

# Supply Chain Challenges and Counter Measures in the Recovery of Luxury Market

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## Abstract:

In the past, people's understanding of the luxury consumer market was limited to the unattainable and expensive ones, which led to a series of problems, such as the fact that luxury brands need to find quality and reliable suppliers, the luxury market was hit hard during the COVID-19, the supply chain was broken, a large number of layoffs, a large number of store closures, and so on. Then there are the sharp price increases in the post-COVID-19 luxury market. Before formally writing this paper, I read and searched a lot of literature. I found that there were many articles on management, economy and business, but few articles could focus on how the luxury goods market before and after the novel coronavirus epidemic changed from a downturn to attracting a large number of customers to buy luxury goods even though the price increased many times. With the development of the global consumer market, the luxury market is playing an increasingly important role.

**Keywords:** Supply chain; Luxury Market; Counter.

## 1. Introduction

This research is focused on the supply chain industry of the luxury market, which has begun to recover after the COVID-19 pandemic, especially the Chinese market, which has surpassed the United States to become the world's largest luxury market. In fact, there are very few business researchers specializing in the luxury sector, although both ordinary people and elite people know what the hot luxury brands are, some people will think that there is no need to investigate the sales in this area, what are the problems, is there a common brand worth learning from the advantages and so on. The title can be determined in advance of their purpose to elaborate, the title is the center of the paper, only closely around the topic of writing, can reduce the probability of off-topic [1-5].

### 1.1 Literature Review

The literature written by Chinese scholars more often compares the luxury goods market in China before and after the new coronavirus, while the literature written by foreign scholars more often expresses that compared with other countries, the consumption of luxury goods in the Chinese market has significantly increased. Although the luxury market is a global market and has expanded its scope through digital and e-commerce editions, the over-

all research on this field is weak, and most of it comes from journals such as business management. The analysis reveals an emerging field, with 85% of the published papers appearing between 2010 and 2018, which are primarily the output of US- and UK-based authors and none of whom dominates the field.

Internet celebrity marketing is very popular in China, but for luxury goods, the fit between the image of the spokesperson and the brand to be endorsed is the most important thing, and the Internet celebrity marketing model cannot be blindly pursued.

One characteristic of luxury goods is that some famous clothes are limited to the region, so it will also drive the work of local purchasing. Moreover, more importantly, the e-commerce platform will display only the limited goods shipped from the region for customers to buy, so the e-commerce platform must be well built. For example, during the new coronavirus epidemic, many luxury goods are unsold. Almost all rely on e-commerce to bear the sales.

Luxury goods need to balance the relationship between corporate culture and innovation, but also to maintain the autonomy of product design and high-end image, need to continue to meet the requirements of their own brand customer base. The core of luxury marketing lies in brand uniqueness, high-end image and customer loyalty. Luxury

creates a sense of superiority, and some brands even think that price cuts are fatal [6-10].

## 2. Case Description

Luxury consumption market is an important part of the global retail industry, the most important economic driving luxury consumption is the ability of consumers and the expansion of the global market. Although it is true that some scholars believe that the luxury industry is not affected by the crisis, it is proved that the new coronavirus has indeed caused an economic decline in the luxury industry. According to Bain's report, Global luxury sales in the first quarter of 2020 were down 25 to 30 percent from a year earlier [10-14].

When the pandemic hit, Louis Vuitton had to close stores and halt its operations around the world, causing sales to plummet. Even if stores in Shanghai and Shenzhen are not closed, store traffic and sales are plummeting as people travel less often. In addition to this, airlines around the world have stopped operating in large numbers, however luxury is global, and it requires air cargo, which has led to Louis Vuitton being unsold in large quantities of its own products. Even airlines that have not stopped operations are not able to help the luxury market, and all are trying to transport anti-epidemic materials such as masks, medicines, protective clothing, etc. to the world.

Italy is the main region for the production and supply of luxury goods, 40% of luxury goods come from here, because of the new crown epidemic, a large number of factories were forced to close, Louis Vuitton was naturally affected, not only to consider how to solve the slow-moving goods, but also to find a reliable supplier as soon as possible that can maintain the quality standards required by this enterprise.

Given the young audience accustomed to digital media, luxury fashion brands find it an ideal strategy to shift to online sales and expand global channels, especially in China. Louis Vuitton pioneered using a novel live streaming feature on Xiaohongshu, a Chinese social commerce platform, by inviting a celebrity to broadcast live. Since that time, numerous luxury fashion and beauty brands have begun marketing in China using online live streaming. Furthermore, Louis Vuitton launched a Valentine's Day-exclusive pop-up shop via a WeChat mini-program, allowing buyers to make purchases online, and shop employees could share special offline promotions with consumers through QR codes. The brand transitioned pre-sales discussions and after-sales support to online platforms and collaborated with SF Express to ensure seamless delivery. Despite the pandemic, Louis Vuitton's online sales doubled from last year's Valentine's Day.

