

The Impact of COVID-19 on Consumer Behavior in the Luxury Industry

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Abstract

The following paper is aimed at understanding how the COVID-19 pandemic has changed consumers' attitude towards consumption of luxury and discretionary goods, what are the consequences of these disruptions, and what strategies brand can employ in order to survive in a post-pandemic future. This situation served as a catalyst to accelerate some of the True Luxury Consumer trends that were beginning to gain popularity in the past few years, such as the prioritization of experiences over physical items, resulting in a tendency towards minimalism; the increased interest in sustainability, ethics, and the Corporate Social Responsibility commitments of brands; the enhanced use of online distribution channels, and the consequential need for a seamless omnichannel strategy which could effortlessly and efficiently replicate the offline, in-store experience on digital platforms; and, finally, the emergence of new ways to experience luxury goods which prioritize accessibility over ownership, such as the second-hand market for luxury as well as luxury rental services, like Rent The Runway. The pandemic has highlighted a series of issues in society, healthcare, and businesses; the consequences of these issues have been tragic, but also eye-opening for brands as well as consumers. In the clients' perspective, big companies hold the responsibility to not only provide a product or a service, but also to be helpful assets to their communities. Brands should live up to these expectations, not just to survive in the "new normal", but also to genuinely help build a better future once the dust settles.

Keywords: COVID-19; luxury industry; consumer behavior

1. Introduction

The outbreak of the COVID-19 pandemic has represented an unexpectedly disruptive turn of events for the world. As infection rose, entire countries being quarantined, and people were forced to wear masks on a day-to-day basis, society as a whole experienced an incredible shock. The crisis was not only related to health care systems all over the world collapsing due to the overwhelming number of cases; following the lockdowns and the travel restrictions, the world economy entered its biggest recession since World War II (World Bank, 2020).

In such a tragic context, all sectors and industries began experiencing the consequences of a system that had long been requiring change and rewiring. Discretionary sectors, like luxury, seemed to be the ones that were hit the hardest as their systems could not handle the pressure and the disruption that was brought on by the crisis. Granted, the luxury was already going through some dramatic changes even before the pandemic hit; in the *State of Fashion 2020*

(McKinsey and the Business of Fashion, 2020), published in November 2019, when the world had not managed to fully understand the severity of the situation and the state of emergency had not yet been announced by the World Health Organization (WHO), industry experts did not seem too optimistic about the future of luxury. For a few years now, luxury had been struggling to catch up with some industry-shaping trends like the crafting of a seamless omnichannel experience, the generational shift which completely transformed its demographic, the new expectations on sustainability and social commitments, and the slow but sure rise of a new concept of “accessibility over ownership”, which led to the increase in popularity of alternative systems of consumption, like rental services. The outbreak of the pandemic accelerated the rise of those trends, as well as exacerbating some of the systemic issues with the luxury fashion industry as a whole: supply chains were slowed down or even broken for not being flexible enough, and inventory began stacking up as stores started closing; many luxury fashion companies, like Valentino, decided to interrupt their leases as their sales started dropping down, and the luxury sector experienced its “Worst Quarter Ever” in July 2020. Furthermore, the crisis enhanced the divide between luxury’s “top players” and the smaller businesses, exasperating the polarization of an already fragmented industry. In an open letter to WWD, Giorgio Armani called out all the problems of an industry, one which has seemingly forgotten what it stands for and encouraged fellow players to slow down, look around, and take the crisis as an opportunity to rethink their motivations and rewire their flawed systems in order to successfully bounce back once the dust settles, not only for the sake of the industry but also for their local communities which have been heavily affected by the crisis (WWD, 2020).

Indeed, it was the people who took the biggest hit from the situation. Financial uncertainty and health concerns, the collapse of healthcare systems, as well as spending long periods of time forced inside their own homes, are all elements which have had a heavy psychological impact on the general population. People have found themselves in a situation where everything had become alien, uncertain, and different, even the most mundane of tasks; this led to a decrease in perceived control (Li, Mo, et al., 2020; Burger, 1989) and consequentially, a change in priorities. These changes are often reflected in spending behavior, which resulted in panic buying (Loxton et al., 2020), consumption displacement (Hall, Prayag, et. al., 2020), and herd behavior (Loxton et al., 2020; Kameda & Hastie, 2015). Historically, it has been proven that, during periods of crisis, consumers tend to limit and re-evaluate their spending patterns as they focus on the needs at the base of Maslow’s Hierarchy of Needs (1943). This shift in focus then translates into behavioral changes that prioritize the consumption of essential products over discretionary ones.

