RUC Bachelor Project

"Comparison of Performance of Luxury and Non-Luxury Fashion Brands during the Covid-19 Pandemic”

Group: V2326219596

Roskilde Universitet

Students:

Fabian Sheikho	Studienr.: 77072
Philipp Thierry Fouquet	Studienr.: 77069
Jonathan Hartwig	Studienr.: 77067
Christopher Kehl	Studienr.: 77065

Abstract

This study analyses Covid-19's impact on the performance of luxury and non-luxury brands in the fashion industry, considering different target groups. The changes in sales figures for each of the 35 luxury and 35 non-luxury brands are analyzed and compared using t-tests to identify significant differences. The results show that there are often no significant differences, but luxury brands tend to have stronger sales growth rates. However, luxury brands were more affected at the beginning of the pandemic, but still recorded higher year-on-year growth than non-luxury brands. The resilience of luxury brands highlights their ability to adapt to changing circumstances, due to a strong brand affinity. Companies could use the insights from this paper to adapt their strategies in uncertain times. However, it is important to note that this study only covers a specific period and is considered ceteris paribus.

1 Introduction

For many, the years 2020 and 2021 will immediately bring up the Covid-19 pandemic. Many industries have been affected by the pandemic and the fashion industry is not an exception. However, an intriguing question is whether all sectors within the fashion industry have been impacted equally. Was the luxury fashion industry less affected than the non-luxury fashion industry due to the theory that more wealthy people were less impacted by the pandemic?

The effects of the Covid pandemic on the global economy were investigated and it was found that the global gross domestic product (GDP) reached 84.9 trillion USD in 2020 (Deyvik, 2023). This means that it experienced a drop of 3.4 percent. It was also seen that the economy recovered quickly after this drop, reaching positive growth again in 2021 (Deyvik, 2023).

Since this drop in GDP will have the biggest impact on the lower and middle class, this paper argues that the spending behavior of the upper class did not change as much as that of the middle and lower class.

Although many (e.g. Ali, 2020; Coibon et al., 2020; Das et al., 2022) investigated the effects of the pandemic in perspectives of the costs of the pandemic and the change in consumer behaviour. No to little research is done in the comparison between the impact, recovery, and responses of luxury and non-luxury fashion brands during the Covid-19 pandemic.

This research will give us an insight into the differences in impacts of pandemics on the luxury and non-luxury fashion industry, providing useful insights for companies that have to cope with and recover from pandemics or likewise events in the future.

It was hypothesized that luxury fashion brands performed significantly better than non-luxury fashion brands during the Covid-19 pandemic.

Since fashion and luxury can be defined in many ways, we will define the fashion industry and a luxury brand as follows. We consider a fashion brand to be a manufacturer of (fashion-) goods with which their consumers can express these (prevailing) styles and their appearance. We consider a brand to be a luxury brand when their product is a non-necessity, from high quality, expensive (for most), and provides significant social value.

To analyze the difference of the effect of the pandemic, the revenues of 35 luxury and 35 non-luxury fashion brands during the years 2018, 2019, 2020, 2021, and 2022 will be analyzed. By investigating the means in revenue levels within these years and with the distinction of luxury and non-luxury, this paper will be able to support or deny the hypothesis with applicable argumentation.

2 Literature Review

2.1 The Fashion Industry

First, there is no complete or "correct" definition of fashion (Alam, 2021). Fashion consists of a combination of several different elements. In his paper Alam highlights that fashion is an expression of an individual's personality for a specific purpose. He states that "representation of personality is nothing but the creation of targeted impressions" (Alam, 2021, p. 25). He also underlines that the personality is not fixed but can vary depending on the purpose. To have a more differentiated look on that topic, we also will look at more simple and less extensive definitions of the term "fashion".

Collins Dictionary (2016) defines fashion as follows: "Fashion is the area of activity that involves styles of clothing and appearance". This definition is more orientated on the characteristics of fashion as a good and not on the social aspects of fashion as discussed in the previous paper.

In the Merriam-Webster dictionary fashion is defined as: "The prevailing style (as in dress) during a particular time" (Merriam-Webster, 2023). This dictionary definition emphasizes the importance of the expression of style more than Alam (2021) did in his paper. However, Alam (2021) in his paper clearly distinguishes expressing personality and the term “style”. He is arguing that “style” is something that is consistent, and people do not change it from purpose to purpose, in contrast to personality. But in the two dictionary definitions mentioned before it is more about the style of clothes and not the style of people. As one can see there are different approaches to define fashion, while some focus on the characteristics of fashion as a product others look at it on a societal or personality level.

In our project, we consider companies as part of the fashion industry when they manufacture goods with which their consumers can express this personality and their appearance. Furthermore, fashion products are also characterized by representing a (prevailing) style. This definition takes both approaches, the societal and the product approach into consideration. Examples of such goods are clothing, bags, jewelry, shoes, perfumes, and watches.

2.2 Definition of Luxury and the Luxury Brand

To define the term luxury and the luxury market, we first must go back to where the word comes from. We will use the same approach as Dubois, et al. (2005) to gather the information of the word luxury. Dubois, et al (2005) point out that the word luxury originates from the word “Luxus”. We find the definition of “luxus” in the Oxford Latin Dictionary (1992). It states: ““luxus” signifies “soft or extravagant living, (over-)indulgence” and “sumptuousness, luxuriousness, opulence.” However, this definition only covers the scope of what “luxe” entails, not what the industry entails and what markets belong to this industry.

Kapferer (1997) states that luxury defines beauty applied to functional items. Vigneron and Johnson (2004) build on this by stating that there is a distinction between luxurious and non-luxurious brands, and that there are two levels of luxury in luxurious brands. These are lower range luxury and upper range luxury. Vigneron et al. (1999) state that there are five perceived values that separate prestige and non-prestige brands. Namely, perceived conspicuousness, perceived uniqueness, perceived extended self, perceived hedonism, and perceived quality. These values are motivated by Veblenian, snob, bandwagon, hedonist, and perfectionist motivations (Vigneron et al., 1999). However, Katz (1985) and Leibenstein (1950) argue that there are only three main motivations to buy luxury goods. Namely, snob, bandwagon, and Veblen motivations.

We see similar approaches to finding the definition of a "luxury brand" in other papers. Ko et al. (2019) state that there is not a widely accepted definition of luxury. They combine earlier research to produce five key theories of luxury branding. Namely, self-concept theory, conspicuous consumption, social comparison theory, extended-self theory, and the theory of uniqueness. So, although this is approached differently, we can clearly see some overlapping motivations in the research of Ko et al. (2019) with the research of Vigneron et al. (1999).

De Barnier et al. (2012) argue against the two levels of luxury defined by Vigneron and Johnson (2004). De Barnier et al. (2012) conducted research and concluded in their paper that they perceived three diverse levels of luxury. Namely, accessible, intermediate, and inaccessible luxury.

Although many researchers argue that different dimensions and motivations form luxury brands, Statista (2023) state in their market overview that the key to being a luxury brand is exclusivity and exclusivity only.

Kastanakis and Balabanis (2012) state that luxury is a buzzword expressible in fragmented meanings, and that its definition is not agreed upon today. Similarly, Chrisitini et al. (2017) conclude that luxury has more than one meaning, depending on the context. This agrees with Mortelmans (2005) who concludes that luxury is a relative concept. He states: “Luxury is wider than the narrow definition” and “In the game of social distinction, luxury is constantly changing of appearance (Mortelmans, 2005, pg. 21). Mortelmans (2005) draws the conclusion that a product is only luxury when it is used as a sign of social standing.

To conclude, there is no widely accepted meaning of what brands are within the boundary of being a luxury brand. However, through the synthesis of previous definitions and our own perspective, we define the following definition of a luxury brand: “A brand is a luxury brand when their product is a non-necessity, from high quality, expensive (for most), and provides significant social value.” Within these luxury brands we will not recognize diverse levels of luxury as proposed by de Barnier et al. (2012).

In this project, when we refer to luxury and non-luxury brands, it will always be in the context of fashion brands.

