



Honors College Theses

2021

The Effects of COVID-19 On China's Luxury Retail Market

Shirlysia D. Daniel

Follow this and additional works at: <https://digitalcommons.georgiasouthern.edu/honors-theses>



Part of the [Arts and Humanities Commons](#)

Recommended Citation

Daniel, Shirlysia D., "The Effects of COVID-19 On China's Luxury Retail Market" (2021). *Honors College Theses*. 602.

<https://digitalcommons.georgiasouthern.edu/honors-theses/602>

This thesis (open access) is brought to you for free and open access by Digital Commons@Georgia Southern. It has been accepted for inclusion in Honors College Theses by an authorized administrator of Digital Commons@Georgia Southern. For more information, please contact digitalcommons@georgiasouthern.edu.

The Effects of COVID-19 On China's Luxury Retail Market

An Honors Thesis submitted in partial fulfillment of the requirements for Honors in *Parkers College of Business*.

By
Shirlysia Daniel

Under the mentorship of *Professor Hope Simpara*

ABSTRACT

The Coronavirus outbreak that occurred in 2020 negatively impacted the world globally. China handled the pandemic better than other countries due to their experience with prior virus outbreaks, SARS and MERS. It is important to research how the Coronavirus outbreak affected and is still affecting China's economy, as it is a leading role in other countries' economies as well. Before Covid-19, Chinese consumers made up one-third of global spending on luxury goods. Global luxury spending decreased drastically as many were impacted financially, emotionally, and physically. However, China's success during the pandemic has been predicted to be the largest luxury retail market by 2025. Since traveling measures were restricted during the pandemic, Chinese consumers spent heavily in their luxury retail market instead of other countries which boosted their luxury sales. China has put several measures in place to stay on the top to continue growing and taking over the luxury retail market. They used the pandemic effects to their advantage over other countries from previous experience and having to adapt to drastic circumstances.

Thesis Mentor: _____

Professor Hope Simpara

Honors Director: _____

Dr. Steven Engel

April 2021
Parker College of Business
Honors College
Georgia Southern University

Acknowledgments

First I owe all honor to God for allowing me to have this opportunity and complete this process. I thank him for placing everyone in my life that has assisted in pushing me to excel and succeed in college and in being a part of the Honors program.

I greatly appreciate Professor Hope Simpara for her guidance, support, and time from day 1. On top of her hectic schedule and responsibilities, she made time to make sure I had all the resources I needed to be successful. From helping me with my thesis and plans for after college, I was blessed to have as great a mentor like her. I don't take it lightly at all.

I am thankful to my friends and family for their continual encouragement and support. They pushed me to keep going when things looked hard and I wanted to give up. They constantly show their love and understanding, for which I am forever grateful.

Thank you to Lisa Sapp for recommending me to apply for the Honors program. After meeting with her one evening, she had my best intentions from the start and went out of her way to provide her assistance and see me succeed. Without her, I would have never applied and come this far. Looking back at what I achieved and how this will benefit me in the future is well worth it and very rewarding.

Introduction

My study will explore how China's Luxury retail market is affected by the pandemic. This situation is very important to discuss for many reasons. While currently experiencing a pandemic that has a global effect, of COVID-19, it is important to discuss what impact it will leave on China's economy. China plays a major role in exporting goods and supplies to the U.S. and other countries, it will not only impact their country but others as well. My plans to work in the fashion and retail industries have drawn me to inquire about the economic effects of a global pandemic. For future endeavors, research on the consequences of this virus will bring insight into how the retail industry can adapt. I will approach the topic by studying data and trends reported daily about COVID-19 as it is an ongoing occurrence.

Literature review

Not much information is available to conclude the total effects of COVID-19 on China's Luxury retail market due to the pandemic not being completely over. As a result, this will lead to gaps in the information provided in my study. As time passes and the pandemic is "over", I will be able to gather more data for a more accurate conclusion. For now, I will study what is expected to occur and what recovery and action plans will be put in place moving forward. Some sources I will use to complete my research include ABC News, WorldoMeter, Avert, Karger, Mckinsey and Company, CNBC, Reuters, World Health Organization, Statista, and Forbes.

Methods

To gather the data I continually checked news sources, industry publications, and documents. I approached the study chronologically as events occurred and are still occurring. Since reports are

on a timeline basis I am more so gathering the data but will need more time to fully analyze the results of the Coronavirus on China's luxury retail industry. This is a problem that will cause my study to fall short. However, I will make sure to discuss predictions of what is expected as China and the luxury market overcome this situation and recover.

