

Analysis on the Different Response of Fast Fashion Brands and Luxury Brands to the Epidemic

Wen Peiyu

New Hongqiao High School, Shanghai 200051, China
Email: 2621495962@qq.com

ABSTRACT

The fashion industry is one of the most important industries in the world economy, and it has always had strong competitiveness in trade exchanges. The outbreak of the epidemic triggered great turmoil in the global financial market, which had varying degrees of negative impact on fashion brands of all levels: production lines were forced to stop, stores closed, and sales fell sharply. Many brands therefore had to make a series of measures and changes to promote consumption: a large number of layoffs, expand their marketing channels, and enrich their marketing methods. This paper aims to analyze the response strategies and reasons for the price increase of luxury brands and the price drop of fast fashion brands in response to the outbreak of COVID-19 in late 2019 and the first half of 2020, compare their similarities and differences, and make predictions and recommendations for development. Fast fashion brands mostly cut prices because their brand value is closely related to the trend, while luxury brands mostly raise prices because their brand value lies in their own culture.

Keywords: Fashion industry, COVID-19, fast fashion brands, luxury brands

1. INTRODUCTION

From the end of 2019 to the first half of 2020, the sudden attack of the new crown epidemic had a huge impact on the global economy. More and more people are dismissed and forced to be isolated at home, resulting in a sharp decline in people's demand for the fashion industry. The devastating effects of the virus have destroyed the entire fashion industry and exposed the fashion industry to danger. How will different levels of brand reforms survive the downturn brought about by the epidemic? Faced with such a sudden emergence of an uncertain factor, the brand must overturn all previous plans and make new marketing strategies for current situation. In the face of the economic downturn brought by the epidemic, most luxury brands choose to increase prices while fast fashion brands have reduced prices to increase consumption. This paper will compare and analyze the different response strategies adopted by luxury brands and fast fashion brands to cope with the epidemic crisis, and give suggestions and forecasts on the outlook of the fashion industry. The research contributes to the growing literature on the strategies of different levels of brands facing the crisis.

1.1. Fast Fashion Brands and Luxury Brands under the Epidemic

1.1.1. Current situation of the pandemic

Since December 2019, there have been multiple cases of COVID-19 patients in Wuhan City, Hubei Province, China.

Until July 31, 2020, there were more than 17.1 million confirmed cases of COVID-19 patients worldwide, and more than 660,000 reported deaths worldwide. The Director-General of WHO said in his speech that "The pandemic is a once-in-a-century health crisis, the effects of which will be felt for decades to come." [1] Such a large-scale and long-lasting epidemic will undoubtedly bring economic impact, an unprecedented shock. COVID-19 affects the global economy in three main ways: directly affecting production, causing chaos in supply chains and markets, and financial impact on businesses and financial markets. Countries have begun to implement forced work stoppages and people are forced to isolate themselves at home. Global GDP stagnated, international trade fallen, and global economic recession become an indisputable fact.

1.1.2. Fast fashion brands under the epidemic

Fast fashion, which can be defined as cheap, trendy fashion products, has always been loved by people. H&M, ZARA, Uniqlo are three well-known fast fashion brands. However, the closure of physical stores and the suspension of express delivery have caused the online and offline sales of these fashion brands to plummet. In order to maintain the stability of the company's internal capital turnover, many fast-moving brands have chosen to close a large number of physical stores and lay off a large number of employees to reduce the cost of rent and employee wages. H&M, serving 74 global markets, has closed 3,441 stores out of 5,062 while keeping about 50 online digital markets open according to the latest press release. Zara opened 51percent of its 7489 stores temporarily closed and 156 online markets continuing to operate[2]. In response to the

financial strain caused by the epidemic, most fast fashion brands have adopted a discount strategy.

1.1.2.1. Taking Zara as an example

After the coronavirus outbreak, the owner of Zara has closed 3,785 stores worldwide. In the first two weeks of March, the group's sales fell by 24.1% due to the impact of store closures. The company said that as the epidemic has reduced the value of its stocks during the spring and summer, it will set aside a reserve of 287 million euros (262.9 million pounds). Inditex, the Spanish owner of the high street retailer, also postponed its decision on whether to pay dividends until later this year [3]. Obviously, the biggest reason for the decline in sales is that people stay at home for too long, so they are reluctant to go shopping. Zara also formulated a new sales strategy in time. In order to promote sales, Zara specially designed a discount link on the Spanish official website; it gave a discount of as low as 50% on the Chinese official website. Zara has to lower its prices for a period of time to adapt to the changes in this market and attract customers. But while the price is being cut, the quality of the clothes cannot be reduced, otherwise it may increase the customer churn rate.