2.3 Luxury Brands Before Covid-19

2.3.1 Characteristics of Luxury Brands

Following Gilmore and Pine (2007), five sources of authenticity apply to all brands, including luxury ones, and are indicative of the special qualities of luxury brands. The Natural, the

Original, the Exceptional, the Referential and the Authority source give brands credibility and the opportunity to stand out as distinctive and one-of-a-kind. As any brand can be tied to these five sources mentioned above, luxury brands have more particular characteristics. Fraser (2014) states there are eight characteristics of a luxury product. Rarity, excellence, expensiveness, timelessness, honesty, tailored, pleasurable and experience. This goes along with Keller (2017) who claims that high quality products and services, consumption experiences, pleasurable purchases, and a premium pricing strategy as the characteristics of a luxury brand. Becker (2018) focuses on how consumers perceive luxury products and states quality and price as the essential consumer's cognitive attributes; however, he also mentions aesthetics as a basic characteristic of a luxury product. Aesthetics are seen as a significant factor when it comes to the perception of luxury products (Townsend & Sood, 2012). Through aesthetic design, designers create works of art that evoke feelings of exclusivity and superiority in the customer (Dion & Arnold, 2011).

Quality is considered as one of the fundamental elements of luxury (Becker, 2018). To survive in the long term, luxury brands must maintain above-average quality levels (Christodoulides et al., 2009). Product quality is the foundation for justifying the purchase of expensive luxury products (Eastman & Eastman, 2011). However, the cognitive perception of high quality is often stated to have even greater influence than the real quality (Hein & Phan, 2011).

Becker states that the price is "the most objective characteristic in evaluating the luxuriousness of a product" (Becker, 2019, p. 54). Wealth is the only constant that still defines social standing (Han et al., 2010). Raising a product's price, therefore, separates people within society and gives the impression of luxury to those who cannot afford it (Becker, 2018). High prices are often seen as a differentiator of social status and excessive luxury purchasing is often used to express one's social status (Eastman & Eastman, 2011).

Examples for Luxury Brands that correspond to these characteristics can be found in any sectors. For example, the most luxurious watches can be purchased at Richard Mille or Patek Philippe; bespoke suits can be found at Tom Ford and Brunello Cucinelli; Loro Piana offers the highest quality for garments; and Hermès Birkin or Kelly bags are known as the most exclusive handbags in the world.

2.3.2 Target Audience

When people think of the target audience of luxury brands, it is often assumed that it is only the very rich. In fact, luxury clients are not only the very rich, but also people from the higher middle class, however, millionaires make up a major part of luxury clients (Chevalier, et al., 2021). A Capgemini study from 2020 shows that there were 19,608 million people with a net asset over 1 million US Dollar worldwide. Another report from Crédit Suisse Research of 2020 reveals there are even more millionaires, namely 46.8 million. These millionaires are target clients for luxury brands, however, this also does not mean that it is necessary to have a million dollars to be a consumer of luxury products (Chevalier et al. 2020).

According to Ziccardi (2001) luxury clients can be divided into four segments:

1. Millennium money: This segment contains relatively young people who made a fortune during the change of the millennium, for example celebrities, sport stars and all those who became rich through the Internet.
2. Old money: This segment contains all those who have inherited their money and who may run a business they did not build up themselves.

3. New money: This segment contains all people who made a fortune themselves during their whole life through hard work and not as fast as the individuals from the millennium money category. These individuals are careful about their money and how they spend it.
4. Middle money: This segment contains all individuals from the higher middle class, who mainly earn their income through their salaries. These individuals are also careful about their money.

Other researchers, on the other hand, have tried to differentiate customers based on their spending pattern. Bernard Dubois and Gilles Laurent were looking at the frequency of luxury purchases in 1999. They found out that only 12% of the population had bought a luxury item more than five times in the last two years. Most of the population (51 %) had bought only one to five luxury items in the previous two years. This shows that a major group of luxury clients are careful spenders and as per Dubois and Laurent are part of the higher middle class, however these people still have way above average incomes.

Even noticeably young people are purchasing luxury items today (Henning, et al. 2013). In an interview with CNBC in 2017 Kering CEO Francois-Henri Pinault said, “Gucci is selling 50 percent of all sale to these people [Millennials]…Saint Laurent 65 percent of the turnover is made with millennials”. Customers between 25 and 35 have become a core category (Pinault, 2017). Many luxury clients today are between 25 and 35 years old and careful with their spendings, which does not mean that they will not treat themselves to a nice watch or an expensive piece of clothing for a special occasion.

2.3.3 Pricing Strategies

Pricing itself is a technique to determine the value brands attached to their products or services (Chopra, 2021). As mentioned before, a characteristic of a luxury product is expensiveness

(Fraser, 2014). But how can luxury brands justify skyrocketing prices? According to Kevin Lane Keller (2009), luxury brands need to provide their customers with significant intrinsic and extrinsic value in order to justify charging premium prices. High prices serve as an indicator of a person's level of wealth or their social standing. The promotion of personal wealth and social rank is closely associated with societal ideals and consumers' extrinsic wants such as status and prestige (Fischer, et al. 2013). Furthermore, premium prices give luxury goods an exclusive image, which primarily relates to consumers' intrinsic needs such as the desire for uniqueness (Fischer, et al. 2013). The price of luxury products is crucial for the value consumers can derive from a luxury product. Luxury clients expect the product to be expensive (Dubois and Laurent, 1999). Luxury products should clearly fall into a different price range given the purpose they serve. Buying a luxury product is not a normal or everyday activity, and the price should appropriately reflect this (Dubois and Laurent 1999). Of course, luxury clients also expect high quality when it comes to packaging, customer support and warranties. As explained by Keller (2009), the price itself, however, may be the most powerful quality indication of all. For this reason alone, luxury brands utilize price reductions of any kind extremely selectively (Keller, 2009). Normally, luxury brands pursue the strategy of constantly increasing prices in the long term (Xie, 2020).

2.4 Non-Luxury Brands Before Covid-19

2.4.1 Characteristics of non-luxury brands

Non-luxury brands are a broad term. That is why we will narrow down the term somewhat below and explain what characterized non-luxury brands, especially in the pre-corona era. For example, non-luxury brands often base their design on luxury brands (Segre, 2005).

Workman and Lee (2021) describe non-luxury product brands as “such a complex construct” (Workman & Lee, 2021, p. 4). The long-term success of a company depends on expanding and maintaining its customer base. As part of this study, Workman and Lee (2021) hypothesized the "definition of charisma of non-luxury product brands" (Workman and Lee, 2021, p. 3). The hypothesis states that masstige market brands have a stronger appeal than mass market brands due to their higher prestige. Their analysis of the data collected supports the hypothesis and makes it clear that mass-market brands actually have a higher appeal (Workman and Lee, 2021).

2.4.1.1. Dimensions of Non-Luxury Brand

Vercic and Vercic (2011) tried to determine the popularity and attractiveness of a non-luxury brand. To collect the data, a total of 269 students (138 men and 131 women) from a large U.S. university were asked to complete questionnaires. They should name their favorite fashion brand and then rate it on a scale. Through this data analysis, Workman and Lee (2021) discovered four dimensions of non-luxury product brand charisma, namely a symbolic, a psychological, an experiential and a functional dimension.

With usage of Fournier's (1998) relationship theory, factors emerging from factor analysis, Workman and Lee (2021) concluded that the “non-luxury product brand charisma is a multidimensional construct” (Workman & Lee, 2021, p. 6).

Our brand selection adheres to the following definition: “Non-luxury brands are a cheaper alternative to luxury products. Their products are often based on the design of luxury brands. Nevertheless, these “cheaper alternatives” do not necessarily have inferior quality, rather, products from non-luxury brands are intended to appeal to the needs and budgets of a broad audience.”

2.4.2 Target audience

Since the wishes and needs of consumers are becoming increasingly heterogeneous, market segmentation makes it possible for non-luxury brands to appropriately address the needs of specific target groups (Esch & Manger, 2019). Sociodemographic and psychographic characteristics are considered a tried and tested combination of attributes to define target group segments, as they allow the real world of consumers to be depicted (Esch and Manger (2019).

2.4.2.1 The consumption influence of millennials

With more than 80 million members, the Millennial generation makes up around 25 percent of the US population. This makes them the largest and most influential consumer generation of all time (Fromm and Garton, 2013). With their likely increasing purchasing power of an estimated 200 million US-dollars per year, companies cannot afford to ignore millennials.

To better understand the consumption habits of Millennials, Fromm and Garton (2013) conducted consumer research with a global management consulting firm and an international customer research firm. The research of Fromm and Garton (2013) underlines the importance of this generation and shows that Millennials are a large target group for fashion brands.

2.4.2.2 The digital consumption of Generation Z

Generation Z is also proving to be a large target group for non-luxury fashion brands. Often referred to as "digital natives," Generation Z is the first generation to be constantly surrounded by digital communication (Smith, 2017; Adeola et al., 2020; Reinikainen et al., 2020). According to Chen (2018) and Vitelar (2019), Generation Z is exposed to digital advertising at least five times a day. Because they are considered materialistic and prone to impulse purchases (Flurry and Swimberghe, 2016), they value brand communication on social media (Vitelar, 2019).