Results

The main point of this study was to research the effects of COVID-19 on China's luxury retail market. The Coronavirus tragically affected the world globally, financially, environmentally, emotionally, mentally, and physically in January 2020. The world is still experiencing hardships a year later but is on the road to recovery with distributions of vaccines and restrictions slowly lifting. However, China has demonstrated that they were already prepared for the outbreak due to having experienced SARS and MERS in previous years. They used this to their advantage and experienced growth and success despite unfortunate times globally. As a result of COVID-19, China reported a 35% decline in its luxury market prior to the year before, 2019. Due to restrictions on travel, consumers across the world weren't able to make purchases in China. Although, this led to Chinese consumers pouring back into their countries by spending money on luxury goods in China with the money they usually spent on trips out of the country. If Chinese consumers continue funding their markets, China is expected to have the world's largest luxury retail market by 2025. However, this may change as vaccines are being distributed and travel restrictions are being lifted. In about 2 years I will be able to gather more information and analyze the effects of China's luxury market when the world "opens back up" and is adapted to the "new normal". If a similar occurrence takes place, China has proven itself to adapt to a global pandemic and still succeed. The rest of the world will have to analyze what has occurred recently

to better prepare for the next outbreak if circumstances arise. The luxury market will also know how to predict what they need to do to adjust to the changing buying behavior of consumers.

Discussion

Background Information

In December 2019, health officials in Wuhan China reported dozens of citizens receiving treatment for sickness from an unknown source. The source was suspected to be from the similarity that most of them visited a live animal market in Wuhan. In January, more cases of the virus were reported along with some deaths that spread across Japan, South Korea, and Thailand. Wuhan took action to suspend all travel methods and prevent the virus from spreading. The World Health Organization declared a public health emergency of international concern, which means the situation is reserved for extraordinary events with the threat to spread globally.

(Schumaker, E. (2020, September 22). Timeline: How coronavirus got started.)

The name was pronounced in February 2020 as COVID-19. “Co” represents Coronavirus, “Vi” represents virus, and “D” for disease. The Virus’s most common symptoms are fever, dry cough, tiredness, and loss of taste and smell. In more critical cases, those reported shortness of breath, loss of appetite, pain, and/or death. The difficulty in determining if someone has COVID-19 also played a huge role in why the virus is spreading so rapidly. Some people confuse symptoms as the flu or a mild cold or have no symptoms at all. Those over age 60 or those with pre-existing health conditions, such as heart and lung problems are at higher risk than those that are not in these categories. The virus is spread through respiratory droplets released

from the mouth and nose and inhaled by another person. Therefore, the risk of catching the virus is increased when people are in close proximity to one another. Respiratory droplets can also transfer from flat surfaces such as a table. When someone comes in contact with the surface then touches their mouth, nose, or eyes, they can become infected.

(Schumaker, E. (2020, September 22). Timeline: How coronavirus got started.)

Due to the rapid spread of the virus over the nation, Government-issued orders to “shelter in place,” quarantine, close, and cancel all nonessential activities were enacted. The order to wear face masks was put in place including social distancing of six feet between individuals indoors. For essential places that remained open or reopened, they practiced disinfecting surfaces regularly, hand washing, meeting clients virtual or outdoors. If someone is infected by the virus, they are mandated to quarantine isolated in their home for 14 consecutive days after noticing symptoms or testing positive for the virus. Most people recovered without needing hospital treatment but others, unfortunately, led to death. Deaths spiked to almost 1,500,000 and second and third waves of the virus are still being reported currently as 2020 comes to an end. Reported cases have reached 64,592,758 in the world with over 18 million active cases and around 70% that have recovered as of December 2020.

