Commodities, credit and luxury consumer goods

Insights into the structures that shape economic life in Southeast Asia

Su-Ann OH

Looking at Milo Dinosaur (a quintessentially Singaporean drink), the Musang King durian (the most sought after variety from Malaysia), moneylending in Vietnam and the demand for luxury goods in Southeast Asia, researchers in the Regional Economic Studies Programme here at ISEAS-Yusof Ishak Institute lay bare the structures that shape economic life in the region. Through an examination of global chains, historical legacies, political economy, social relations and changing tastes brought about by the pandemic, they provide us with fascinating insights into the workings of commodity and credit markets in the region.

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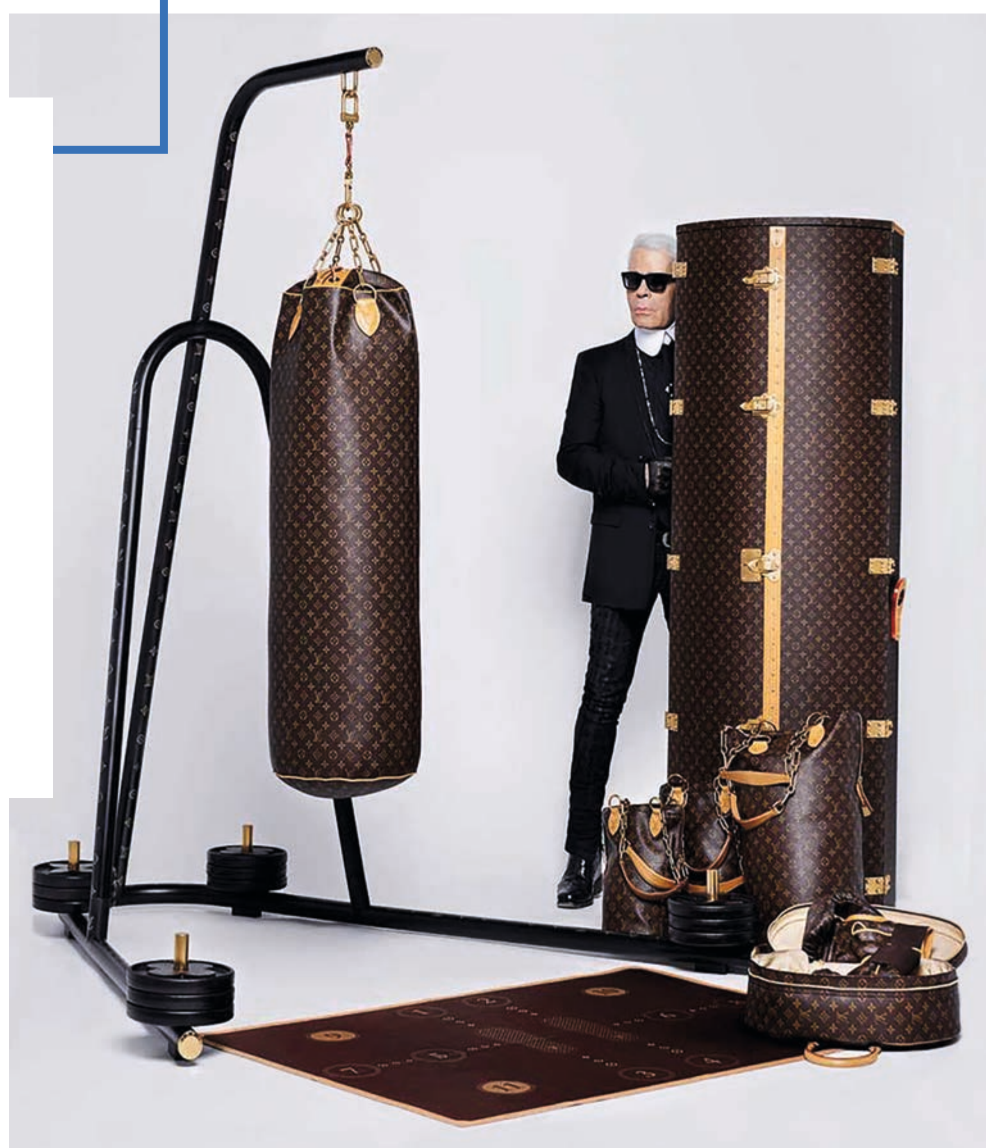


Above: Luxury fashion brand Louis Vuitton selling exercise equipment, pictured here with couturier Karl Lagerfeld.

