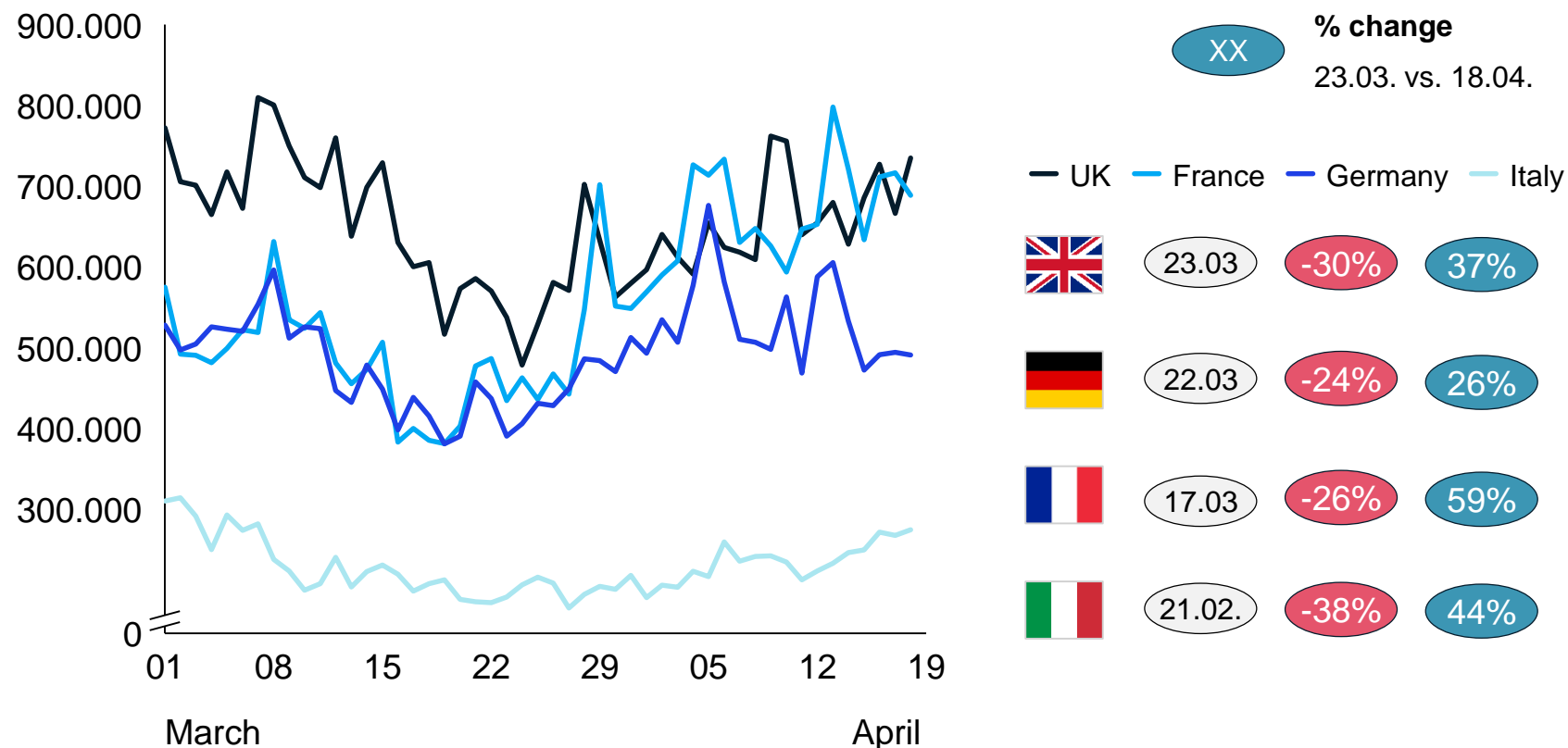
CRM takes on an even more important role for luxury brands - work hard on your database to stay connected



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



1. Consumers with > 500 EUR monthly clothing spend

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 consumers¹ state they browse fashion eCommerce sites daily during this crisis