Generation Z makes up approximately 32 percent of the world's population (Miller & Lu, 2018) and is therefore expected to have a significant impact on sales worldwide (Wolf, 2020). Due to their tendency to make impulse purchases, Generation Z primarily appeals to non-luxury brands as a target group.

2.4.3 Pricing strategies

As we discussed in our derived definition of non-luxury brands, non-luxury brands often offer a cheaper alternative to luxury products. This inevitably implies a focus on a more price-conscious consumer field. It is precisely a greater focus on a larger online retail audience that is making it increasingly difficult for the traditional retail shop model to be profitable (Doherty & Ellis-Chadwick, 2010).

Digital retail offers several advantages, including, as mentioned by Brynjolfsson et al. (2013), the possibility to offer a larger product range, as well as tailored online advertising (Spilker-Attig & Brettel, 2010). However, it also enables the consumer to make their own decisions based on price and online customer reviews (Grewal et al., 2017). Furthermore, it enables fashion retailers to use data-driven, dynamic and actionable approaches to create well-founded pricing models (Bolton & Shankar, 2018; Grewal et al., 2017).

Elmaghraby and Keskinocak (2003) claim: "Dynamic pricing of fashion apparel products is a complex process, but also a process of potential revenue management" (Shi et al., 2020, p. 4). Based on sales observations, retailers can change their prices later in the selling season (Aviv & Pazgal, 2005; Araman & Caldentey, 2009; Besbes & Zeevi, 2009; Farias & Van Roy, 2010). Shi et al. (2020) assume that a company introduces fixed prices in the pre-sales period, but dynamic and static prices can also be applied in the actual sales period. In general, non-luxury brands need to be flexible in pricing to offer cheaper alternatives to luxury products. To be successful in this marketing concept aimed at price-conscious consumers, fashion retailers rely on sales observations in order to adjust their prices if necessary.

2.5 Impacts of Covid-19

When the Covid-19 pandemic became noticeable all over the world, it had an enormous impact on the global economy. The IMF calculated the growth of global GDP, showing that in 2020 global GDP decreased by 2.8% from 2019 and then recovered in 2021 compared to 2020 with a growth of around 6.34% (IMF, 2023). All industries have been affected and the luxury and non-luxury fashion industry were hit as well. Studies reveal that the global apparel (big part of fashion) industry declined by approximately 12.5% (Statista, 2023). At the same time the global market for personal luxury goods shrank by approximately 20% from 2019 to 2020 (D'Arpizio et al., 2021).

Furthermore, the Covid-19 crisis deepened economic inequality across the world. The world bank estimates that around 150 million people fell into extreme poverty due to Covid-19. In contrast to this, the top 1000 billionaires in the world were able to regain their fortunes within 9 months after the outbreak of the virus and since then are increasing their wealth again (OXFAM, 2021). The top 10 billionaires could even double their fortunes during the crisis (OXFAM, 2022).

2.5.1 Consumer behavior

The behavior of consumers towards shopping desires was greatly psychosocially impacted during the Coronavirus pandemic (Bakkar, 2020). During the pandemic, consumers displayed a variety of unusual behaviors (Laato et al, 2020; Pantano et al., 2020). The changes in behavior were noticed in the buying alternatives due to the outbreak and the uncertainty caused by Covid-19 (Bakkar, 2020). This change of behavior can be rectified by Loxton et al. (2020) who state that crises of any nature have been known to cause changes in consumer behavior of individuals, and by Kolahchi et al. (2021) who claim that any fear influences the consumption patterns among people.

To observe the consumer behavior and the change in this behavior, we must establish what a consumer is. Solomon et al. (2012) sees a consumer as an individual who desires a product/service, purchases this product/service, and does not have the intention to sell, manufacture or produce this product/service. Gunter & Furnham (2014) describe a consumer as an engager of the product/service that is bought. For this evaluation of behavior, we will acknowledge a consumer as an individual who buys the product/service with the intention to engage with this product/service.

The reactions of consumers to Covid-19 were not constant, therefore the behavior was constantly adopted too (Kapetanios, 2022). Coibion et al (2020) state that the willingness to comply with imposed non-pharmaceutical interventions changes when the pandemic eases or surges, resulting in an increase or decrease of consumption. This is because of the factors that influence consumer behavior which are: internal or intrinsic factors, which are from within an individual such as an individual's beliefs, and external factors such as culture and environment (Bagga & Bhatt, 2013). Current employment status, type of occupation, and the earning potential of the family had also an influence on the change in behavior since this had a varying degree of impact on lifestyle changes of the consumers (Das et al., 2022).

The change in an individual's buying behavior can be explained by many underlying factors which include a change in earnings, lockdown, disruption within the delivery chain, unavailability of a product, and the accessibility of a product (Ali, 2020). The change may also be explained due to one of the outcomes of a high fear factor, which are: a significant decline in market demand, a rise in business operating costs, and a reduction in the labor force participation rate (Fernando, 2020). An example could be that the decline in market demand for a "known" brand leads to a price drop, after which some consumers will switch brands for that particular product, causing a change in buying behavior.

The National Retail Federation found that 9 out of 10 customers changed their shopping behavior, half of the customers changed their behavior by ordering online, and 6 out of 10 customers avoid the physical stores due to the risk of getting infected. They also said to believe that these changes were not permanent changes to the behavior of the customers. Other examples of changed behavior were stockpiling and panic buying, which was studied by among others Naeem (2020), and a shift in channel preferences, which was studied by among others Mehrolia et al. (2021).

Since the change in behavior during the pandemic shows adaptation of the consumers. We can argue about the reduction in change of behavior as the pandemic progresses. This adaptation is confirmed by the study conducted by Kapetanios et al. (2022), who show that during the second Coronavirus wave, the consumers adapted their response and that therefore this wave did not have an additional impact on the physical spending of the consumers.

A study of Reddy (2020) shows that during the pandemic, there was an increased shift towards online shopping. This is due to the avoidance of the risk of getting infected by the virus. This also complies with the research of The Nielsen Company (2020) that saw a significant change from fashion-oriented to daily need-based shopping, since these products were now ordered online instead of in the physical stores. Examples of these daily need-based products are pantry items. This is also in line with the research of Wisetsri et al. (2021) that shows that during Covid-19, people spend more money on essential goods only.

Since the willingness to pay for products in case to avoid infection went up (Kolachi et al., (2021), a final behavior that was studied was the behavior in product and brand substitution (Knowles et al., 2020). This can be explained due to the fact that through online channels, more brands became available in combination with the urge to avoid infection.

Disruption of Air Travel and global entry restrictions also greatly impacted the Luxury industry. Many Consumers of luxury goods, mainly from China, buy luxury goods outside their country. It is estimated that around 20 to 30 percent of luxury goods are bought by people from foreign countries (Mc Kinsey, 2020).

2.5.2 Job loss and Income Reduction

In February 2020, the Covid-19 pandemic effects became increasingly noticeable in all parts of the world (OECD & ILO, 2020). The global economy has not slumped that much since the financial crisis in 2009. The consequences were decreases in purchasing power and job losses all over the world. It is estimated that global industrial production declined by approximately 28%. This automatically also affected the job market. International Labor organization (ILO) projections estimated that globally working hours decreased by around 14 % between the last quarter of 2019 and the 2ndquarter of 2020 (OECD & ILO, 2020). For many people around the world, this meant a severe income reduction. Especially developing and emerging countries were hit, but also industrial countries like the US and Canada had a huge increase in unemployment at the beginning of the Covid-19 crisis (OECD & ILO, 2020). While unemployment in other parts of the world rose, countries in the European Union did not face such a big increase in unemployment, due to job retention schemes. But while the unemployment rate remained lower in the EU, wages still decreased (OECD & ILO, 2020). Also, in the further course of 2020, unemployment rates remained higher than before the crisis level (referred to as end of 2019). A newer report of the ILO also shows that in the first half of 2021 employment rates remained below pre-pandemic levels. Globally speaking -according to the ILO- the labor income decreased by around 8.3 percent in 2020.

Another Observation around job loss and income reduction was that the crisis's impacts were unequal. Especially cheap-paid workers, often low-skilled and younger workers suffered most from lower wages and unemployment. Overall Inequality between the poor and the rich rose (OECD & ILO, 2020).