The current crisis is expected to transform people’s perception of luxury and their interest in luxury brands, as consumers seem wearier and distrusting towards companies, even showcasing patterns of resistance, consistent with Kotler’s observation of anti-consumption behavior (Kotler, 2020). This kind of attitude has been observed in the past as a response to societal and environmental concerns; however, a recent study published in the *Journal of Global Fashion Marketing* (Ozdamar Ertekin et. al., 2020) explored the cause-effect relationship between economic crises and the display of anti-consumption, especially in the context of purchasing fashion items, and found that there are many ways people exercise anti-consumption in the face of financial uncertainty, namely by turning to vintage selling and buying, reusing and altering their old clothes, switching brands, and even putting off purchasing by further analyzing whether that item is worth their money and satisfies a particular need. On the other side of the spectrum, there is the phenomenon of “revenge buying” (or “lipstick effect”), which has been displayed in luxury consumers — notably in China and South Korea — following the re-opening of physical stores, and could be traced back to the concept of luxury consumption as a form of escapism (Seo & Buchanan-Oliver, 2019). According to a report by the Boston Consulting Group & Altagamma (2020), COVID-19 has opened doors to a series of new trends in luxury consumption as people try to adjust to these new concerns. The report signals some accelerating

trends, which are the divide between Western and Eastern world when it comes to luxury and style; the prioritization of sustainability; the digitalization of luxury and the omnichannel experience; and, lastly, the concept of “accessibility over ownership”, which has become overwhelmingly popular among younger demographics.

This study aims at identifying how this perceived loss of control has affected luxury consumers, whether their consumption patterns have changed and, in that case, how they have changed, what are their motivations for purchase in the current context, and whether it is safe to assume that the consumer trends which had been identified before the start of the pandemic could be relevant even after the outbreak. The research was conducted by interviewing a sample of 255 consumers and investigating their preferences and habits on four main topics: (1) reduction in consumption following the crisis; (2) their perception on sustainability and sustainable practices, and whether these could be an incentive for purchase in the COVID-19 context; (3) the employment and importance of online channels in maintaining social distancing; (4) their attitude towards alternative consumption systems, such as second-hand luxury and rental of luxury goods, in the context of the global pandemic.

2. Method

Participants

Two hundred and fifty-five participants were interviewed for this type of study. Participants came from all demographic backgrounds in terms of gender identity, age range, educational level, language, and nationality, in order to keep the study as diverse and heterogeneous as possible. Additionally, in order not to cause any biases in the results, the participants all came from a variety of social classes and economic backgrounds.

Design

The questionnaire was divided into four question blocks, all which related to one specific topic of the research. The first block addressed the question of whether luxury consumers also started to change their lifestyle and adopting a more minimalistic approach to consumption, the second was aimed at investigating whether the shift in behavior also resulted in a more sustainable mind-set. The third batch of questions concerns distribution channels, and most importantly online channels, whereas the fourth section inquired on whether people, encouraged by the health and financial crisis, would be more interested in moving on towards different consumption practices, such as buying second-hand luxury or luxury renting.

Procedure

Participants were sent a Qualtrics link to access the survey and were instructed to answer the questions as truthfully as possible, fully aware that their responses were going to be utilized for the purpose of this study. The questions were multiple choice questions, as well as Likert scales. The final results of the interviews were then processed and analyzed by using the IBM SPSS Statistics software, version 27.

3. Descriptive Statistics

Table 1 – Frequency Table (Gender)

	Frequency	Percent	Valid percent	Cumulative percent
Male	63	24.7	24.7	24.7
Female	192	75.3	75.3	100.0
Total	255	100.0	100.0	

Table 2 – Frequency Table (Age in Years)

	Frequency	Percent	Valid percent	Cumulative percent
0-18	12	4.7	4.7	4.7
19-25	128	50.2	50.2	54.9
26-50	63	24.7	24.7	79.6
51-65	47	18.4	18.4	98.0
> 65	5	2.0	2.0	100.0
Total	255	100.0	100.0	

Total number of participants was 255. From the data it emerges that 75.3% (192) respondents identify as female, and 24.7% (63) identify as male (*Table 1*). When it comes to age, the questionnaire gave the option for the respondents to select their own age groups; the respondents were divided in 5 age range: (1) from age 0 to 18, which represented 4.7% (12) of the population; (2) from 19 to 25, or generation Z, which represented 50.2% (128) of the sample; (3) from 26 to 50 years old, or Millennials, which comprise the 24.7% (63) of the population; (4) from 51 to 65, or generation X, making up 18.4% (47) of the population; (5) and over 65 years old, which make up a very small sample of the population, 2% with only 5 people belonging to that specific age group (*Table 2*).