1.1.3. Luxury brands under the epidemic

The decline in sales caused by the outbreak also hit jewelry brands and most of them are raising prices to make up for their losses. French luxury brand Chanel has decided to suspend operations for two weeks and gradually close its production bases in France, Italy and Switzerland. Chanel is not the first company to adapt to this epidemic. As the focus of the epidemic has shifted from Asia to Europe, luxury brands have closed stores in affected areas, canceled or postponed some activities, and suspended production to curb the spread of the epidemic. As for the suspension of production, Gucci will close its 6 factories and all physical stores in Italy from March 17th, and all physical stores in Italy will be closed until April 3rd. French luxury goods group Hermès has also closed 42 factories. The French website until March 30 [3].

1.2. Comparison between Fast Fashion Brands and Luxury Brands in Surviving the Epidemic

There are obvious differences between luxury brands and fast fashion brands in their survival strategies in the face of the epidemic. Luxury brands mainly increased prices while fast fashion brands mainly reduced prices. Most fast fashion brand goods only have a temporary heat, the sales volume of goods and social trends are closely related. Once the inventory exceeds the prime time to sell, the price of goods is usually reduced. Compared with fast fashion products, luxury goods are more valuable. The value of

many products will only increase over time, and limited-edition products can reach sky-high prices in the second-hand market. The epidemic has prevented people from travelling but not stopped the evolution of fashion trends. Fast fashion brands need to get rid of out-of-season goods through discounts, while luxury brands' own brand culture will not be affected. Therefore, people's demand for luxury goods has not been greatly reduced. What people lack is only purchasing channels. Asia has always been the region with the greatest demand for luxury goods, and many Asians will choose overseas purchasing agents to get discounts. Due to the suspension of overseas express delivery and travel restrictions, the original purchasing channel from Europe has also become a dead end, and people have to buy them in their home countries at a more expensive price. All luxury brands have seized on this point and increased the prices of their products. It may seem illogical to implement a price increase strategy in the midst of a global economic crisis, but in fact it is an emergency mechanism for luxury brands to maintain their performance. In the short term, price increases can stimulate consumers to place orders before prices rise, increase brand cash flow, and in the long run, increase profits and make up for lost brand revenue during the popularity period. Also, the biggest characteristic of luxury products lies in the spiritual added value beyond the function. Therefore, the courage of luxury brands to raise prices lies in their assurance to maintain the scarcity, and at the same time, the rising prices of luxury products can also provide psychological satisfaction to the consumers who have already bought them and cultivate them into a loyal consumer group. Price rises indirectly encourage people to spend in a timely manner. The increase in the price of luxury goods will give consumers a psychological hint that they will receive preferential purchases early, because the prices of luxury goods mostly only increase. What about the second - and third-tier brands, between the top luxury brands and the fast fashion budget brands? Tapestry group posted a net loss of \$677m in the fiscal third quarter to the end of March, down 19.4 per cent from a year earlier, compared with a net profit of \$117.4m a year earlier. Coach, its core brand, saw sales fall 20 per cent from a year earlier, while Kate Spade fell 11 per cent. The group admitted that to make up for the loss of performance due to the epidemic, the group also plans to continue to reduce the number of employees to reduce costs. The epidemic will accelerate the polarization of consumption [4]. Luxury goods are mainly to meet the needs of social leaders and self-satisfaction, while fast-moving products are mainly to satisfy basic life demand. Under the attack of luxury brands and rigid demand products, consumers will never pay a penny more for the middle-of-the-road luxury brands. Therefore, the main reason behind the different strategies of luxury goods and fast-moving products is that consumers treat the two products with different consumption motives and needs.