2.5.3 Disruption of supply chains

The Covid-19 pandemic also had a major influence on the supply chains on a global level. International trade plumbed sharply in 2020, but quickly recovered in 2021 to a pre-covid level (OECD, 2022). According to data from the Institute of Supply management (ISM) around 75 % of companies faced supply chain disruptions during the pandemic. Responsible for these disruptions were different factors such as Factory closures, travel bans, border restrictions, closures of seaports etc. All these factors also led to an increase in transportation cost (Mishra et al., 2023). Also, delays in deliveries affected companies' profitability. Furthermore, companies also had difficulties with having access to raw materials for their production. Lockdowns also led to closures of shops and stores, resulting in less opportunities for brands to sell their products and leading to a decrease in demand (Mishra et al., 2023).

Examinations of Lebastard & Serafinie (2023) show that there were 3 phases of supply chain disruptions during the Covid-19 pandemic. The first one was between February and April 2020, when global production and exports decreased. The second one took place from May to August 2020, when exports recovered slightly from their initial drop. The third phase then was From August 2020 to the end of 2021 when supply chain disruption emerged again and became more intensive (Lebastard & Serafinie, 2023).

Clothing makes up a big part of the global Fashion industry. Many of the clothes and much of the raw materials for clothing come from China and Bangladesh. In 2021, approximately 32.8 % and 6.4 % of exported clothes were coming from China and Bangladesh (WTO, 2022). Both countries, due to lockdowns and factory shutdowns, faced especially big impacts by the pandemic, resulting in large influences on the global fashion industry (Su et al., 2022).

Many luxury companies manufacture in Europe or North America, of whom many produce in Italy. While many non-luxury brands, in order to reduce production costs, outsource their production to developing and emerging countries. These countries are in general more strongly affected by crises. These differences in the supply chain may influence luxury brands' performance.

2.6 Responses of Luxury Brands

The Covid-19 crisis was not the first global crisis luxury brands had to deal with. The global economy crisis from 2008 caused an overall decline of 8 % of the luxury market (Business Think, 2010). However, this is not comparable with the impact of the Covid-19 crisis on the market. According to a report from Bain & Company from 2021 the luxury industry shrank by 20% to 22% in 2020 and therefore dropped to the level that we had in 2015. In 2008, it was sufficient for the brands to implement suitable strategies to overcome the crisis in line with their own brand identity (Xie & Youn 2020), which led to many different strategies being observed, such as the Altered Amortization strategy, which gave consumers the chance to pay off high price product over a longer period of time (Raggio & Leone 2009).

The Covid-19 crisis, on the other hand, led to many brands using similar strategies, which are discussed below.

2.6.1 E-Commerce and Online Marketing

As said before, consumer behavior changed drastically during the pandemic. The National Retail Federation found out that 60% out of all customers tried to avoid physical stores and an increased shift towards online shopping could be observed (Reddy, 2020). It is therefore not surprising that luxury brands have focused strongly on e-commerce (Xie, et al. 2020). Already before the Covid-19 crisis, e-commerce was growing heavily since 2010 and was used even before (Bain & Company, 2020). For example, Gucci, which was one of the first luxury brands that recognized the potential of e-commerce, launched its website in 2002 (Sherman, 2020). Nevertheless, Covid-19 led to e-commerce playing an even more important role for luxury brands. Kering, owner of many luxury brands like Gucci and Saint Laurent, announced in July 2020 that e-commerce grew to 13% of its overall retail sales in the first half of 2020 from just 6% in the same period the year before (Kering, 2020). Louis Vuitton, the world's most valuable luxury brand (Kantar, 2023), started marketing their products via live streams on platforms like TikTok and Instagram (Granskog et al., 2020) or the Chinese social media platform Xiaohongshu (FashionNetWork, 2020), which led to many other brands starting marketing their products via live streams (Yu, 2020). Additionally, Louis Vuitton launched an online event on

Valentine's Day where customers were able to place orders online, which led the brand doubling its online sales compared to the previous year (Wang, 2020).

2.6.2 Product and Monetary Donations

One strategy that almost all luxury brands adopted to create awareness, was product donations by providing medical institutions with masks, sanitizers and gowns free of charge (Allaire, 2020). For example, the Kering group used their factories from Gucci, Balenciaga and Yves Saint Laurent to produce masks and protective clothing (Hayley, 2020). LVMH started to produce masks for their own employees and nearby nursing homes (Diderich, 2020) and used their own Dior Factory in France for the manufacturing of masks (Davis, 2020). Besides the product donations, monetary donations were also part of luxury brand strategies during Covid-19 (Xie, 2020). For instance, Gucci donated $10 million to the World Health Organisation (The Fashion Law, 2020) and Armani donated $2.2 million to hospitals in Italy (Tognini, 2020).

2.6.3 Price Adjustments

Raising prices regularly has always been a common strategy for luxury brands (Xie, 2020). According to Philippe Blondiaux, CEO of Chanel, price increases are necessary to adapt to the impact of raw material costs and currency changes. These price increases are also part of the long-term strategy (Aloisi & White, 2020). However, it is surprising that luxury brands increased their prices in 2020 despite the economic downturn caused by Covid-19. For example, Louis Vuitton increased its prices by 3% in March and by 5% in April in 2020, Chanel increased prices on leather products by 5 to 17 percent in May 2020 (Vikram, 2020). Other brands like Gucci, Prada and Celine followed this strategy by increasing their prices between 5 and 14 percent during 2020 (Bof & McKinsey & Company, 2020). Although it may appear illogical to increase prices during the Covid-19 crisis, luxury brands actually use it as an emergency mechanism to sustain their performance. Raising prices can, in the short run, encourage customers to buy products before the announced price increase and boost brands cash flows whereas in the long run it can boost revenues and compensate for the loss of brand revenue during the pandemic (Xie, 2020)

2.6.4 Fashion Shows

Fashion shows are a key marketing tool for luxury brands (Wang, 2023). However, due to Covid-19, it was no longer possible to run face-to-face fashion shows in 2020. This forced luxury brands to switch to other possible formats without a physical audience (de Carvalho Godim, et al. 2022). The first designer who restructured his fashion shows was Giorgio Armani. Armani invited his guests to watch the live broadcast of their women's FW20-21 fashion show via digital platforms (Hees, 2022). Some brands like Dior followed Armani's strategy to live stream their fashion shows online (Wang, 2020). Other brands, however continued launching exclusive physical events in 2020, for example Jacquemus, who invited 100 guests to their Spring/Summer 21 show, which was hold in the French Vexin Regional Natural Park, close to Paris (Kessler, 2022). The "big four" fashion weeks in Paris, Milan, New York and London also adapted by having fewer shows, increased sanitary measures and almost no physical audience in 2020. Other fashion weeks like the São Paulo Fashion Week even had to postpone the whole physical event to the end of 2021 and were only able to hold online broadcasts in 2020 (de Carvalho Godim, et al. 2020). A trend that has also spread across all brands was the usage of face protection masks in both real and virtual catwalks, either as fashion concept pieces or just for the purpose of composing the fashion look (Cunha, 2022).

In 2021, when vaccinations were available across the world, luxury brands started to return to physical fashion shows including catwalks and an audience (Cunha, 2020). The first fashion week that came back to life was Paris Fashion Week which took place in July 2021 (Joly, 2021). While some brands like Dior returned to exclusively physical fashion shows, many other brands like Chanel or Louis Vuitton started to implement a so called "phygital" concept where physical events for exclusive guests were also live streamed on the brands websites (Pacce, 2020). This concept gave luxury brands the chance to reach a completely new audience all around the world, which is the reason why, according to Chanel president Bruno Pavlovsky, many brands "will never abandon dual transmission" (Opovo, 2021, p.1).

2.7 Responses of Non-Luxury Brands

Bilińska-Reformat and Dewalska-Opitek (2021) argue the impact of the Covid-19 pandemic has led to a prolonged slump in the fashion industry. They also say that in this sector, it is difficult to maintain employment, financial stability and production capacity and to be competitive in the global e-commerce market, what leads to the assumption that the economy faces an uncertain future, with both new opportunities and new problems. This is especially true for the corporate sector, where corporate profit maximization and consumer demand have driven the fashion industry for years (Bilińska-Reformat & Dewalska-Opitek, 2021).

Refering to Seibel et al. (2021) the fashion industry was already undergoing a major change, which was only accelerated by the pandemic. Accordingly, these are primarily ethical and sustainable fashion trends, which can lead to the "end to extreme consumerism" (Seibel et al., 2021, p. 95) (The State of Fashion, 2020).