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



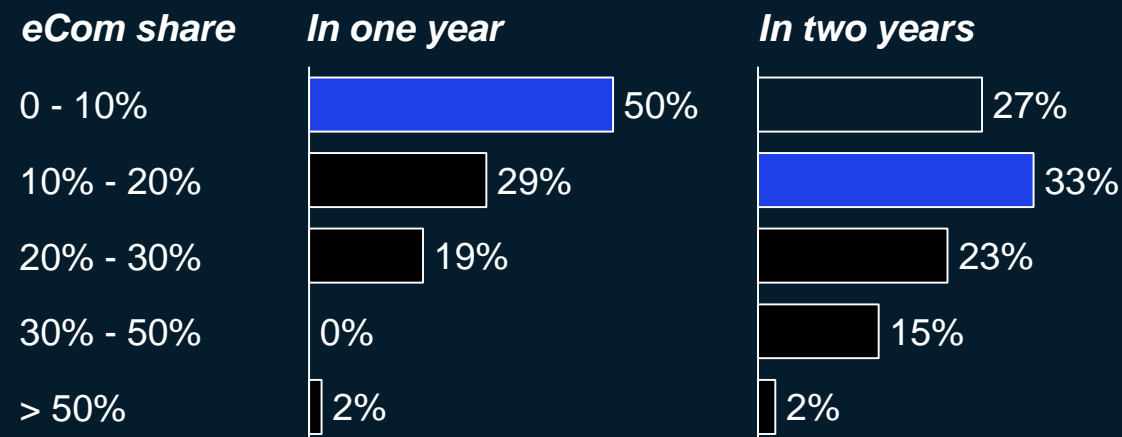
Q: How much do you think will be the online incidence on overall revenues?

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

After the crisis

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*)



1: As a result, online is fast becoming a must-have for luxury brands



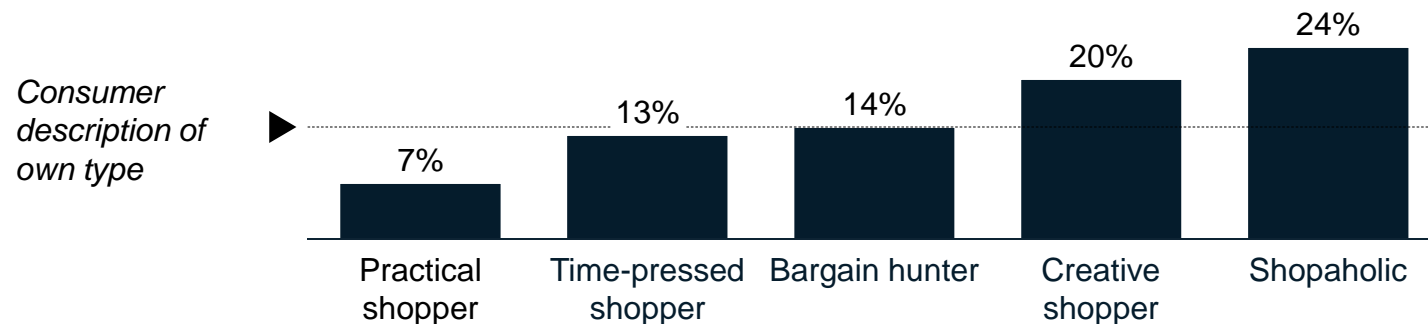
Now is the time luxury consumers¹ experiment with fashion online ...

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



1. Consumers spending >500 EUR per month on apparel

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 crisis¹

LVMH



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

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

1. Especially consumers who see fashion as a form of self-expression or consider themselves shopaholics
Source: McKinsey COVID-19 Apparel & Fashion survey, N=>6000, 27/3-29/3 2020, Edited.com, access March 27, 2020