1.2.1. Online marketing trends for luxury brands

In the traditional sense, luxury has luxurious and elegant shops with soft and moving Windows. Digitization may not have been a priority for luxury brands in the past. But now, the epidemic highlights the need for digitization as a strategy for the future. The market performance in the second quarter of 2020 proves that luxury brands are willing to experiment with more online channel marketing, and the proportion of online sales will increase in the future. LV even started its first live broadcast sales in March 2020 on China's Red Book real-time streaming media platform. With so many fashion bloggers, media, and stars trapped in their homes and unable to leave the country, digital fashion shows are coming in droves. On March 3, 2020, Chanel collaborated with Tencent Video for the first autumn/winter 2020/21 couture collection in its live broadcast history. Statistics show that the audience of this exhibition reached 3.58 million, three times that of Gucci, Prada and other brands[5]. For cheap brands, the digital online business has been booming for a long time. As for the popularity of Amazon, Alibaba, and JD.com, you can see how popular they are. These e-commerce platforms are all based on selling cheap brands, and, of course, some luxury brands will be joining this year. In fact, no matter how to survive the impact of the epidemic, whether prices increase or decrease, online or offline, the purpose is to stimulate consumers' desire to consume and allow businesses to make more profits.

1.3. Discussion

Since the WHO predicts that the impact of the epidemic will last for ten years, Chanel also predicted that the recession may continue until 2021 when it announced its 2019 financial report. Then it needs to be emphasized that both the price increase mechanism and the price drop mechanism can only be used as emergency mechanisms. In the future economic downturn, both luxury brands and affordable brands need to be prepared for a long-term challenge, rethink the definition of consumption in the post-epidemic era, and attract consumers with better products. Of course from another perspective, the arrival of the outbreak also gives us a chance to think, reflect on the necessity of consumption at ordinary times, epidemic limit our foreign activities. The epidemic has limited our foreign activities, making us buy only the things we need to maintain our daily life. If the consumption during the epidemic has guaranteed our daily life, did we have excessive consumption or waste before? At the same time, the epidemic has caused a large number of people to lose their jobs, and medical supplies and resources are in short supply in many areas. Then, whether it is luxury goods or affordable goods businesses, can they guarantee the original positions of their employees while maintaining the minimum profits? Can they even use part of the profits to support the medical shortage as a reward to the society

2. CONCLUSION

As an emergency, the epidemic has a huge negative impact on the fashion industry. Forced shutdowns, forced store closures and an inability to deal with out-of-season products in a timely manner are all tests for the fast fashion brand. So they have chosen to make up for their losses with discounts and promotions. The loss of distribution channels is a major problem for luxury brands, which are brands with their own culture, so they use price increases to stimulate consumption. Both brands are benefiting from the growth of online sales. At the same time, due to the long-term epidemic, each brand should make a long-term change in sales strategy and make careful consideration.

ACKNOWLEDGMENT

First and foremost, I would like to show my deepest gratitude to my teachers, who have provided me with valuable guidance in every stage of writing of this thesis. Further, I would like to thank all my friends for their encouragement and support. Without all their enlightening instruction and impressive kindness, I could not have completed my thesis.

REFERENCES

- [1] Huaxia. (2020, August 2). Retrieved August 3, 2020, from www.xinhuanet.com/english/2020-08/02/c_139257817.htm
- [2] Kohan, S. E. (2020, March 29). Fast fashion leaders H&M and Zara; Weathering the pandemic. Retrieved August 3, 2020, from <https://www.forbes.com/sites/shelleykohan/2020/03/30/fast-fashion-leaders-hm-and-zara-weathering-the-pandemic/#bab295417a21>
- [3] Hartley-Parkinson, R. (2020, March 18). Zara closes 4,000 stores across planet because of coronavirus. Retrieved August 3, 2020, from <https://metro.co.uk/2020/03/18/zara-closes-4000-stores-across-planet-coronavirus-12416771/>
- [4] Crystal. (2020, May 1). Retrieved August 4, 2020, from <https://news.ladymax.cn/202005/01-35356.html>
- [5] Marine. (2020, March 4). Affected by the epidemic, Chanel and Tencent video cooperation for the first time live fashion show. Retrieved August 4, 2020, from <https://kiks.com.cn/2020/03/04/257507/>

[6] What will happen to the luxury goods industry under the epidemic. (2020, April 17). Retrieved August 4, 2020, from https://www.sohu.com/a/388642828_267106