4. Results and analysis

Changes in consumption habits

The results showcased that the majority of people either stopped spending on discretionary items completely (Highly decreased, 29.8%) or have Slightly decreased their consumption of non-essential items (42.4%), while only 24.4% of respondents have reported no change in their spending of discretionary goods, and only 3.5% have stated that their consumption of non-essential goods has increased ever since the pandemic hit, thus confirming the first research question (*Table 3*). Results also showed that people who had been reducing their consumption as a consequence of the crisis have also experienced a change in the priorities and determinants that they keep mind when evaluating the purchase of a certain brand; a contingency table analysis has proven that the majority of people who have chosen to reduce their consumption have also started prioritizing transparency, company culture, ethical commitments, the presence of discounts, and quality as opposed to factors such as reputation.

Table 3 – Answers to the question: How much has your spending on non-essential goods changed in the COVID-19 context?

	Frequency	Percent	Valid percent	Cumulative percent
Highly decreased (I have decided to give up on discretionary goods for now)	76	29.8	29.8	29.8
Slightly decreased (I am less willing to buy non-essential goods, but have no intention of giving them up completely)	108	42.4	42.4	72.2
It has not changed	62	24.3	24.3	96.5

Increased (I am more willing to buy discretionary items)	9	3.5	3.5	100.0
Total	255	100.0	100.0	

Sustainability

As for sustainability, the questionnaire also aimed at investigating whether the shift in behavior also resulted in a more sustainable mind-set. Respondents were asked to state whether they agree or disagree to a sentence stating that the COVID-19 pandemic has made them more conscious of the consequences that their discretionary spending has on the environment and on society, and whether they would use this realization as a catalyst in order to become more sustainable in their consumption (Figure 1). The results showed that 29.0% (74) chose Strongly agree, the 30.2% (77) chose Agree, and the 23.5% (60) chose to Somewhat agree with the statement, meaning that more half of the survey population has chosen to re-evaluate their priorities and change their consumption habits towards a more sustainable pattern. Making a simple bivariate correlation test on the results, it is possible to see that there is a positive correlation between people who have reduced their consumption and people wanting to be sustainable, suggesting that there is also an ethical motivation behind their reduction in consumption.

Rate the extent to which you agree with the following statement. "After the COVID-19 emergency, I have become more conscious about the social and environmental damage caused by the consumption of discretionary products, and I want to adopt a more sustainable lifestyle."

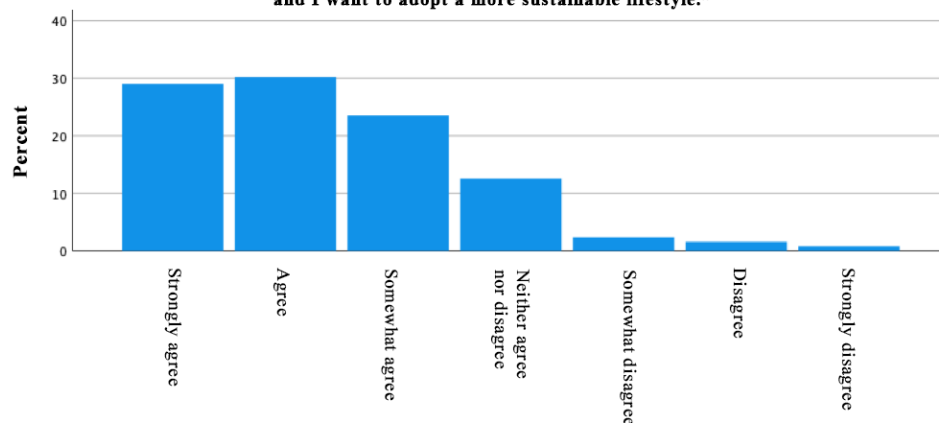


Figure 1

Online channels

Results showed that a consistent percentage of people (36.5%) prefer to buy from flagship stores; however, when it came to shopping during lockdowns, the majority of the people stated that they found themselves reevaluating the importance of online channels. Indeed, 22.7% of people answered they were Extremely important, 16.9% chose Really important, with only a small percentage stating that it was either Not that important or Not important at all (Figure 2). Overall, it seems that there is still a bit of resistance towards the employment of online channels for luxury goods purchase, especially in the older portion of the demographic. This could be because there is such an emphasis in luxury on the craftsmanship, on the relationship, and on the personalization of the experience, all things that are difficult to translate on a virtual plane.