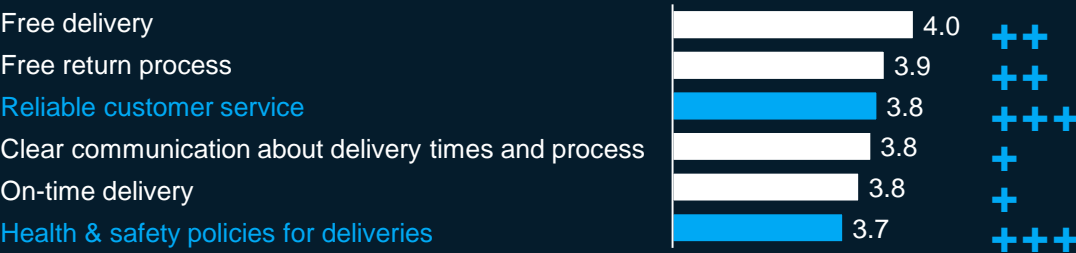


Tailor messaging across channels ensuring safety and business support continuity to build trust with customers

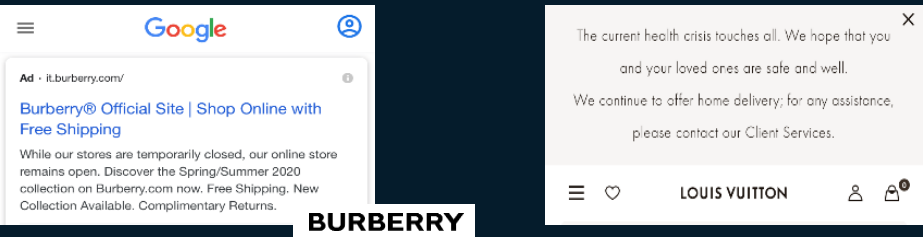
46% of consumers state they value honest communication on how the crisis is affecting service levels

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)



Example of proactive information on changed service levels



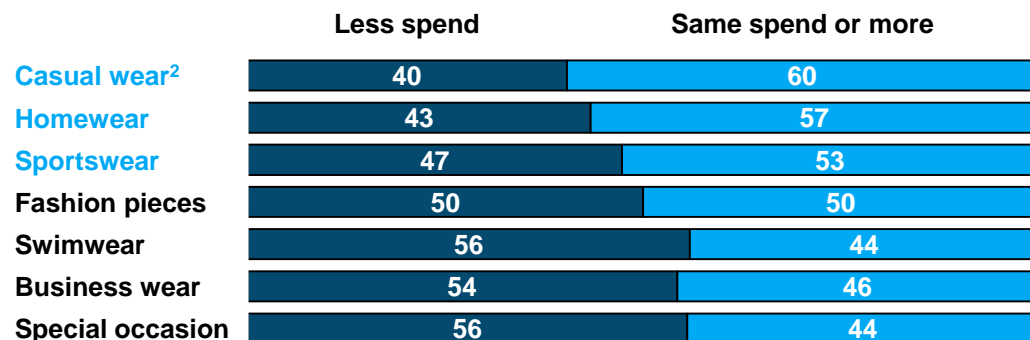
Digital advertising creative Pop-up banner on the website