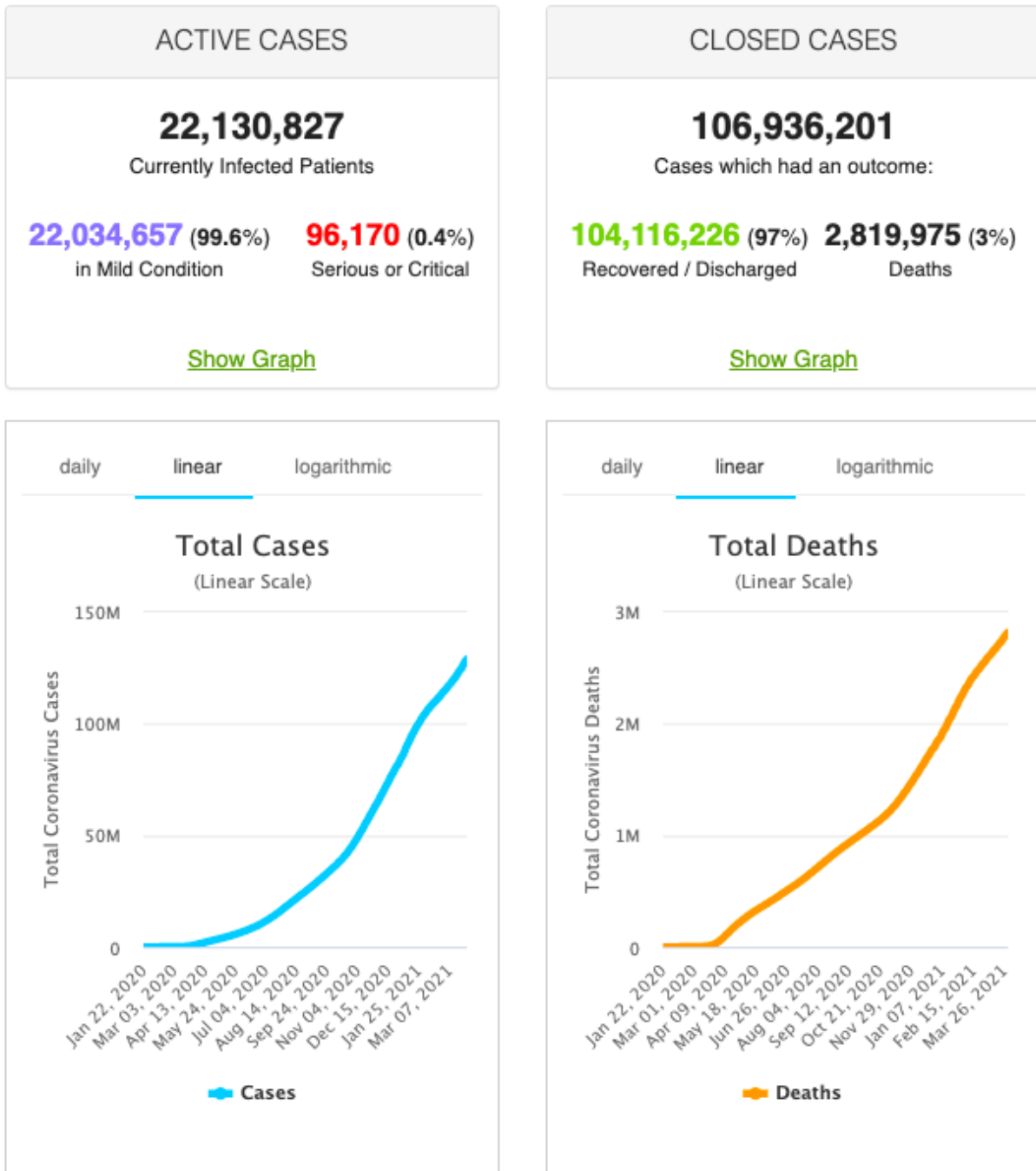


Table 1.1

(Coronavirus cases. (2021, March 31). Retrieved March 31, 2021, from

<https://www.worldometers.info/coronavirus/>)

Officials have worked hard to develop a vaccine and measures to distribute and store them. As of December 13, 76 million doses of the vaccine have been administered. Those at higher risk of COVID such as those 65 and older, pre-known medical conditions, and essential workers, are the first to receive the vaccine. The full protection of the vaccine is effective in two doses with the second dose 3-4 weeks following the first dose. Vaccines are a step in the right direction, though, People should still proceed with caution as the extent of the vaccine's protection is not 100% understood. (About coronavirus (COVID-19). (2021, January 25). Retrieved March 31, 2021, from <https://www.avert.org/coronavirus/about-covid19>)

China's Response to COVID

Although the rest of the world is still struggling to control the spread of Covid-19, China has been very successful in managing to control the pandemic quickly. The speed of China's response to the virus was a crucial factor compared to other countries. They took immediate and strict control over the regulations for the population, while other countries delayed their response until the effects of the virus hit them hard. The country was only on lockdown for about 3 months until March 2020 and they prevented a second wave of the virus. China reported 86,551 cases of the virus with 95% recovery and 5% deaths. Zero new cases have been reported in March 2021. China announced the removal of lockdown and travel restrictions will be fully lifted in April 2021.