Brydges et al. (2020) examine the changes of Covid-19 in the fashion industry on sustainability initiatives. The five “Rs” from Ho and Choi (2012) are particularly important: recycling, reusing, reducing, redesigning and reimagining. Brydges et al. (2020) concluded that sustainable developments in fashion brands are very uneven, as the areas of design and consumption receive far more attention than, for example, the lifespan of a product.

2.7.1 E-Commerce Dominance and Marketing Strategies

As fashion retailers had to close their stores and stop production, this resulted in significant financial losses for retailers (Cernansky, 2020). This meant that fashion retailers had to find other ways to reach their customers. It is known that even before Covid-19, consumers were using social media as a source of information and a place for social interaction. Companies can use this instrument to develop markets (Hollebeek et al., 2014; Hur et al., 2017).

Before the pandemic, "the brick-and-mortar channel" (Bilińska-Reformat & Dewalska-Opitek, 2021, p. 2480), which describes a traditional street-side business was the main focus for many shops. The Covid-19 pandemic has prompted many companies to increase their focus on e-commerce. For Deges (2019), e-commerce is an integral part of the global economy. Companies use globally networked sales channels to sell their goods to consumers, anytime and anywhere, as the targeted customers have unrestricted access to them. These companies benefit from global networking and digitalization through new markets. Although e-commerce offers some new opportunities, it also requires a high degree of agility and willingness to innovate on the part of companies, which is due to changes in purchasing and consumer behavior (Deges, 2019).

Online sales increased by 36% in 2020, which is the highest growth in 13 years. Fast fashion retailer “Boohoo” achieved a 40 percent increase in sales in the second half of 2020, due to the promotion of new and in-demand categories and influencer marketing (Gilliland, 2021).

The strong development of non-luxury brands in e-commerce can be seen in the H&M brand, which managed to increase its online sales share from 16% in the pre-corona year 2019 to a total of 27% in 2020 alone (Statista). Batra and Keller (2016) claim, that social media can be an ideal environment for pursuing the goals of marketing communication. These include building trust, evoking emotions, arousing loyalty and connection as well as creating word of mouth (WOM).

The last point in particular plays an important role in marketing communication, as WOM can contribute to a good or, conversely, a bad image of a company or brand (Batra & Keller, 2016).

Instagram is one of the most popular social media applications, which is why Nurnafia et al. (2021) investigated the social media marketing activities of fast fashion brand Uniqlo Indonesia during the Covid-19 pandemic. They looked at the two main types of social media marketing actions, namely representation and engagement. Representation campaigns are communication tools that aim to inform customers about the brand and products and encourage them to buy, while Engagement campaigns aim to encourage consumers to cooperate. It turned out that Uniqlo Indonesia primarily used social media marketing representation campaigns during the pandemic to disseminate information about the brand and products and to address and inform customers (Nurnafia et al., 2021).

As Gilliland (2021) has already argued, influencer marketing was a key means of increasing sales during the coronavirus pandemic. Le and Aydın (2022) define social media influencers as "the emergence of certain users with considerable influence over a variety of publics" (Le &

Aydın, 2022, p. 449). During the Covid-19 period, social media influencers were among the most popular marketing tools for fashion brands and offered many brands the best opportunity to reach members of the younger generation (millennials and generation z) for impulse purchases. Lee et al. (2021) state, that the effectiveness of influencer marketing is based on social media influencers being perceived as authentic and relatable. Companies should therefore not create influencers-based on their needs but should cooperate with suitable influencers who are relevant to their products and target group.

2.7.2 Price Adjustments and Dynamic Pricing Challenges

Due to the abrupt drop in demand, non-luxury brands have had to change their price structure in response to corona. "In a standard demand-supply framework, increasing prices reflect supply shortages and decreasing prices reflect demand shortages, all else equal" (Balleer et al., 2022, p. 1). Accordingly, to Balleer et al. (2022), the decisive factor for dynamic price changes is the constantly changing interaction between supply and demand. Companies attributed the strongest negative effects of Covid-19 to domestic and foreign demand until spring 2021. After that, supply bottlenecks on the supply side were blamed for the negative effects. During this period, prices fell by up to ten percent. Balleer et al. (2022) states, it was interesting to see that companies that had lowered their prices right at the start of the pandemic were less successful in raising their prices later on without a fall in demand. Later during the pandemic, however, prices rose again, which can be attributed to the fact that companies' inflation expectations rose from below 2% in December 2020 to over 3.5% in September 2021 (Balleer et al., 2022).

Baumgärtner et al. (2020) are explaining that the price structure had to be adjusted not only due to supply bottlenecks and a fall in demand, but also often at short notice through discount campaigns. In order to respond to overstocked inventories and trend-driven impulse purchases, there were often discounts in the summer sales to make room for the autumn and winter collections or the other way around (Baumgärtner et al., 2020). In contrast, some fashion retailers pursued the strategy of stocking seasonal clothing and selling it in the corresponding season the following year (Kranz, 2021). However, these are mainly essentials from the men's sector, that means items of clothing that do not follow a particular short-lived trend and are therefore not out of fashion the following year (Kranz, 2021).

Another reason for price changes, both in longer-term price fixing and in short-term discount campaigns, is price undercutting due to competition (Köster, 1999). Consumers like to choose the cheaper products and, especially when demand is low, it is important for companies to have a competitive price. There are various strategies for dynamic pricing, with the skimming strategy focusing on the initial market advantage through high introductory prices, while the other extreme, the penetration strategy, relies on a low introductory price in order to throw competitors out of the market and quickly gain a large market share. The prevailing conditions due to the corona pandemic lead to the extreme of the penetration strategy, as the markets already exist, and companies have to orientate themselves on the demand side (Köster, 1999).

2.8 Developments

2.8.1 Similarities between Luxury and Non-Luxury Brands

The fashion industry faced major challenges as a result of the Covid-19 pandemic. As said before, short time working, financial instability and changes in consumer behaviour led to new challenges, but also new opportunities, for both luxury and non-luxury brands. This forced them to re-evaluate and adapt their strategies in response to this crisis. Fashion brands in general increased their e-commerce presence on social media platforms like Instagram or TikTok to reach younger generations in particular and be accessible from anywhere (Granskog et al., 2020). Even though the share of online sales in total sales was significantly lower for luxury brands before Covid-19 than for non-luxury brands, it was observed that both types of brands roughly doubled the share of their online sales in total sales in 2020 (Wang, 2020). Another similarity from our discussion before, shows that both luxury and non-luxury brands used dynamic price adjustments despite economic uncertainty as a means of short-term stimulation and long-term stabilization. Brands also sought to improve their external image with campaigns that emphasized care for sustainability or charity.

2.8.2 Differences between Luxury and Non-Luxury Brands

If we compare our literature review on the responses of both the luxury and non-luxury brands, then we can see some clear differences. The biggest difference between the responses of luxury and non-luxury brands on Covid-19 were their price adjustments. Both types of brands applied heavy price adjustments, however in opposite directions. While non-luxury brands reduced their prices by an average of 10% in 2020 luxury brands increased their prices by up to 17 % (Statista, n.d.). Non-luxury brands had to reduce their prices or offer discounts to stay competitive in the short term. Luxury brands on the other hand focused on keeping their image of exclusivity and sustaining their performance. Announcing price increases led to an increasing demand in the short term. However, this only worked for real luxury brands which already had an exceptional brand image like Chanel, who used this strategy to differentiate themselves from other competitors (Xie, 2020).

Another difference during this period was that luxury brands focused on improving their image through providing hospitals and medical institutions with masks, sanitizers and gowns for free and through monetary donations. Non-luxury brands focused on improving their image by promoting sustainability.

3 Hypothesis development

3.1 Theory that led to our hypothesis

As many observed (e.g. Bakkar, 2020; D'Arpizio et al., 2021; Laato et al, 2020; Das et al., 2022), the global impact of COVID-19 has not only affected the way we live, but also our attitudes towards luxury and non-luxury goods, especially in the fashion world. In this context, this theoretical approach sheds light on the diverse dynamics of consumer behaviour against the backdrop of the pandemic and helps companies to effectively address their target groups in this ever-changing environment.