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



Luxury consumers¹ 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

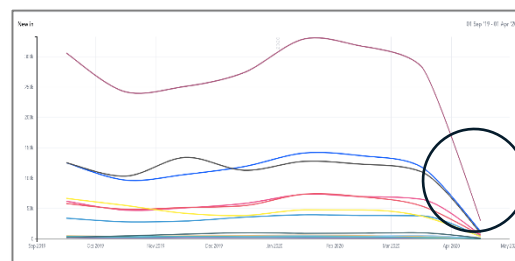


Exhibit: Indication of new product drops in luxury, by category

Take action for upcoming seasons

- ✓ 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**

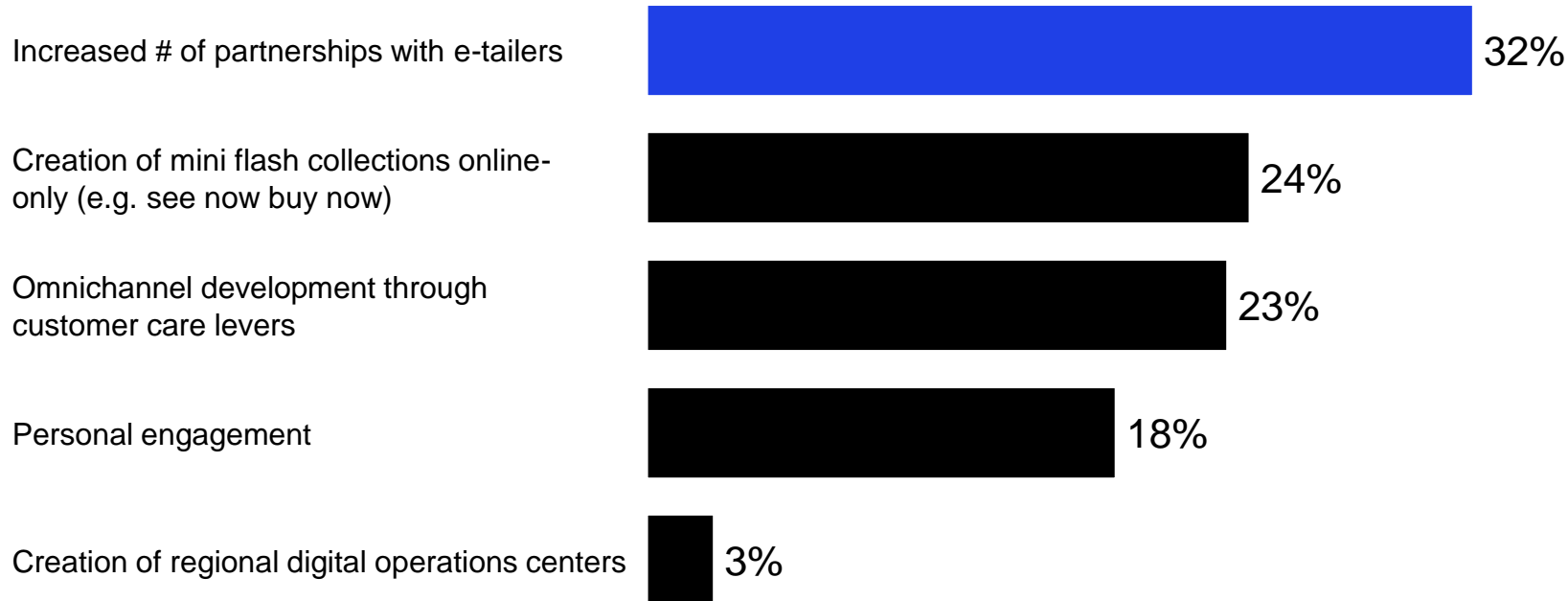
1. Consumers with >500 EUR monthly fashion spend



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)



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



PITTI IMMAGINE



Camera Nazionale della Moda Italiana

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

e-tailers first

One third of CXOs sees increased partnerships with e-tailers as a key means to rethink the online channel

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

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

END.

SSENSE

MATCHES
FASHION.COM

MYTHERESA

Examples of Covid-19 response in retail

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**

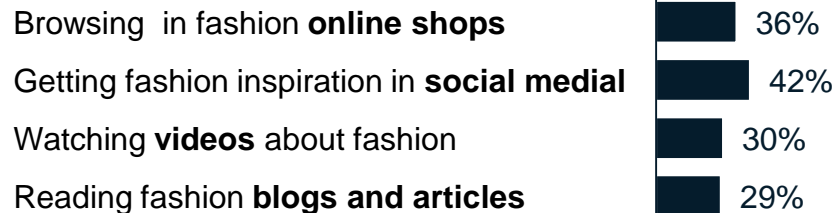
Consider **using your own stores to bridge gaps** in fulfillment and **optimize inventory**

5: Use creative & personalized forms of engagement



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

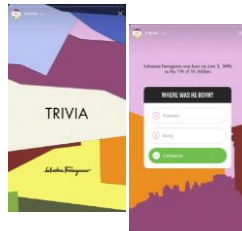
Share of luxury consumers planning to engage in the following activities online on a daily basis during the next 4 weeks:



... 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 walks" 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