Newly Infected vs. Newly Recovered in China

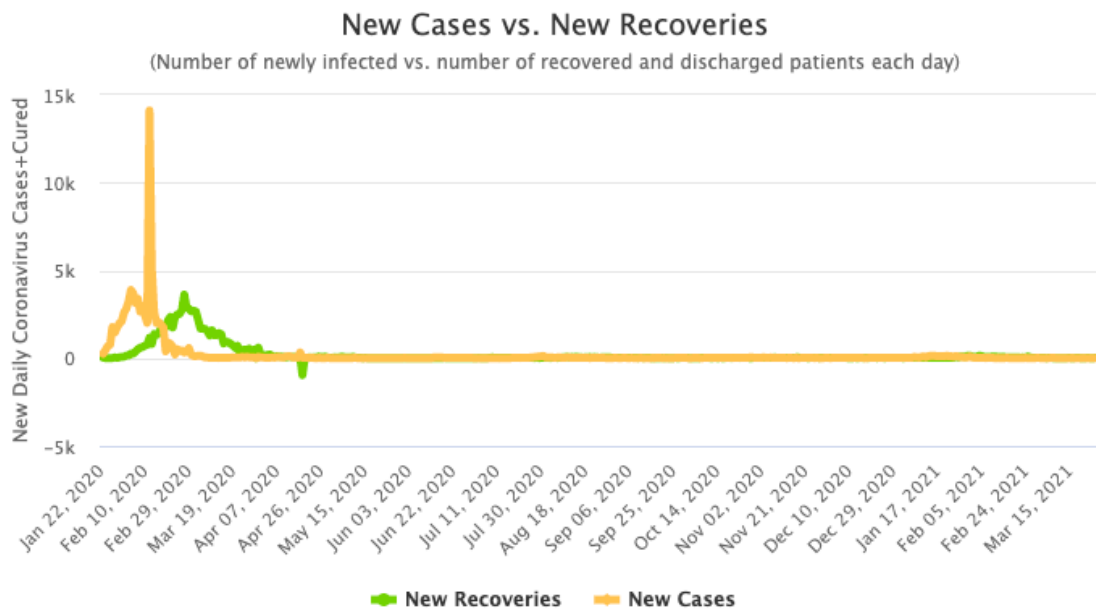


Table 1.2

(China's Coronavirus cases. (2021, March 31). Retrieved March 31, 2021, from

<https://www.worldometers.info/coronavirus/country/china/>)

This is not China's first experience with a coronavirus outbreak. They had encounters with SARS and MERS. The SARS outbreak in 2002 resulted in 8098 infections and 774 deaths in 32 countries. China was not as prepared and delayed reporting the initial cases of the outbreak. Hence, when COVID-19 broke out, they were quicker and much more efficient in actions to reduce the spread. They improved laboratory and hospital capacities and were able to recognize the outbreak in 1 week compared to 2 months during SARS. China was much more prepared and familiar with how to deal with contagious airborne viruses because of their previous experiences, unlike America and some other countries, where it was the first occurrence. The government put

several measures in place during COVID to prevent the outbreak from having a major effect. The first measure was a smartphone app that determined whether people should be quarantined based on their health status and traveling history. Next, they used surveillance on the streets to administer a fine to individuals in public without a mask or those showing symptoms by using facial recognition. Since each province was required to submit daily COVID case-related reports, these helped epidemiologists gather data from observations about the virus's characteristics and progression. It also helped China realize which provinces needed more focus and measures put in place. (Liang, H., Zheng, L., Xia, H., & Tang, J. (2020, August 6). SARS-CoV-2 infection In CHINA-BEFORE the pandemic. Retrieved March 31, 2021, from <https://journals.plos.org/plosntds/article?id=10.1371%2Fjournal.pntd.0008472>)

China's Luxury Market Before Covid

In 2018, Chinese consumers spent \$115 billion on luxury items which are about a third of global spending. But is set to double by 2025. The luxury market's growth is primarily driven by the upper-middle class which is expected to rise 28% from 2018 to 2025. Therefore, the total number of people earning \$2600-\$3900 will be 350 million. The country's fashion market profit is obtained by the top 20% of China's companies.