Since Louis Vuitton has maintained a social media presence on WeChat and Weibo in China for many years, the brand could effortlessly extend their retail platforms to a new medium using live streaming in response to COVID.

## 3. Analysis on the Problem

In the first quarter of 2020, the epidemic had a significant impact on China's economy. China's exports are mainly affected by the postponement of the start of work and the impact of population movement control measures on the supply of labor, so labor-intensive products such as clothing, textiles, footwear, toys and so on are greatly affected. After the second quarter, the rapid spread of the global epidemic and the different degrees of epidemic prevention and control measures adopted by various countries have led to the closure of a large number of physical retail stores, which directly affects orders for seasonal labor-intensive goods in China. During the economic recession, consumers shifted away from high-end luxury goods and opted for more affordable products. This change in consumer behavior increased the demand for lower-cost items, which subsequently led to a rise in both their prices and sales, which in turn pushed up the price and sales of low-cost products, which also led to consumers being more inclined to choose low-priced goods produced in Southeast Asia, South America, Eastern Europe and other countries, while China's more mid-to-high-end clothing and other markets, the world's well-known luxury goods market sales have shrunk.

For the supply chain to respond quickly to the rapid changes in the market, it is important to establish good relationships with suppliers upstream in the supply chain. In traditional supplier management, the relationship between suppliers and manufacturers is often characterized by adversarial dynamics. This is largely due to the emphasis on price-driven strategies. Manufacturers frequently employ a multi-source procurement approach, meaning they purchase goods from multiple suppliers simultaneously, leveraging the competitive pressure among these suppliers to gain financial advantages, control suppliers by distributing procurement quantities among suppliers, and maintain a short-term cooperative relationship with suppliers, which has many drawbacks. First, information between manufacturers and suppliers cannot be communicated effectively, and manufacturers are able to choose the best supplier from multiple competitive suppliers. Private information is often kept reducing the supplier's competitive leverage. Secondly, there is more competition than cooperation between manufacturers and suppliers, their relationship is short-lived and unstable, and the lack of cooperation and coordination between the two parties hides

many uncertainties and brings a lot of risks to the manufacturer's operation. Third, this relationship ultimately leads to a sluggish ability to respond to market demand, facing a volatile market environment where manufacturers and suppliers cannot respond synchronously to user needs. Enterprises should establish long-term partnerships with suppliers from a global perspective and a strategic height to enhance the rapid response ability of enterprises to market demand and improve the agility of the supply chain. Here are a few points worth noting. First, we must choose suppliers reasonably. The number of suppliers is not as much as possible, but less and finer. Price can no longer be the first factor in selecting a supplier. Companies should prioritize metrics that reflect supply chain agility such as lead times, on-time delivery rates, and quality. Select a small number of suppliers as strategic partners from the many suppliers that are connected with the business. Even if the market fluctuates wildly, businesses will be able to cope with it. Second, we will achieve a high level of information sharing and trust with our suppliers. This requires the downstream demand information of the supply chain to be transparent, the actual demand information is collected as far as possible in the downstream of the supply chain, and it is transformed into useful information for upstream suppliers as much as possible through information system technology, so as to achieve a high degree of information sharing. At the same time, it is also necessary for all parties to reach a consensus and trust each other to create an environment in which information can flow freely in both directions in the supply chain. Third, we should cooperate with suppliers in an all-round way. This kind of cooperation can not be limited to the exchange of information about demand and inventory, it is a multi-faceted, multi-level, cross-organizational cooperation, to establish a cross-functional supplier development team with suppliers like a customer relationship management team, to jointly solve problems in the supply process and manufacturing process. For example, in the supplier development team, the implementation of concurrent engineering, the manufacturer involves the supplier in the product design stage, so that the supplier can understand the information about the performance and functional requirements of the downstream products for raw materials and components, so as to translate the user's needs into the quality and functional requirements of the supplier's raw materials and components in a timely manner. In this way, the development time of new products can be significantly shortened, production costs can be reduced, and customer satisfaction can be improved, thereby improving the responsiveness of the supply chain to market demand. During the COVID-19 pandemic, while significant threats were posed to the supply chain—such as disruptions in

supply, labor shortages, and the forced closure of some businesses—it also presented unique opportunities. An analysis of the economic impact from the supply side reveals that the pandemic's effects on supply are short-term, global, and profound. Examining the short-term impact on the labor supply at the enterprise production and industry chain levels highlights a “cliff effect” combined with a “substitution effect” at the factor level, a pattern of rapid shutdowns followed by challenges in resuming production at the enterprise level, and increased risks of supply chain disruption and industrial chain migration at the industry level.

From a long-term perspective, focusing on technological and institutional innovation, the pandemic is expected to drive significant changes in the social and economic landscape. These changes will likely accelerate the adoption of digital and intelligent technologies and foster institutional innovation within enterprises, ultimately leading to lasting impacts on the global economic and political order.