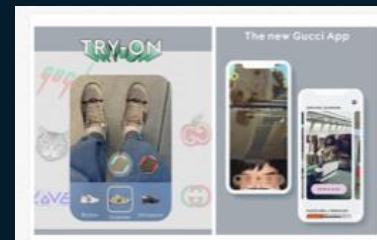
Louis Vuitton –
WeChat mini program

Product-driven
livestreaming



Burberry –
KOL livestream

App with digital features
including virtual try-ons



GUCCI launched new app to
engage customers

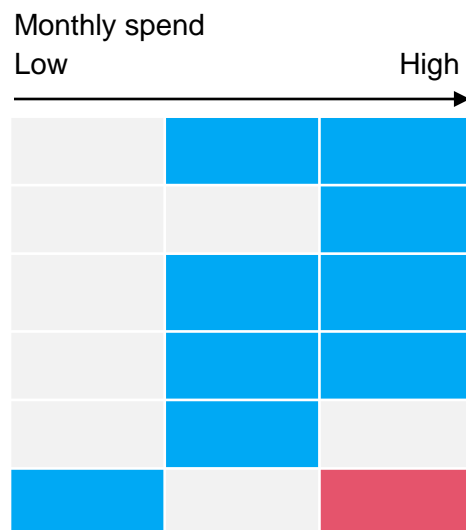
- ✓ **New digital formats** have been integral to **start recovery in China**, innovative, **tech-enabled marketing** boosts digital engagement - e.g. sales-associate-driven virtual pop-ups, livestream commerce, virtual reality, broadcasted influencer-curated assortments
- ✓ **Live streams have proven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



... 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

Source: McKinsey COVID-19 Apparel & Fashion survey, N=>6000, 27/3-29/3 2020, Edited.com, access March 27, 2020, Maeil Business Newspaper, April 4; press search



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



Dior

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



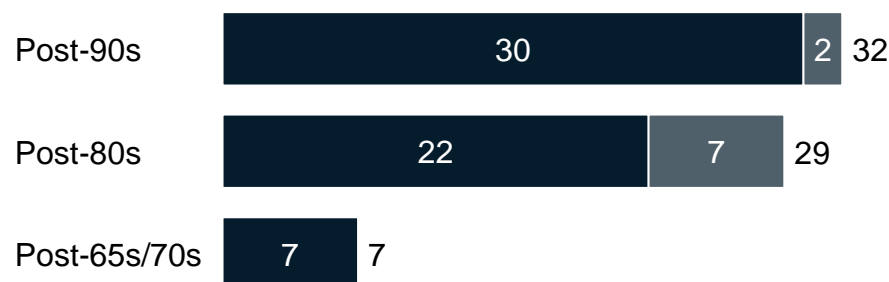
Deep dive Watch Industry: A prolonged crisis may push more brands in an historically offline industry to reconsider eCom

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

Likelihood to buy luxury online in next 12 months, by age group

Percentage of consumers

■ Probably will ■ Definitely will



“” Online sales of luxury watches account for less than 5% of all sales¹, despite Richemont, Swatch Group and LVMH opening doors to eCom

“” Three of the most prestigious and largest luxury brands – Rolex, Patek Philippe and Audemars Piguet – have rejected to sell online prior to COVID-19 outbreak

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



Patek Philippe allowed sales of its watches online for the first time in history as of 20 March 2020



Certain products of the exclusive luxury brand are now available online for the first time in history, through e-commerce platforms of distribution partners such as Watches of Switzerland, London Jewelers and Berry's