“Generation Y” leads China's desire for luxury. In 2018, they made up 10.2 million luxury consumers and accounted for more than half of the total spending on luxury items. On average, they spent about \$6,300 on luxury items per person each year. They are at peak performance in their careers and spending to reflect their success. “Generation Z,” the “single-child generation”

is not far behind having spent \$6,400 on luxury items per person, per year. Most of their wealth is inherited in the Chinese family where they can receive almost \$700 to half of their parent's income per month. The generations of China view luxury as a social status that helps them feel distinct from the rest of society. Social media also affects the need to be trendy, fashionable, and constantly developing new looks. They are drawn to luxury streetwear and European brands. Luxury brands are constantly renewing their products to portray newness and cater to younger consumers. The younger consumers have caused e-commerce sales to spike as well. This response is favorable to companies that are now able to reach more consumers in a vast number of cities. The shift in the next generation of the luxury market will be very important for brands to pay attention to and cater to the specific target audience.

(McKinsey Greater China's Apparel, Fashion and Luxury Group (2019, April). *China Luxury Report 2019*. Retrieved March 31, 2021, from

<https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx>.)

Effects of covid on China's luxury market

Due to the Coronavirus Pandemic, China experienced about a 35% decline in its personal luxury goods market since 2019. Although, predictions are said that the Chinese luxury industry will recover to the 2019 sales level of 281 billion by 2022/2023, as a result of how fast they are recovering. China is recovering faster than the U.S. and other countries around the world, as they

were the least impacted by the virus pandemic. Luxury brands will have to work hard to continue satisfying the Chinese market and reach the goal of recovery to post Covid-19 sales. 40% of sales are usually made of global consumers in the industry but will probably be the last area to recover and return to “normal.” Luxury brands will also have to depend on the Chinese economy having consistent spending power.

(Thomas, L. (2020, November 18). Global luxury sales are on track for a Record decline in 2020, but business is booming in China. Retrieved March 31, 2021, from <https://www.cnbc.com/2020/11/18/china-to-become-the-worlds-biggest-luxury-market-by-2025-bain-says.html>)

“By comparison, American consumers generated only 22% of the industry’s sales and Europeans 17%, and their share of the market has declined from 27% and 30% respectively since 2000, while China’s share has grown from 2%. Further, Bain expects that Chinese consumers will make more than half of luxury goods purchases by 2025 when global sales are expected to reach €320-330 billion (\$346-357 billion). That means they would have to gain some 15% more market share in only five years, a pretty aggressive expectation.”

(Danziger, P. N. (2020, May 15). Fate of luxury depends on china, but continued success there is not guaranteed. Retrieved March 31, 2021, from <https://www.forbes.com/sites/pamdanziger/2020/05/15/fate-of-luxury-depends-on-china-but-continued-success-there-is-not-guaranteed/?sh=7943ad7a530c>)

