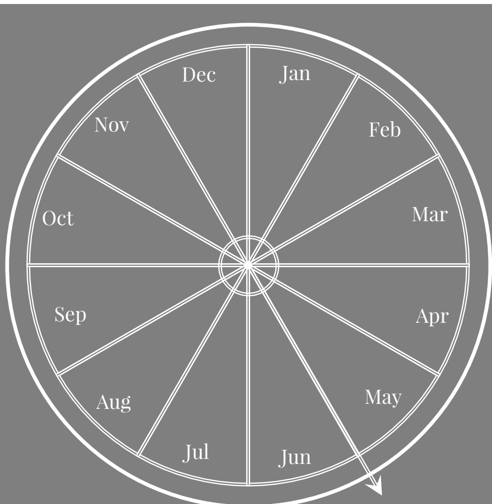
B




# Volume 10: May 2020

## Notes

### Welcome

Introduction

### Strategy beyond COVID-19

Will there really be ‘fundamental change’?

### Sector updates

Recent news and commentary

# May 2020

## Barton Founder & Principal, Winston Chesterfield

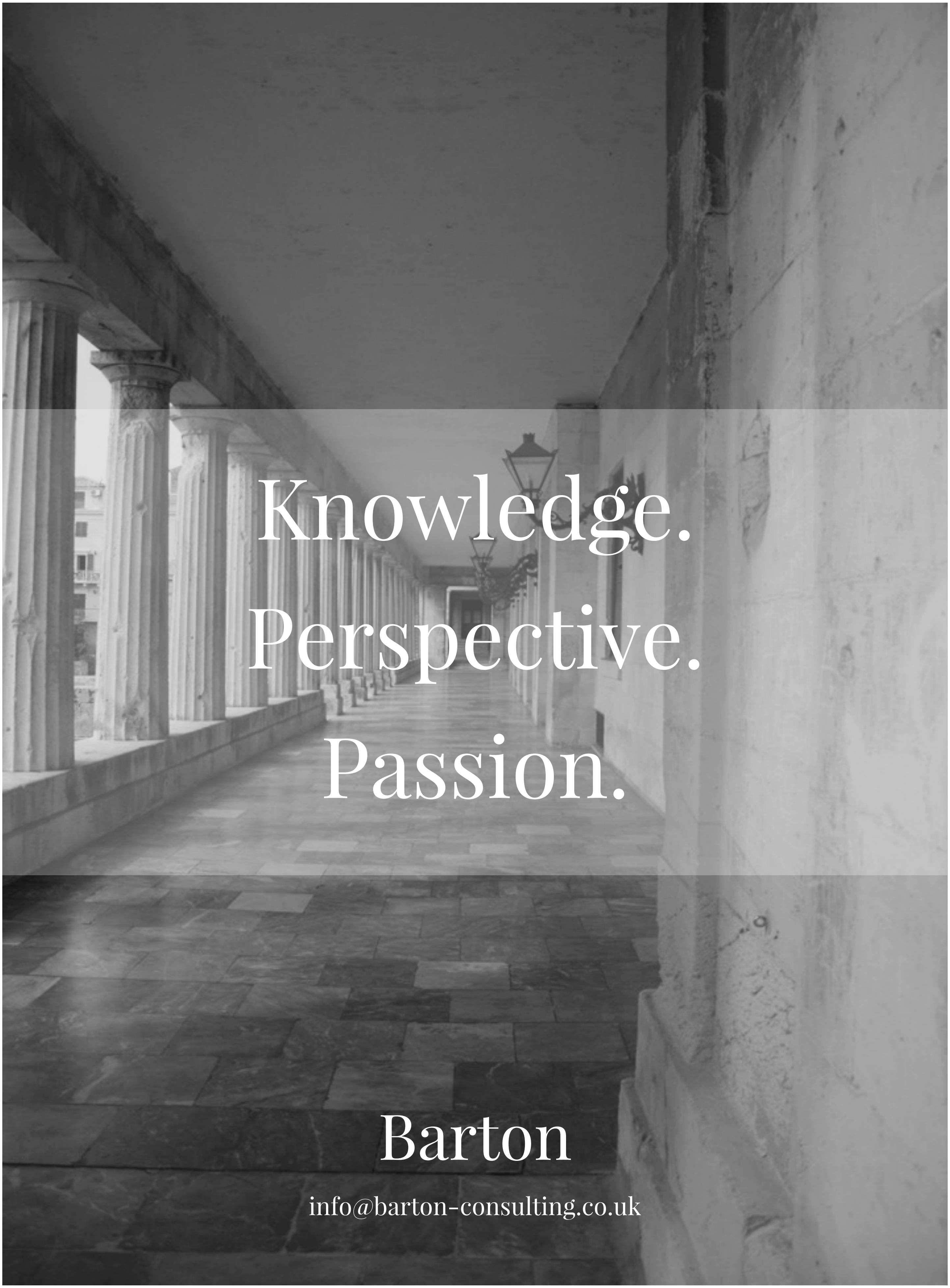
At the start of this month, a great number of countries in Europe were in lockdown; at its close, a huge number of them are loosening restrictions significantly. If April 2020 was the 'lost month', May 2020 is surely the month of re-ignition.

Across the continent, numbers of reported cases and deaths from COVID-19 are falling. Whilst there should be caution – as a complete return to normal may produce the dreaded second spike – there is clearly room for optimism. As the sun climbs higher in a summer sky, the reopening of stores, workplaces and hospitality venues will hopefully provide the sledgehammer-blow to crack the ice wrapped around economies in deep-freeze.