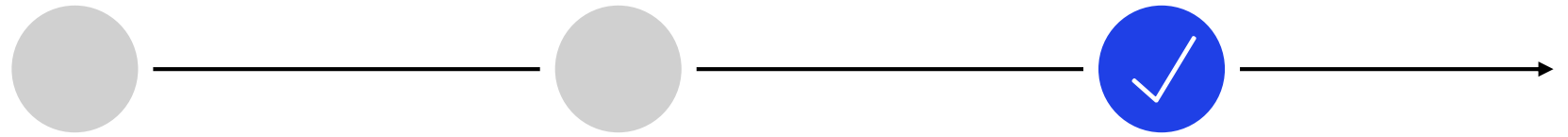
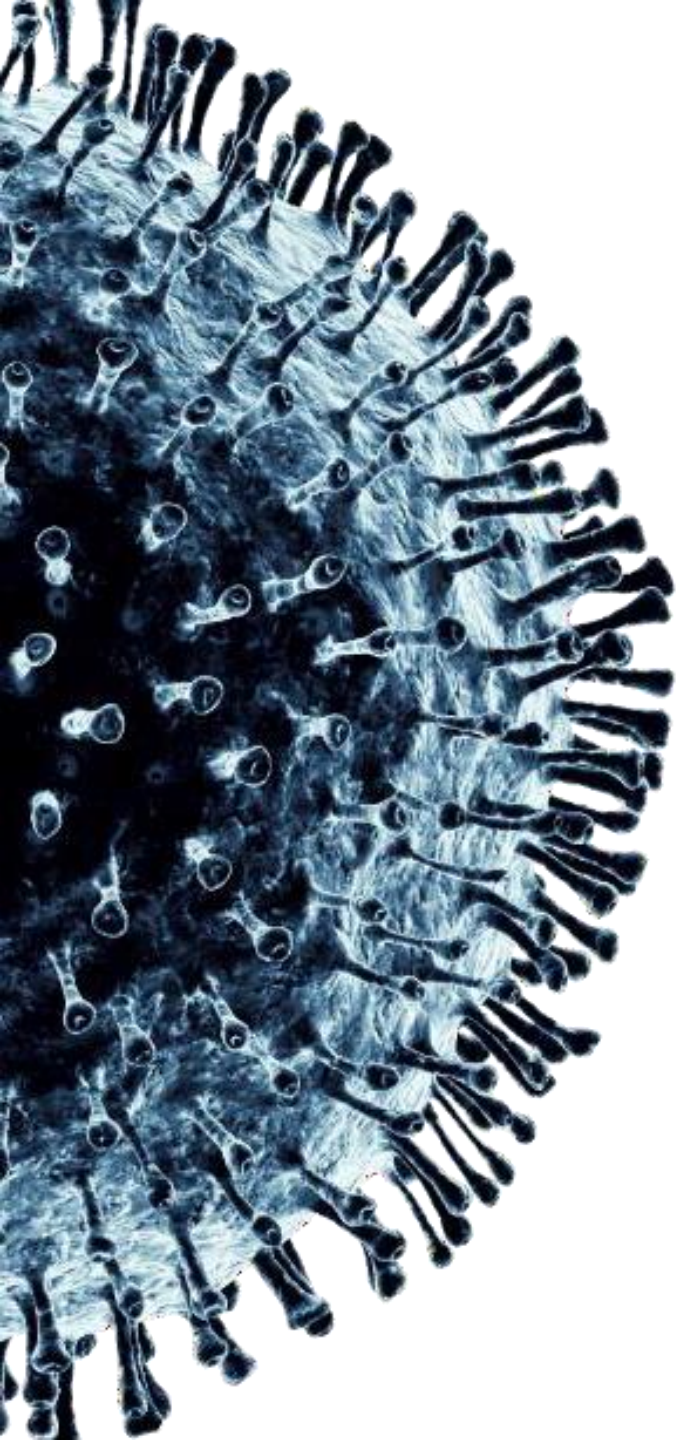


Could this prove to be the final nudge for the *maison* to begin e-commerce through their own channels? And will other luxury brands that breathe the same rarefied air follow suit?²