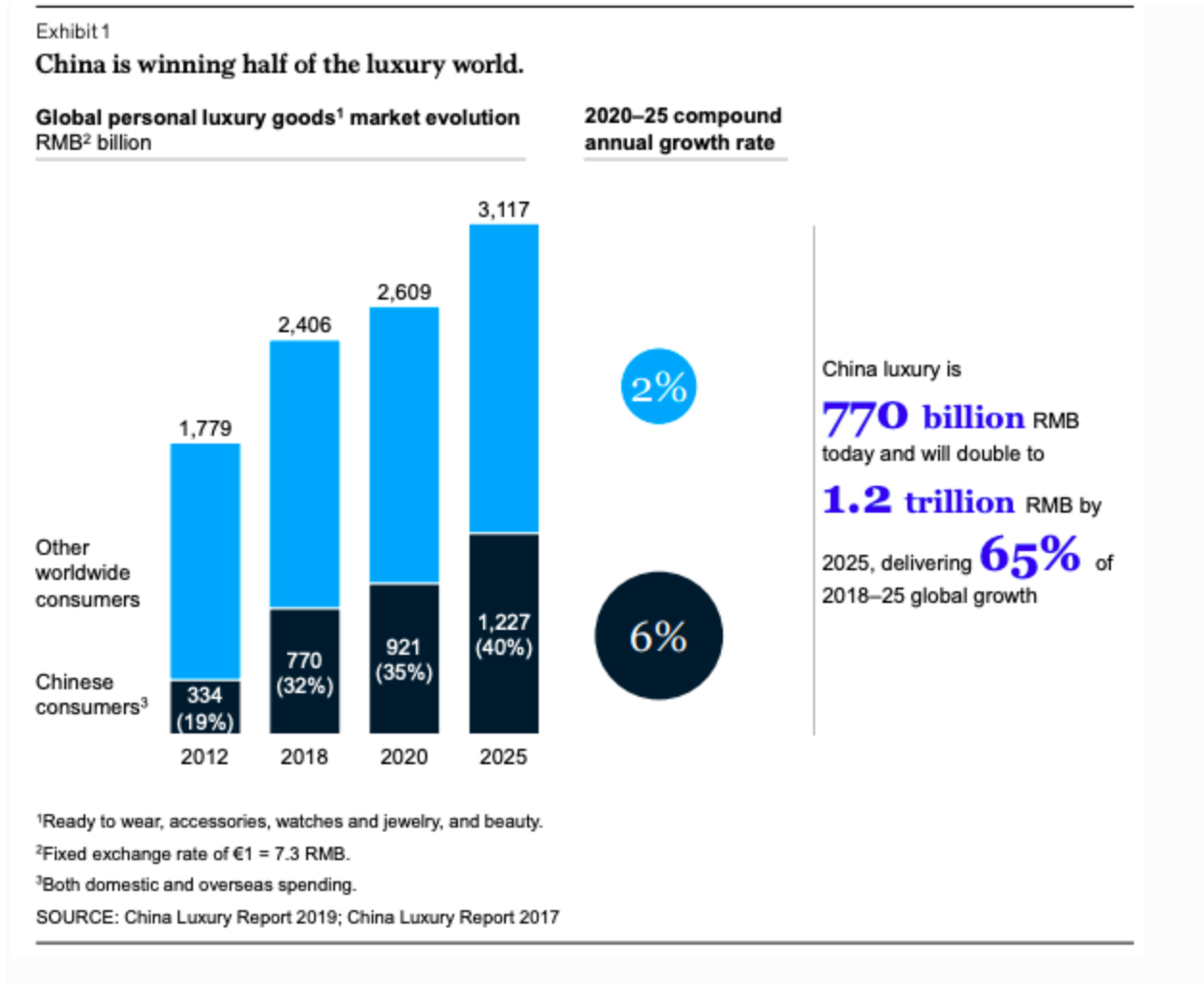


Table 1.3

McKinsey Greater China's Apparel, Fashion and Luxury Group (2019, April). *China Luxury Report 2019*. Retrieved March 31, 2021, from

<https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx>

China's recovery complications

Some factors that complicate China's recovery are their responsibilities in production, imports, and exports to the rest of the world. Shutdowns and cancellations cause them to fall short of their quarterly goals. Chinese unemployment rates are rising as 80 million, 10% of the population, workers are out of work. This fact could potentially hit the luxury market which is more of a crisis than in the U.S.

Consider also that the U.S. has four-times more truly wealthy consumers than China, 18.8 million millionaires compared with 4.4 million in China.

With the luxury market transitioning most of its focus from Western consumers to Chinese consumers, they must be mindful of local cultures and sensitivities. The two regions will cause the luxury market to cater to different marketing aspects, even among different cities. They won't be successful with a mindset of one way works for all. Networking and collaborating with local designers and creatives will boost luxury brand success majorly.

(Danziger, P. N. (2020, May 15). Fate of luxury depends on China, but continued success there is not guaranteed. Retrieved March 31, 2021, from

<https://www.forbes.com/sites/pamdanziger/2020/05/15/fate-of-luxury-depends-on-china-but-continued-success-there-is-not-guaranteed/?sh=7943ad7a530c>)

China's recovery plans and future predictions

Although global luxury spending has decreased drastically, China is on track to becoming the largest luxury market by 2025. In prior years, their luxury market has been supplemented by international travelers. With restrictions on travel, the country is moving its focus to Chinese locals to help the economy recover.