To explain the different sales trends of luxury and non-luxury brands, the "theory of planned behaviour" highlights various aspects of how customers choose brands and explains their consumer behaviour. Ajzen (2011) writes in his article "The Theory of Planned Behaviour: Reactions and Reflections" that the theory of planned behaviour takes a variety of background factors into account that can influence consumers beliefs. These include personal factors such as personality and general lifestyle values, but also demographic factors such as education, age, gender, and income. In addition, a consumers own perception of the media and other sources of information also determines whether potential consumers can be acquired as customers (Ajzen, 2011). Consumers are also consistent with their beliefs (Geraerts et al., 2008) and, according to Ajzen (2011), these are strongly linked to past behaviour and habits. This speaks in favour of the hypothesis that luxury brands performed better during the Covid-19 pandemic. Which can be partly explained by a consistent and unchanging customer base. In addition, according to Ajzen

(2011), the decisive factor of income further suggests that customers with lower incomes are increasingly more price orientated in their consumption and lack brand loyalty. Consumers with higher incomes have the opportunity to orient themselves towards past behaviour and habits, which means that luxury brands have a higher brand loyalty during the Covid-19 pandemic and were therefore able to generate stronger sales growth after the initial corona-related sales shock (Ajzen, 2011).

3.2 Hypothesis formation

In the past few years before the Covid-19 pandemic occurred, the luxury market experienced a very stable growth. Luxury brands are often associated with high quality and high prices; therefore, we expect that mainly people with a higher income tend to buy luxury products. Wealthier people are often not as strongly affected by crises as people with a lower income, because they often simply do not have the necessity to reduce their consumption. We expect that luxury brands in the fashion industry performed better during Covid-19 than non-luxury brands, due to different target audiences. Most of the luxury brands also have existed for a long time, so we expect that they have already established resources and capabilities to better navigate through crises such as the Covid-19 pandemic.

Because the fashion industry in general and mainly the manufacturing process, is very globalized, crises such as the pandemic that effect the global economy had a substantial impact on this industry, what makes it interesting for further investigation in this sector.

Regarding all the arguments before, our hypothesis is formulated as followed:

Null hypothesis (H0): "Luxury fashion brands performed better than non-luxury fashion brands during the Covid-19 pandemic."

Alternative hypothesis (H1): “Luxury fashion brands have not performed better than non-luxury fashion brands during the Covid-19 pandemic.”

We will therefore perform several t-tests and look at the revenues of different time periods to test our hypothesis.

The hypotheses of our supporting t-tests are formulated as followed:

For the period 2018/2019:

Null hypothesis (H0): "There is no statistically significant difference in growth rates between luxury and non-luxury brands within the fashion industry for the year 2018/2019."

Alternative hypothesis (H1): "Luxury brands have a statistically significant higher growth rate compared to non-luxury brands in the fashion industry for the year 2018/2019."

For the growth rate 2019/2020:

Null hypothesis (H0): "There is no statistically significant difference in growth rates between luxury and non-luxury brands in the fashion industry for the year 2019/2020."

Alternative hypothesis (H1): "Luxury brands display a statistically significant higher growth rate than non-luxury brands in the fashion industry for the year 2019/2020."

For the periods 2020/2021:

Null hypothesis (H0): "There is no statistically significant disparity in growth rates between luxury and non-luxury brands in the fashion industry for the year 2020/2021."

Alternative hypothesis (H1): "Luxury brands demonstrate a statistically significant higher growth rate compared to non-luxury brands in the fashion industry for the year 2020/2021."

For the period 2021/2022:

Null hypothesis (H0): "There is no statistically significant difference in growth rates between luxury and non-luxury brands in the fashion industry for the year 2021/2022."

Alternative hypothesis (H1): "Luxury brands manifest a statistically significant higher growth rate than non-luxury brands in the fashion industry for the year 2021/2022."

Then we also tested the changes in the growth rates:

For the change from 2018/2019 to 2019/2020:

Null Hypothesis (H0): "There is no significant difference in growth between luxury and non-luxury brands from 2018/2019 to 2019/2020."

Alternative Hypothesis (H1): "There is a significant difference in growth between luxury and non-luxury brands from 2018/2019 to 2019/2020."

For the change from 2019/2020 to 2020/2021:

Null Hypothesis (H0): "There is no significant difference in growth between luxury and non-luxury brands from 2019/2020 to 2020/2021."

Alternative Hypothesis (H1): "There is a significant difference in growth between luxury and non-luxury brands from 2019/2020 to 2020/2021."

For the change from 2020/2021 to 2021/2022:

Null Hypothesis (H0): "There is no significant difference in growth between luxury and non-luxury brands from 2020/2021 to 2021/2022."

Alternative Hypothesis (H1): "There is a significant difference in growth between luxury and non-luxury brands from 2020/2021 to 2021/2022."

We will test all these single hypotheses to see if they support our one big hypothesis about the performance of luxury brands vs non-luxury brands.

4 Methodology

4.1 Research problem

The effect of the Covid-19 pandemic on both the luxury fashion industry and the non-luxury fashion industry was analyzed. This with focus on the differences in the effects the pandemic had on these two industries and why this effect was observed. We did this by collecting secondary quantitative data on 35 luxury fashion companies and 35 non-luxury fashion companies and conducting t-tests on this data. It could be argued that this was done with some form of randomization. This since it was a chaotic process in which the companies were selected by both our common knowledge and supplemented with suggestions from artificial intelligence search engines that we used to compose a list for both the luxury and non-luxury fashion companies.

4.2 Data Collection

The secondary quantitative data collected was data in the form of the revenues of 35 luxury fashion companies and 35 non-luxury fashion companies for the years 2018, 2019, 2020, 2021, and 2022. We defined a company to be a luxury company when this company when their product is from high quality, expensive (for most), and provides significant social value. If a company was not clearly assigned to either luxury or non-luxury, we discussed the company thoroughly and made our assessment accordingly. The main source that the data was retrieved from is statista.com with the addition of annual reports of the companies themselves and other online sources.

4.3 Methods of analysis

Upon collection of the data, we executed the process of cleaning the data. We critically evaluated the correctness of it and deleted big outliers by forming box plots with the revenues of the companies in Python (as seen in figure 1 - 4). We also adapted the data to have one general form. For example, the data coming from other countries than the USA and the UK (generally) had commas instead of dots as decimal separators which was adapted to form one general data form. To collect all the different data, the software Microsoft Excel was used which allowed us to do both the collection, adaptation, correction, and t-test within one software. After this t-tests were performed on the growth from 2018 to 2019 to show growth in a non-covid year, the growth from 2019 to 2020 to show the growth in a covid affected year, the changes in growth of 2019/2020 to show the direct impact of the covid pandemic, the growth from 2020 to 2021 to show the growth in a pandemic affected year, the changes in growth of 2020/2021 to show growth during covid, the growth from 2021 to 2022 to show the growth in a recovery year, and the changes in growth of 2021/2022 to show the recovery growth. The t-test was conducted to show the change and whether this change was significant.

5 Results

S = Significant

NS = Not Significant

With a significance level $\alpha = 0.05$

5.1 Growth Rates

	Mean	Std.	Min.	Max.	Significant?
Growth Rate 18/19					
Luxury	0,10039232	0,2881875	-0,232	1,64573991	NS
Non-Luxury	0,02217863	0,08125844	-0,1599797	0,20769231	
Growth Rate 19/20					
Luxury	-0,1886837	0,15896631	-0,6875	0,15282792	NS
Non-Luxury	-0,1652328	0,0966487	-0,3841463	0,05435897	
Growth Rate 20/21					
Luxury	0,20558979	0,29974089	-0,3461538	0,91333333	NS
Non-Luxury	0,15570216	0,17447203	-0,3586303	0,38764684	
Growth Rate 21/22					
Luxury	0,18750741	0,15398038	-0,2667509	0,48083624	S
Non-Luxury	0,10782938	0,13054188	-0,1510319	0,40993789	

First, we looked at the growth rate of luxury brands and non-luxury brands from the year 2018 and 2019. We see that despite a difference of 8 percentage points in the mean, the difference in the mean between both samples is not significant on the 0.05 significance level.

A look at the growth rate of 2019 to 2020 shows that growth rates of both sample groups face a decrease in revenue. The average growth rate of both is quite similar. The difference between growth rates of luxury and non-luxury brands is even less significant than for the growth of 2018 to 2019, and a look at the means shows a much smaller difference between the sample groups than in the previous years.

For the growth rate of 2020 to 2021, we see that growth rates on average for the two samples are positive again. The difference between the two means is not significant. From 2021 to 2022 luxury brands on average grew stronger than non-luxury brands. The difference between the two means here is significant.