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.”³

1. Mercury project 2. www.timeandtidewatches.com 3. watchtime.com



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



50%

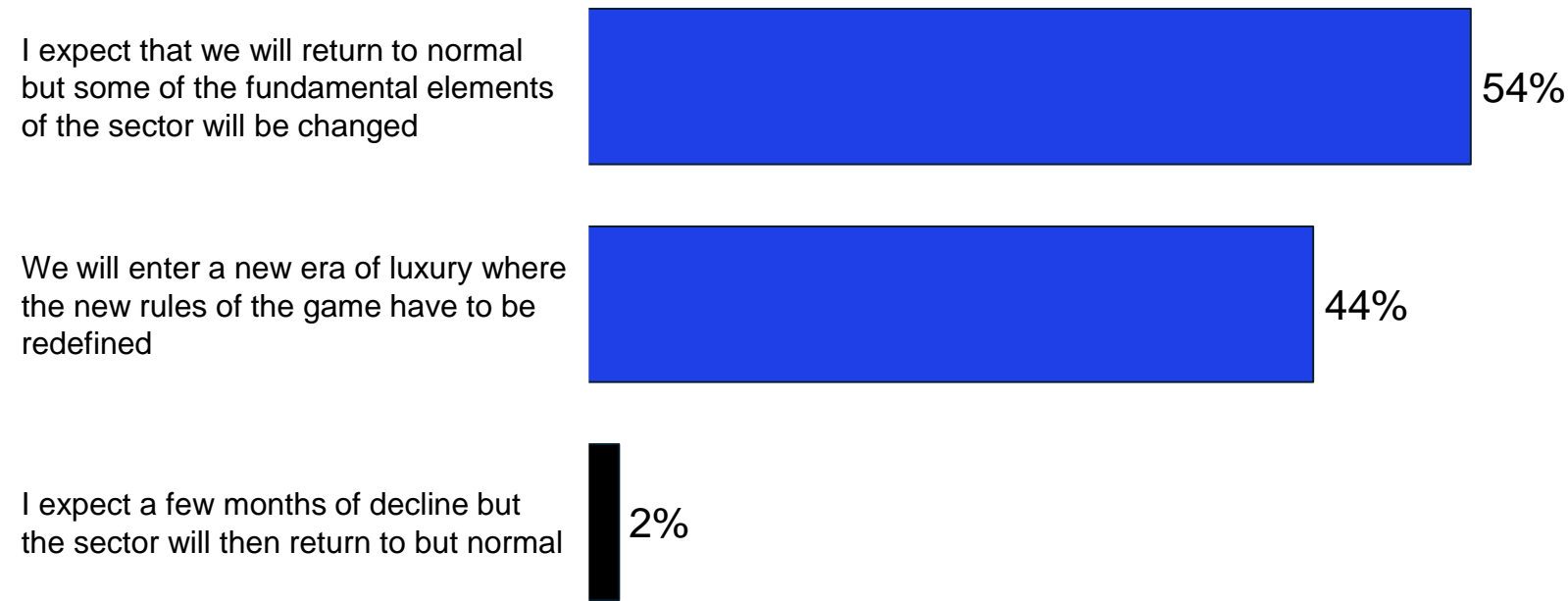
Q: How do you best define "luxury" now?

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)



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

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



Camera Nazionale della Moda Italiana

Five themes from the Coronavirus update

GLOBAL ECONOMY

01. Survival Instincts

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

Percentage of fashion industry employees who perceive their company's planning for recovery post-crisis response as ineffective

30%

CONSUMER SHIFTS

02. 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.

Percentage of consumers who said special promotions were an important Factor when Shopping for clothes in the 4 weeks leading up to 29 March 2020

56%

03. 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.

Year-on-year increase in livestreaming on Chinese e-commerce website Taobao since the outbreak of COVID-19

>700%

FASHION SYSTEM

04. 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.

Percentage of fashion companies who would be in distress after More than 2 months of store closures

80%

05. 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.

Percentage of fashion industry employees that perceive their company's planning for post-crisis recovery as ineffective

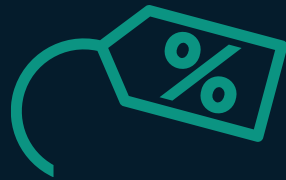


Key questions to ask yourself



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?



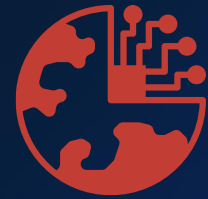
Digital Escalation

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

These are suggested practices, in many cases adopted by companies across sectors. We do not offer recommendations on sufficiency, adequacy or effectiveness of these measures. You can derive no rights or make decisions based on this material.

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