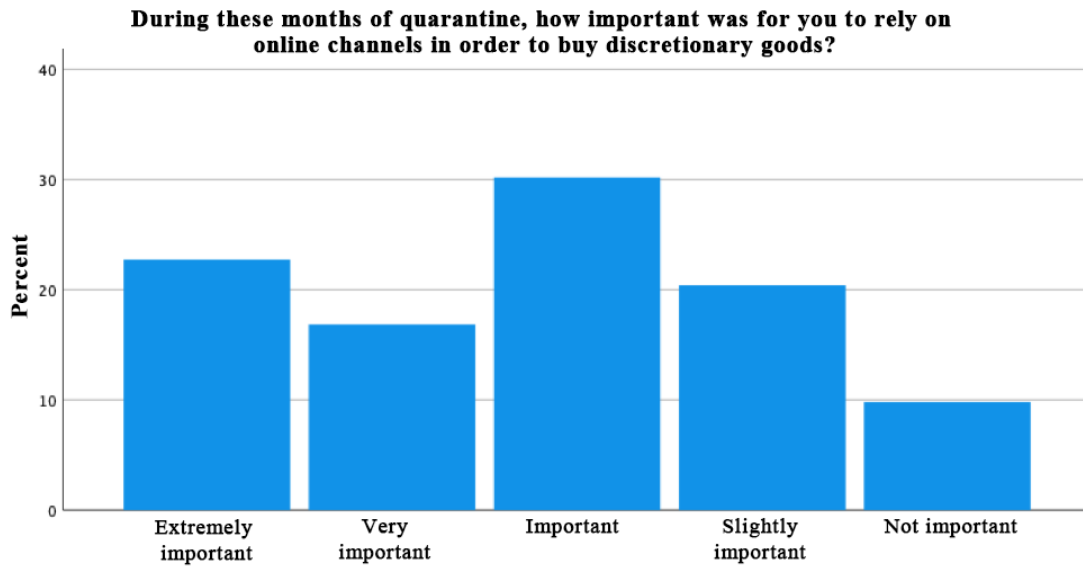


Figure 2

Second-hand and luxury rent

For second-hand, the results suggested that while a really small portion of the sample showed their willingness to participate in the vintage market as buyers, many of them were interested in reselling their own pre-owned luxury items. When asked what were the characteristics of second-hand luxury which played a role in discouraging them from engaging in the purchase of vintage items, the most popular response was that the majority of people (45.5%) did not like the fact of owning pre-owned items, while 38% of people was concerned about potentially purchasing non-authentic products and paying them at a premium price, and 16.5% found that items did not fit their taste or their size (*Figure 3*).

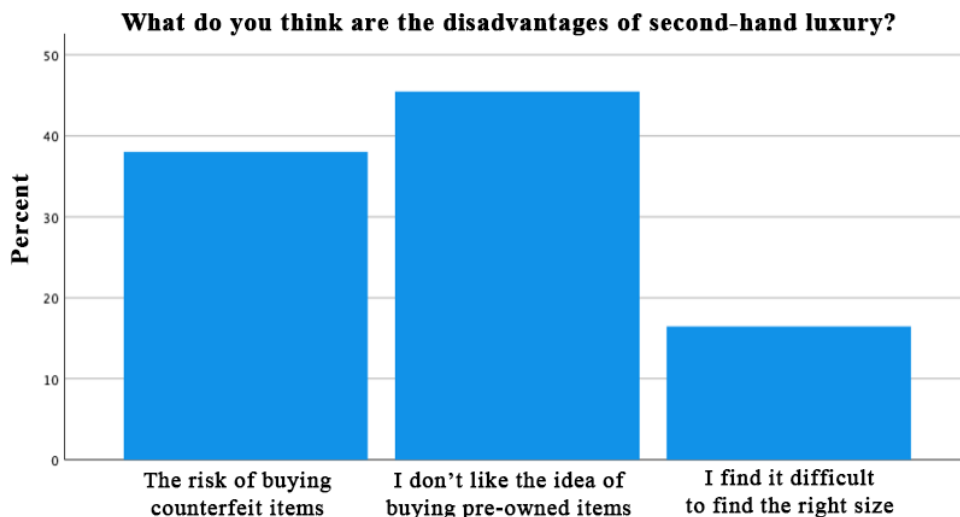


Figure 3

For rental, the responses were quite similar in the sense that the majority of the people (54.9%) would prefer owning the items. Overall, when asked to choose between the alternative consumption practice that they would rather use in the context of the COVID-19 pandemic, 69% (176) of respondents have shown preferences towards buying second-hand, while only 31% (79) have stated that they would prefer to rent their luxury items in the context of the crisis (*Figure 4*).