5.2 Changes in growth rates

	Mean	Std.	Min.	Max.	Significant?
Change 18/19 and 19/20					
Luxury	-0,289076	0,26846194	-1,7050619	-0,0272286	S
Non-Luxury	-0,1874114	0,11095281	-0,3866846	0,11111111	
Change 19/20 and 20/21					
Luxury	0,3942735	0,38587304	-0,2619425	1,60083333	NS
Non-Luxury	0,32093498	0,19799041	-0,314402	0,66403308	
Change 20/21 and 21/22					
Luxury	-0,0180824	0,33787223	-0,674266	0,71335402	NS
Non-Luxury	-0,0478728	0,24266239	-0,3546048	0,65877456	

Here, we look at the changes of the different growth rates, by simple subtracting one from another. We can see that only the difference between the 18/19 growth rate and 19/20 is significant. We see that in this period, the growth rates from luxury brands on average fall much sharper than the ones from non-luxury brands. The results also reveal that the growth rate from 2019/2020 to 2020/2021 has risen again, but the difference between both samples is not significant. The next change reveals the difference in growth rates between 20/21 and 21/22, for both the growth decreases a little, but again the difference is not significant.

5.3 Results conclusion

In general, we can observe that in periods where both non-luxury and luxury brands face growth, luxury brands on average have a higher growth rate than non-luxury brands. But mostly these differences between the two samples are not significant. We also can see that the growth from 2018/2019 and 2019/2020 dropped more strongly for luxury brands than for non-luxury brands. Furthermore, we observe that the standard deviation for luxury brands in revenue growth in all the observed periods is higher than the ones for non-luxury brands.

6 Discussion

The aim of our study was to investigate whether luxury brands from the fashion industry have performed significantly better than non-luxury brands during the Covid-19 pandemic. To do this, we analyzed and compared the annual change in revenue. Our analysis leads to some results that support our hypothesis, but most results do not support our main hypothesis, therefore we must reject it.

To better understand the performance of the companies during Covid-19, we analyzed the general trend before the Covid-19 pandemic. The comparison of sales figures from 2018 and 2019 is not statistically significant, even though it appears that the sales growth of luxury brands tended to be higher compared to non-luxury brands. This does not represent a long-term trend, but rather a snapshot before the pandemic. Nevertheless, the data is relevant as it forms the basis for the change in the growth rate from 2019 to 2020.

The slump in sales from 2019 to 2020 shows the direct impact of the outbreak of the coronavirus pandemic in spring 2020. There are no significant differences between luxury and non-luxury brands, but a general decline in sales can be observed. This decline is largely due to changes in consumer behavior, which led to a drop in demand at the beginning of the pandemic (Loxton et al., 2020). Changes in consumer behavior were exacerbated by job losses and income reduction, leaving households with less money to spend (OECD & ILO, 2020). There were not only slumps on the demand side, but also on the supply side (OECD, 2022), which can be explained primarily by the disruption of supply chains.

However, when looking at the change in the growth rate from 2019 to 2020, it is noticeable that there is now a significant difference between luxury and non-luxury brands. The growth rate of luxury brands fell by 28.91%, while non-luxury brands only experienced a drop of 18.74%. This implies that luxury brands were more affected by the Covid-19 pandemic in 2020. One explanation for this is that, as seen in our data, the growth rate of luxury brands was already higher than that of non-luxury brands before Corona and therefore a marginal change in sales growth has a greater impact on the change in growth rate. Furthermore, this is also due to the direct effects of Corona. The global lockdowns in the spring of 2020 led to shop closures, which resulted in an increased focus on online retail for both luxury (Xie, et al. 2020) and non-luxury brands (Bilińska-Reformat & Dewalska-Opitek, 2021). This posed a greater challenge for luxury brands than for non-luxury brands, as the share of online sales in total sales was already higher for non-luxury brands than for luxury brands in 2019 (Statista, 2023). For example, H&M's share of online sales in 2019 was 16%, whereas Kering's share of online sales was only 6% (Statista, 2023). The abrupt discontinuation of in-store sales therefore had a greater impact on luxury brands.

Non-luxury brands were also able to expand their online presence even further. This was mainly done via social media platforms such as Instagram and TikTok, with influencers being a popular means of marketing products online (Gilliland, 2021). Due to job loss and income reduction, but also uncertainty about the future, consumers often sought alternatives to expensive products, which also explains the sharp decline in the growth rate of luxury brands (Bakkar,2020). In addition, the luxury industry suffered from global travel restrictions. A large number of sales or luxury products comes from tourists who consume abroad. A study from McKinsey (2020) shows, that around 20 to 30 percent of luxury goods are bought by tourists, mainly from China. During 2020, these sales almost completely disappeared.

If we look at our collected data, in the following year 2021, the fashion industry experienced an upswing again. Sales figures rose again from 2020 to 2021, however, the difference between luxury and non-luxury brands is not significant and quite similar.

This upswing can be attributed to the fact that the global economy was stimulated again in 2021. Shops were allowed to reopen, mostly under restrictions, and social gatherings increased again (Cunha, 2021). As a result, markets that were restricted or disrupted by coronavirus, such as retail shops, department stores and pop-up shops, became more relevant for companies again and increased their turnover. In addition, however, there were the new market developments expanded by coronavirus, such as online retail, which drove sales up even further. One important reason for the revitalization of public life was the increasingly widespread vaccination against the coronavirus in society (de Carvalho Godim, et al. 2020). This made social interaction possible again and customers were able to buy products locally again. Despite the similar growth from 2020 to 2021, luxury brands seemingly are showing stronger growth than non-luxury brands, although these differences are not statistically significant.

If you look at the results for the change in the growth rate from 2020 to 2021, you can see that both luxury and non-luxury brands have recorded a huge increase of around 30 % each. This strong increase shows that the fashion industry is already on an upward trajectory and is already recovering from the sales shock of 2019 to 2020. Although luxury brands initially had to report a greater drop in sales due to the start of the coronavirus pandemic, it is remarkable that they still recorded a higher increase in growth compared to non-luxury brands.

The results for the comparison of the growth in revenues from 2021 to 2022 show a statistically significant difference between luxury brands and non-luxury brands. Our analysis reveals that luxury brands grew by 18.75 % whereas non-luxury brands only grew by 10.78%. This shows that luxury brands performed better compared to non-luxury brands during 2022. The year 2022 is still part of the Covid-19 era, but it marks the end of the pandemic for many countries. There were almost no lockdowns anymore, travel restrictions have been lifted and life for many people has continued like in pre-covid times (Hadavas, 2022). In general, many industries reached pre-Covid-19 revenues (IMF). Global GDP growth was almost as high as in the pre-Covid period in 2018. Our result for the growth in revenues of luxury brands aligns with a study by Bain & Company (2023), which shows a growth of sales of personal luxury goods by around 19% for 2021 to 2022.

One reason for the growth in revenue for both non-luxury and luxury brands may be the economy going back to normal. As mentioned before, luxury brands highly rely on in-store sales and customers who want to buy their products physically (Kering, 2020). In 2022, stores could open again without or only with weak restrictions. Thats a reason why luxury brands in particular have recovered very quickly from the pandemic. Furthermore, the marketing strategies that luxury brands adapted during Covid-19 such as higher social media presence, certainly boosted sales and improved performance of luxury brands (Xie, et al. 2020). Global travel in 2022 increased again, and luxury-tourism could rise again (UNWTO, n.d.). Since a big part of luxury goods is bought by foreign tourists (Achille, 2020), this positively influenced sales of luxury brands. Furthermore, raising wages (Global Wage Report 2022-23) and decreasing unemployment rates (The World Bank, 2023) in 2022 led to more generous behavior of consumers, who previously held back in their consumption of non-essential products (Wisetsri et al., 2021). The deepening of economic inequality during the Covid-19 crisis includes the increase of wealth of the very rich (OXFAM, 2021), who make up a major part of luxury brands target audience. This also supports our hypothesis, especially at the end of the Covid-19 pandemic. Although sales figures are still increasing from 2021 to 2022, it can be seen in our analysis that growth is slightly weaker compared to the previous year which indicates that there is a negative change in growth. However, our t-test shows that there is no significant difference between the luxury and non-luxury fashion brands here and that the change differs by only 3 percentage points, which shows that both segments were in a similar stage of development. One possible reason for the negative change in growth is that many coronavirus measures have been partially lifted in 2021 (Schöps et al., 2021), which has prompted consumers to increase their consumption already in 2021. Due to the crisis, consumers have reduced their spending, which led to pent-up demand in 2021 as customers made their pent-up purchases and thus quickly revitalized the economy (Liu et al., 2021). As a consequence, it could be argued that therefore it was almost impossible for fashion brands to reach the same growth in revenues in 2022 as in 2021.