To address these challenges and opportunities, it is recommended to support enterprises in resuming work and production under a normalized epidemic prevention and control framework. Efforts should be made to ease the difficulties faced by businesses, especially small and medium-sized enterprises, and to strengthen coordinated recovery across industries and regions. Additionally, enhancing the security and modernization of the industrial chain is crucial. The pandemic should also be seen as an opportunity to advance intelligent technological innovation, promote new infrastructure development, and accelerate the transformation of economic growth drivers.

#### 4. Suggestions

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Luxury companies should establish a risk warning mechanism adapted to their own culture in advance. First, they should do a good job of data analysis and monitoring every quarter, and regularly analyze market trends. Enterprises should follow the trend rather than lead the trend, and at the same time, they should deeply understand the psychology of consumers at the current stage and the trend of competitors in the same industry. Secondly, we should conduct quarterly inspection of suppliers. Since we have experienced the problem of supply chain disruption during the COVID-19 epidemic, we should minimize the risk of supply chain in advance to ensure the reliability and continuity of suppliers, so as to prevent another crisis. Then, we should pay attention to the impact of financial risks. Luxury goods are a global consumer market. On the

premise of ensuring that there are no potential financial risks of the company, we should pay more attention to the management of foreign exchange risks in international business to prevent losses caused by exchange rate fluctuations. Finally, having learned from the experience of having to lay off employees during the COVID-19 pandemic, luxury companies should optimize human resource management in advance, conduct regular risk awareness training, and regularly optimize the technical capabilities of employees to ensure that they can effectively deal with risks. In special times such as the COVID-19 pandemic, every employee can give full play to their abilities.

In view of the practical need of society, while maintaining the high-end image of the brand, luxury companies should actively practice the concept of sustainable development, meet the needs of consumers for environmental protection and social responsibility, and ensure the long-term healthy development of the company. The first is to ensure that the supply chain is managed openly and transparently, to eliminate shady links, and to strictly examine suppliers before and during cooperation with suppliers to ensure that they comply with environmental and social responsibility standards. Raw materials are also reviewed to ensure their sustainability. In addition, companies should try to be as environmentally friendly as possible, can use renewable materials, such as recycled leather, sustainable wood and so on. Attention should be paid to reducing waste and pollution in the design and production process, and enterprises should promote the circular economy model. Similarly, we should pay attention to social responsibility, Businesses must support fair trade and ensure fair pay and working conditions at every stage of the supply chain. Luxury goods are positioned as high-end and expensive, but not mean and unaffordable, so enterprises should actively participate in and support social development projects to enhance the brand's social responsibility image. It should be emphasized that Luxury companies should strive to obtain internationally recognized environmental protection and sustainable development certification, the benefits of which include but are not limited to improving brand image, increasing social impact, and improving employee satisfaction. On the one hand, luxury consumers are global, some of them are highly concerned about environmental protection and social responsibility, and enterprises that have obtained environmental protection and sustainable development certification are more likely to win the trust of consumers. On the other hand, through certification, enterprises show their leadership in environmental protection and social responsibility, enhance their influence inside and outside the industry, but also can help enterprises to establish and maintain good social relations, enhance the image and reputation of enterprises in the

local community. In addition, employees will be proud of their company's environmental protection and sustainable development achievements, and the company's environmental certification also attracts more environmentally conscious and socially responsible talents to join.

In the process of management, luxury companies should make reasonable use of digital tools. For example, warehouse management system, which can automate warehouse operations such as inventory management, order management, delivery, etc., and effectively improve warehouse operation efficiency. Luxury companies can add virtual fitting items to online shopping platforms and use AR/VR technology to provide virtual fitting and display services to improve customer shopping experience.

## 5. Conclusion

Luxury brands tend to suffer more severely than other industries during economic downturns. When a recession hits, people's real incomes typically decline. As a result, some consumers cut back on or completely stop buying luxury goods. The social aspect of luxury consumption then causes others to follow suit, leading to a steep drop in market demand. The COVID-19 pandemic has exacerbated this situation, with the luxury goods market experiencing a slowdown in sales growth, particularly due to supply chain disruptions. For instance, Shanghai, a crucial logistics hub for many luxury brands in China, has seen its transportation and supply chains significantly impacted by these disruptions.

In the post-epidemic era, the market has changed a lot, such as luxury LV and Chanel have raised prices several times, and the stores are still in full swing. The development of various brands has not risen and fallen at the same time, but there has been a polarization, and now the market, luxury and cheapness have become the two mainstream trends of consumption. One of the great advantages of luxury goods is that it will not depreciate due to time at all, and even the classic models will appreciate in value, so no matter when I sell them, they will not be affected, which is the particularity that distinguishes many traditional industries.

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