Retail sales value of personal luxury market in China from 2015 to 2018 with a forecast for 2025

(in billion euros)

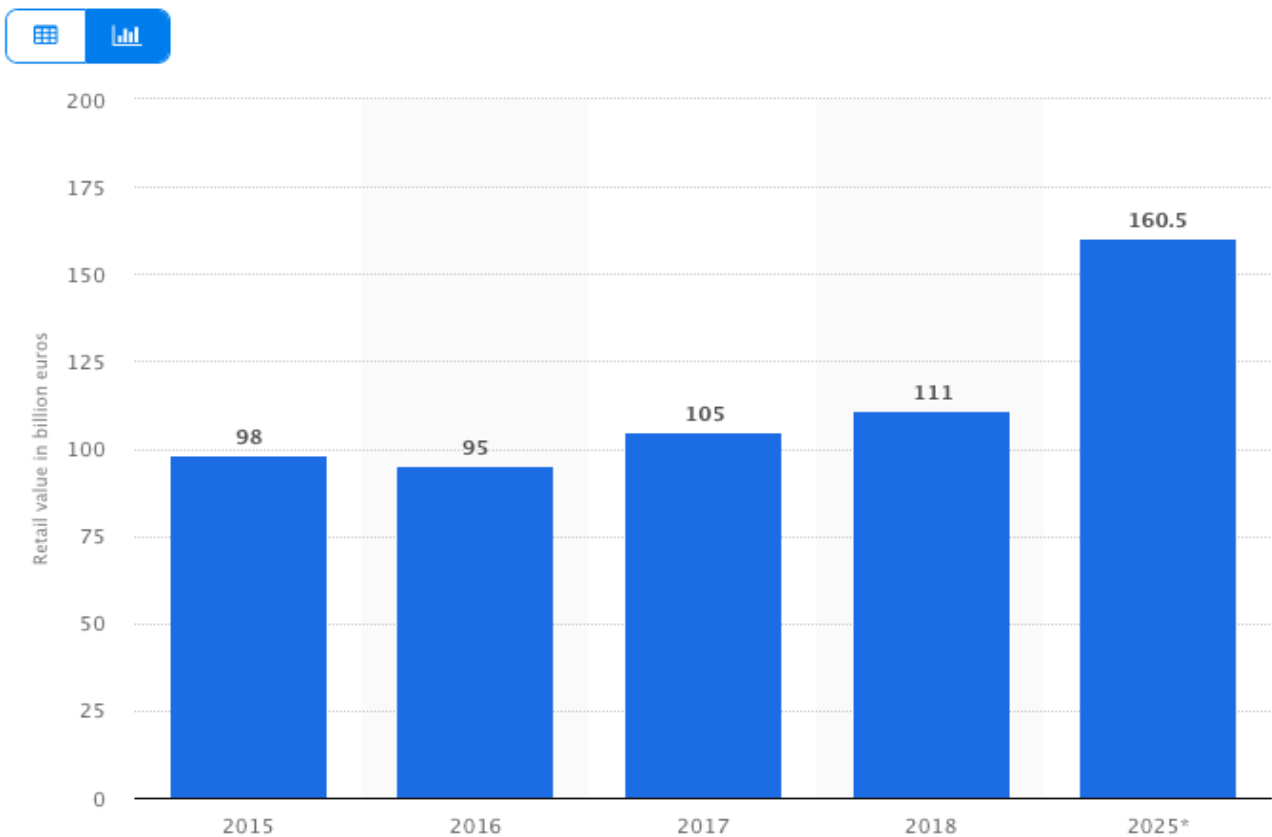


Table 1.4

(Ma, P., & 17, D. (2020, December 17). China: Personal luxury retail sales value 2025. Retrieved March 31, 2021, from <https://www.statista.com/statistics/978018/china-personal-luxury-retail-sales-value/>)

During the COVID-19 outbreak, Chinese locals have been fueling the luxury market. While they usually made up 1/3 of spending in the luxury market previous to 2020, China is ahead in the “recovery” process compared to the U.S. who is struggling to increase revenue in the retail market. Many consumers in the luxury retail industry are shopping through e-commerce channels, which have doubled since 2019 from 12% to 23% of total purchases made. Although sales are on track for China to be the leader in the luxury market, the luxury retail industry has reported a decline of 12% in spending and profit.

Coach and Stuart Weitzman owner, Tapestry, booked triple-digit e-commerce growth, in addition to double-digit revenue growth in mainland China, for the quarter ending on Sept. 26. and when Farfetch reported earnings last week, the luxury e-commerce platform noted the pandemic was accelerating a permanent shift to luxury shopping online. Farfetch’s third-quarter sales surged more than 70%. “We believe we’re witnessing a paradigm shift in the way people buy luxury,” CEO Jose Neves said. “The luxury industry will not go back to the same normal as we did with pre-Covid-19, and it affirms my beliefs that we’re witnessing a major acceleration of the sustained online adoption I have anticipated when I founded Farfetch 13 years ago.