7 Conclusion

7.1 Summary

Our study examined the performance of luxury and non-luxury brands in the fashion industry during the Covid-19 pandemic using revenue growth rates, by performing an analysis on the revenues of 35 luxury, and 35 non-luxury fashion brands. Our hypothesis stated that luxury brands would have performed significantly better than non-luxury brands. However, our hypothesis was not supported. Luxury brands did not perform significantly better. The impact of Covid-19 was even harder for them in 2020. However, our data present that luxury brands did perform significantly better in the end of the crisis. Prior to the pandemic, there was a tendency for luxury brands to grow faster than non-luxury fashion brands. Business re-openings, government initiatives, and increased consumer readiness contributed to a recovery in 2021, for both luxury and non-luxury brands. In 2022, a statistically significant difference was observed, with luxury brands outperforming non-luxury brands with a growth of 18.75% compared to 10.78%. The recovery could be attributed to increased effort and effective marketing adjustments. Global tourism as well as improved economic conditions contributed to the success of luxury brands. Although our analyses on the difference in performance of luxury and non-luxury fashion brands during the initial impact (2019/2020) and the performance during the covid-19 pandemic (2020/2021) were not significant, our analysis on the difference in performance of luxury and non-luxury fashion brands during the recovery stage of the pandemic were significant (2021/2022). Therefore, this paper still provides valuable insights for brands that encounter pandemics and likewise events.

7.2 Theoretical implications

Our project, which focuses on the distinctions in performance between luxury and non-luxury fashion brands during the Covid-19 pandemic, enhances theoretical knowledge of the fashion industry.

In our project, we describe the situation of the fashion industry before Covid, with a focus on the distinctions between luxury and non-luxury brands. This offers an understanding of the pre-pandemic situation in this sector.

Our study examines the economic effects of the Covid-19 pandemic and how they influenced the fashion industry by looking at already existing literature and comparing this with analyses that we performed. We outline the reasons why and how the industry was disrupted during the crisis. Our investigation of how luxury and non-luxury brands handled the difficulties caused by the pandemic is a significant theoretical contribution. Our study shows how differently the two sectors of the fashion industry reacted to the impacts of the pandemic.

The core of our theoretical contribution is based on our analysis on the performance of luxury and non-luxury fashion brands during the Covid-19 pandemic. This analysis focuses on brand performance before the crisis, during the crisis, and during the recovery from this crisis. For the brands' performance during the crisis, we looked at the revenues. Due to this, we now have a better understanding of brand dynamics during a crisis. The project also helped to understand consumer behavior in uncertain times like pandemics.

The absence of studies that explicitly compare the performance measures of luxury and non-luxury brands in the fashion business during the pandemic is highlighted by our project as a research gap. This emphasizes the necessity for additional in-depth studies in the future in order to build a more thorough theoretical framework for comprehending brand performance in times of crisis.

In conclusion, our effort pushes the theoretical boundaries by presenting in-depth analyses of the structure of the fashion industry, investigating the economic effects of the Covid-19 pandemic on this industry, while comparing the reactions of luxury and non-luxury brands.

7.3 Practical implications

With the insights of this paper, businesses can learn how to prepare for crises to navigate uncertainties more effectively. It is important to implement flexible strategies in response to these changing circumstances, in order to improve resilience across all business segments. There are also some implications for the marketing of fashion brands. Insights found by this paper suggest that luxury brands could concentrate on reinforcing brand affinity. It is also found that non-luxury brands may explore innovative approaches to strengthen their market presence. It can also be important for companies to get deeper insights into consumer behavior and brand loyalty. Our project gives insights into the target audiences of luxury and non-luxury fashion brands and their consumption behavior in crises. They could use this understanding to customize offerings, elevate customer experiences, and cultivate enduring relationships capable of withstanding crises.

7.4 Limitations

Although we are trying to analyze and evaluate the changes in sales of luxury and non-luxury brands based on the covid-19 pandemic, there are some other factors that have a big impact on companies' performance which could have an effect on the performance during the analyzed years.

Smaller companies with rapid growth generate more jobs and thus make a major contribution to the economy (Cooney & Malinen, 2004). This naturally also has an impact on turnover figures. In addition, the capital structure of a company can also lead to differences in turnover (Arilyn, 2019).

Government support measures also impacted the development of sales figures (Behringer & Dullien, 2020). Another important factor in generating sales is the correct market development of a company. Herold (1992) mentions that being in the right market accounts for 80 % of success. As the brands analyzed in our data are highly unlikely to operate in the same market conditions, the sales figures are also influenced by this.

In addition to coronavirus, Russia's war against Ukraine impacted sales and the performance of companies in general (Bachmann et al., 2022). Markets were lost, there were raw material bottlenecks and uncertainties in logistics and supply chains. This certainly influenced the sales figures in 2022.

7.5 Future research directions

In order to avoid other influencing factors in further research into the influence of Covid-19 on the sales figures of different companies, one could try to create framework conditions so that the data analyzed are not biased and can be compared independently. To elevate the quality of the research, companies of the same size, with a similar capital structure should be analyzed, ceteris paribus.

8 Appendix

Figure 1

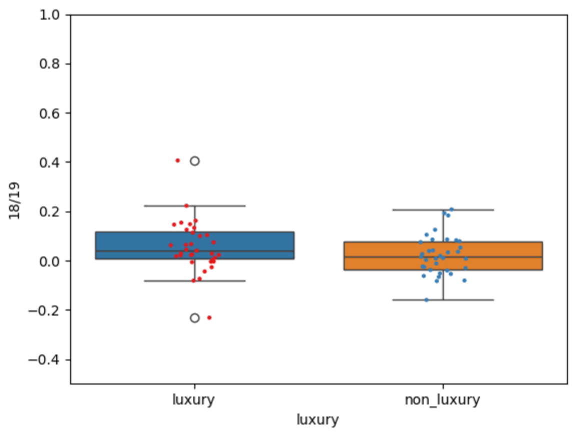


Figure 2

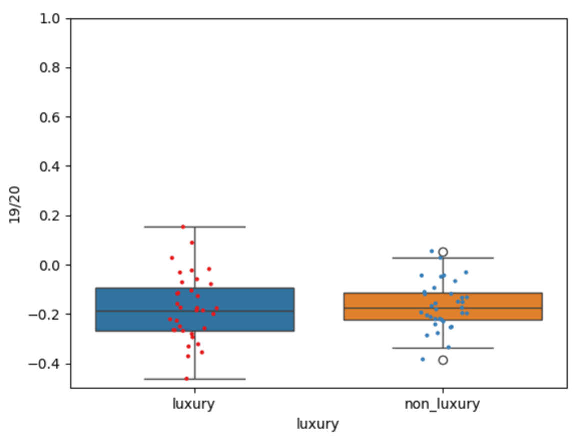


Figure 3

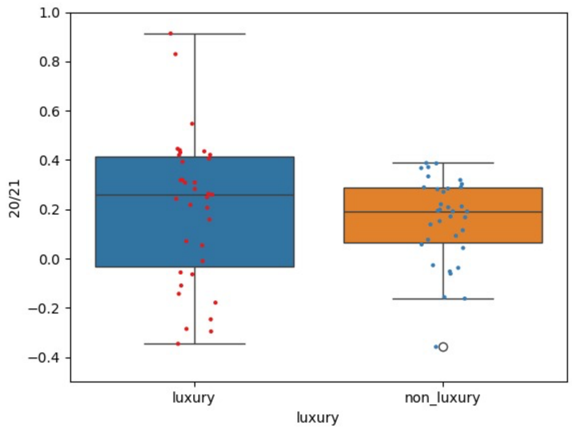
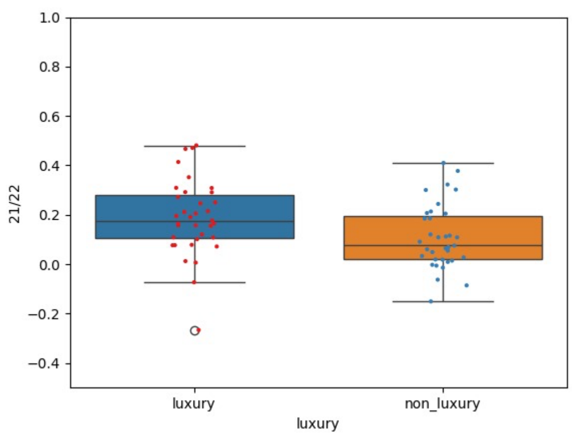


Figure 4



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