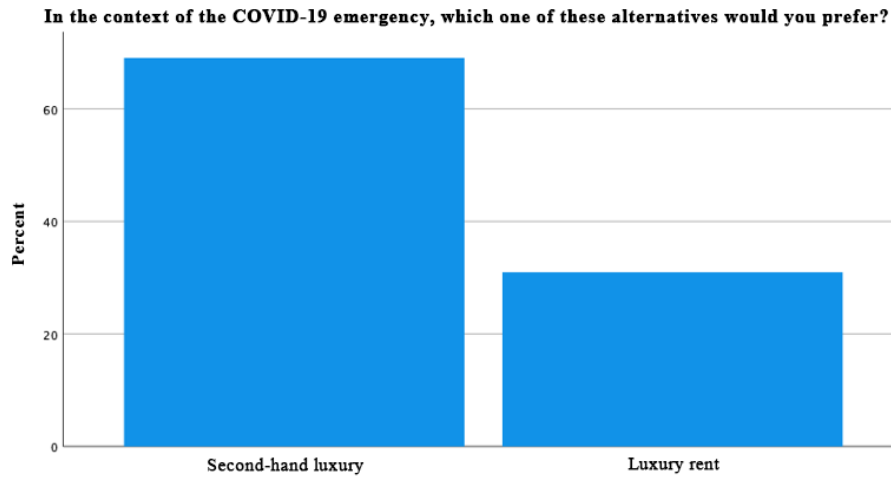


Figure 5

5. Discussion on the findings

It is notable that there is a difference between how consumer behavior has changed in relation to luxury goods compared with essential goods. Consumption levels have been significantly reduced from customers, due to the discretionary nature of the goods in themselves; as their priorities changed, they also seemed to shift towards a behavior which supports their sustainable and ethical goals, which also include the social commitments of brands in the context of the pandemic. They now prioritize quality, transparency, and durability more than trends and popularity, which suggests a change in the perception of the self-actualizing aspect of luxury, one that was already happening before the crisis and was empowered by the context (Seo & Buchanan Oliver, 2019). As for online channels, there is still some resistance towards shopping online for luxury goods: this could be motivated by the fact that the experience online is not comparable to the in-store experience, as it could take away the dream-like nature of the luxury consumer journey.

In this context, brands need to change their strategy in order to simulate the same magical environment online by crafting a seamless omnichannel strategy, more focused on storytelling, heritage, and personalization even in online channels. The idea of “accessibility over ownership” has also been challenged by the pandemic: people are now more concerned with what they bring into their homes in light of the fear of infection, and are less willing to purchase or rent items that have been previously used by other people. Overall, it seems that in the current context the most profitable approach for brands is investing in the second-hand market, rather than in fashion rental, as consumers seem more willing to participate in that market, whether their objective is to save money, be more considerate of the environment or even collectability; however, the reason why a lot of people are hesitant to purchase second-hand goods is the lack of an authenticity certificate. Brands should exploit the growth and potential of this market and try to provide the option for consumers to safely buy second-hand on brand-owned channels.

It is indeed obvious that the conversation and behavior towards luxury brands are shifting from a consumer’s point of view following the pandemic, along with individuals’ priorities and needs that, in the context of a global health crisis, stop focusing on the shiny and temporary gratification of luxury and, instead, begin to fixate on more functional aspects of consumption such as durability, sustainability and heritage. Following the pandemic, and taking into consideration the long-lasting psychological and economic effects that will certainly affect consumers going forward, it is largely possible that the purpose of luxury and the way people consume it will be altered for good.

6. Conclusion

For brands in the luxury industry, the crisis has also been an opportunity to look at the sector's problems. The biggest one, which has also been pointed out by Giorgio Armani's open letter, has been the fast-moving pace of the industry as a whole, which does not seem appropriate for a field that prioritizes craftsmanship, quality, durability, and timelessness, all things that require time and attention.

According to the Edelman Trust Barometer (2020), the majority of consumers have transformed the way they view brands following the pandemic, believing them to be trustworthy entities that will do their best to untangle the difficulties that society is facing during these unprecedented circumstances. Brands must live up to this consideration, not only for their personal benefit and to build a stronger relationship with their clients, but also to genuinely provide aid and make a change for the better after such an unbelievably disruptive event.

As cases continue rising worldwide, the possibility of consumer behavior and psychological approach to consumption being completely transformed after the dust settles is stronger and stronger each day. Both brands and individuals need to understand how to live and deal with these changes and adjust their actions in ways that can be beneficial for their communities in the long term after the crisis is finally over.

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