(Thomas, L. (2020, November 18). Global luxury sales are on track for a Record decline in 2020, but business is booming in China. Retrieved March 31, 2021, from <https://www.cnbc.com/2020/11/18/china-to-become-the-worlds-biggest-luxury-market-by-2025-bain-says.html>)

Luxury brands are focusing on China's luxury market growth through e-commerce and store openings. In comparison to events that have been canceled and stores closed or scaled-down in most other countries. Designers such as Virgil Abloh held a spring/summer Louis Vuitton fashion show in Shanghai in October 2020. Prada hosted private viewings of their new collection in September 2020. They have reported China's sales of an increase of over 60% from June. Hong Kong was the popular shopping place for domestic tourists but is transitioning to Shanghai, the country's fashion hotspot. Wealthy Chinese natives that would usually be taking trips to other countries are now spending in the luxury market while travel is restricted due to COVID. Louis Vuitton and Dior have witnessed China's sales double. Stores are also being opened around China that have closed in other countries including Golden Goose, an Italian luxury sneaker and apparel brand. In 2020, the Chinese government has sought to bring money that has been given to other countries for certain aspects back home. This reduced import tariffs in 2018 and allowed China to reduce luxury brand prices in China.

Conclusion

The main point of this study was to research the effects of COVID-19 on China's luxury retail market. As a result of COVID-19, China reported a 35% decline in its luxury market prior to the year before, 2019. Due to restrictions on travel, consumers across the world weren't able to make purchases in China. Although, this situation led to Chinese consumers pouring back into their countries by spending money on luxury goods in China with the money they usually spent on trips out of the country. If Chinese consumers continue funding their markets, China is expected

to have the world's largest luxury retail market by 2025. (Danziger, P. N. 2020, May 15. Fate of luxury depends on China, but continued success there is not guaranteed.)

China is rapidly growing while other countries are still trying to recover. However, this result may change as vaccines are being distributed and travel restrictions are being lifted. In about two years, I will be able to gather more information and analyze the effects of China's luxury market when the world "opens back up" and is adapted to the "new normal." If a similar occurrence takes place, China has proven itself to adapt to a global pandemic and still succeed. The rest of the world will have to analyze what has occurred recently to better prepare for the next outbreak if circumstances arise. The luxury market will also know how to predict what they need to do to adjust to the changing buying behavior of consumers.

Bibliography

Schumaker, E. (2020, September 22). Timeline: How coronavirus got started. Retrieved March 31, 2021, from <https://abcnews.go.com/Health/timeline-coronavirus-started/story?id=69435165>

About coronavirus (COVID-19). (2021, January 25). Retrieved March 31, 2021, from <https://www.avert.org/coronavirus/about-covid19>

Coronavirus cases. (2021, March 31). Retrieved March 31, 2021, from <https://www.worldometers.info/coronavirus/>

Danziger, P. N. (2020, May 15). Fate of luxury depends on china, but continued success there is not guaranteed. Retrieved March 31, 2021, from <https://www.forbes.com/sites/pamdanziger/2020/05/15/fate-of-luxury-depends-on-china-but-continued-success-there-is-not-guaranteed/?sh=7943ad7a530c>

Liang, H., Zheng, L., Xia, H., & Tang, J. (2020, August 6). SARS-CoV-2 infection In CHINA-BEFORE the pandemic. Retrieved March 31, 2021, from <https://journals.plos.org/plosntds/article?id=10.1371%2Fjournal.pntd.0008472>

M. (2019, April). *China Luxury Report 2019*. Retrieved March 31, 2021, from <https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx>.

Ma, P., & 17, D. (2020, December 17). China: Personal luxury retail sales value 2025. Retrieved March 31, 2021, from <https://www.statista.com/statistics/978018/china-personal-luxury-retail-sales-value/>

Thomas, L. (2020, November 18). Global luxury sales are on track for a Record decline in 2020, but business is booming in China. Retrieved March 31, 2021, from <https://www.cnbc.com/2020/11/18/china-to-become-the-worlds-biggest-luxury-market-by-2025-bain-says.html>

Appendices

Table 1.1.....	pg.6
Table 1.2.....	pg.8
Table 1.3.....	pg.12
Table 1.4.....	pg.14