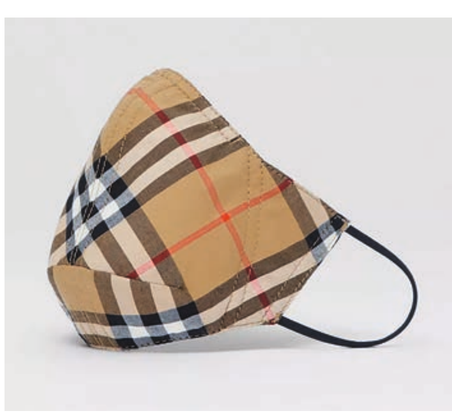
COVID-19 and the lost immunity of the luxury goods industry

Pritish Bhattacharya

The market for luxury goods has enjoyed phenomenal growth over the past few decades. In 2019, the global value of the sector was estimated to be around a staggering US$1.47 trillion. A carefully crafted illusion of hedonism, robust manufacturing processes and seamlessly integrated supply chains have allowed the industry to create and satiate people's perpetual appetite for high-end products and experiences with great aplomb. Even during periods of grave economic uncertainty, flagship luxury brands have emerged virtually unscathed. For instance, in the aftermath of the catastrophic Global Financial Crisis of 2008-09, the sector contracted by a mere 9 per cent, before loyal consumers promptly elevated the retail giants back to their original dominant positions by the following year. The events of 2020, however, have managed to expose a chink in the industry's armour. The COVID-19 pandemic and the resultant economic downturn have dealt a major blow to the generally indomitable luxury segment. According to analysts at Bain & Co., the global sales of personal luxury goods declined by 23 per cent in 2020, and are not expected to return to 2019 figures until late 2022 or 2023. Such projections do not bode well for Southeast Asia's luxury market, which had started to show signs of slowing down even before the current outbreak, thanks to the spill-over effects of the US-China trade war.

New strategies

Since the beginning of the millennium, the luxury goods market has relied, almost exclusively, on two consumer clusters for generating overall growth. While middle class Asian tourists remain the primary revenue source, young local adults or 'Millennials' form the much smaller backup target. However, with COVID-induced travel restrictions affecting the former group and rising youth unemployment impacting the latter, demand has flatlined and the industry has been caught completely off guard. Annual sales of LVMH, the parent company of prestigious companies such as Louis Vuitton, Dior, TAG Heuer and Bulgari, plummeted 17 per cent year-on-year, while net profits were down by 34 per cent. Likewise, rival conglomerate Kering SA, owner of Gucci and Yves Saint Laurent, witnessed a 17.5 per cent decline in revenue, and a 34.4 drop in recurring operating income. Although pricing strategies – including setting price mark-ups sometimes as high as 20 times the cost of production for a host of products – have allowed most industry stalwarts to remain afloat during the pandemic, a handful of high-end boutique brands are starting to shutter down. Among the American casualties of the crisis are retail giants Brook Brothers, Neiman Marcus and Lord & Taylor – all three companies filed for bankruptcy last year. Closer to home, Singapore's Robinsons & Co., too, was unable to bear the brunt of the coronavirus fallout, announcing its closure after 160 years in the city-state. Other players that have come to terms with the peculiar nature of the ongoing crisis – the ease with which the virus spreads, the psyche of cautious consumers and the complexity of vaccinating billions of people – and that anticipate a long recovery process have finally started to abandon their change-averse mode of operations.



Above: Burberry face mask.

Economic homeostasis has been a signature trait of most luxury fashion houses. A self-sustaining ecosystem developed by nurturing a steady stream of loyal patrons has helped them attain unparalleled growth in the past. In order to do so, established brands have unreservedly backed textbook notions of fuelling 'conspicuous consumption' and generating 'snob value' to help their consumers distinguish themselves from the crowd. So entrenched is the prestige preservation philosophy that large-scale commoditisation has never even been considered a viable option. However, the lasting impact of the current pandemic is making them take the first steps towards setting aside the allure of exclusivity and embracing coping mechanisms rooted in mainstream economic principles. First, a number of companies are offering existing and new customers a greater range of products and prices that would – at least somewhat – justify heavy spending in this challenging period. Second, centre stage brands are actively trying to develop a sense of congruity between consumer perception and their own values. And third, the ever-so-neglected digital engagement channels are finally being put to good use.

Greater variety

Most luxury fashion houses have been wary of diversification due to fears of 'brand dilution'. But keeping such concerns at bay and unapologetically extending product and price ranges is now imperative for such firms. Given that recessions invariably heighten consumers' price sensitivity, catering to financially fettered