Across the rest of the world, other nations are still getting to grips with a burst in virus cases. Brazil and Russia, which were previously in a modest mid-table position, are now 2nd and 3rd in terms of total cases – a highly comprehensible scenario, given they are the 6th and 9th most populous countries respectively.

With the global death toll slowing – now at around 370k people – some of the earlier terrifying forecasts of total global deaths (ranging between 30m and 40m) look, mercifully, pessimistic. A lot of this is currently credited to lockdown and social distancing measures that were recommended by the modellers, although there will be an enormous number of national and international enquiries that are undertaken following this that look into the forecasters' models and assumptions, given that the economic impact of sustained global lockdown has caused an extreme (though hopefully shortlived) recession but also huge unemployment – which could, sadly, last longer than the recession.

Forecasts are helpful for strategy. Without a reasonable picture of how something may turn out, we have no justification to develop tools to either ensure or prevent its arrival. However, they can be dangerous and assumptions can be applied that are short-term, but are confused for and reported as long-term. This is the subject of this month's article; how huge predictions about consumer and market change are spreading throughout the world, and why we should be careful with what we hear.


Knowledge.
Perspective.
Passion.
Barton
info@barton-consulting.co.uk


# STRATEGY BEYOND COVID-19

Aside from the tragic deaths and illness that the virus has wrought across the world, the saddest outcome is the sight of struggling businesses, their officers and employees. Forced to furlough and lay-off staff, face bankruptcy or, if they are lucky, ask governments for loans to prop themselves up for another month, businesses small, medium and large in the wealth-producing private sector have been rocked to their core. The crisis has blown a hole in the side of a global economy that was already looking rather desperate in its attempts to avoid hitting the rocks.

The facts of a recession can't be denied. What economists and forecasters are undecided on is how long it will last. In one sense, a deep recession may feel, psychologically, more challenging to climb out of, but only – it's possible to argue – if it was a cyclical recession. This is a recession that the world imposed on itself, so applying the same forecast assumptions to this recession doesn't feel sufficiently sophisticated. Likewise, with consumer behaviour, which has had to change because (again) the world imposed this change on itself, we cannot assume the changes we have seen during a period of enforced lockdown and heightened public fear will necessarily be permanent.

One of the biggest trends of the pandemic has been the zealousness of industry sages, consultants and mighty minds to warn us of the long-term consequences of COVID-19. From as early as March, when no one had any idea exactly how long the situation would last, editorials were being published warning us how this virus would change everything forever.

Some of these Nostradamian predictions were alarming. "People won't travel again for years"; "We will all wear masks in public from this day forward"; "Group gatherings are likely be banned permanenty." They painted a dystopian future of everlasting disease control. A complete ending of normality, not even as a top-down approach but one created of consumer free-will. We were all going to change and, apparently, we wanted to. Something felt very off.

The problem with predictions such as these is that they are made in extraordinary circumstances but use assumptions that are applied in more familiar, often cyclical scenarios. The best advice I read is that the pandemic has no precedent so even the most well thought through predictions need to be supplied with the caveat that we cannot be sure at all.

# “It’s tempting to provide advice to the desperate in stormy seas. A crew in fear always turns to the bridge for leadership….”

It’s tempting to provide advice to the desperate in stormy seas. A crew in fear always turns to the bridge for leadership. But this temptation, as evidenced by this crisis, all too often leads to grandiose statements about how human beings – who are most reliably habit-driven – will somehow change everything about themselves because of a few months of inconvenience.

The term for this is ‘bubble think’ and it is increasingly common in today’s world. Inside the bubble, feelings of fear conquer feelings of hope, there is terror of what exists beyond the bubble. Outside of the bubble, life trundles along as it always has, cyclical and obeying natural laws. The fear makes once-confident individuals and organisations reach out for new thoughts and ideas. And, as is often the way with bubble-think, we are bizarrely more attracted to ideas that promote exceptionalism; that *this* is the major event, *this* will cause lasting change, that you are at a *major* crossroad and that inaction or a lack of respect of the massive changes that will come will sink your organisation.

It’s difficult to know how genuinely held these beliefs are by those who espouse them. Part of it is about attracting attention; a dynamic viewpoint, particularly one which is alarming, is clearly disrupting & disruptiveness has become a fetishized concept over the last ten years. As I wrote last month, anxiety about the virus will gradually fall as we leave the bubble of lockdown, but communicating the ongoing threat of it will produce a changed psychology: effectively, a self-fulling prophecy.

During the pandemic, it is fair to say that much of the commentary has been negative and doom-laden. But as the sun begins to rise on a post-lockdown world, we are yet to see any justification for much of this.

Earlier this month, it was reported that wealthy travellers were beginning to book end of year luxury travel stays – before they’d had any idea of the end of a lockdown. This immediately scotched some of the more outlandish claims about people refusing to travel for months and years to come. Spain, which is one of the most popular destinations in the world, announced it is opening up at the beginning of July with no quarantine required for visitors – making a mockery of claims that 2020 would be a complete write-off for the tourism-dependent country. Luxury goods companies are already realising that even COVID-19 couldn’t kill the Golden Goose that is China’s luxury consumer market. It has bounced back so strongly for many brands - as Barton advised in its March Diary - that they are contemplating a future even *more* reliant on the world’s number one luxury goods consumers.

The danger of making predictions in a bubble is that they can produce decisions which become far more damaging in the long run than the risks which they are loosely intended to hedge against.

It remains to be seen whether the decline of certain industries is permanent or temporary. Much of the evidence around absolute poverty (it is declining) and total wealth (it is increasing) suggests that most industries should be bullish about the long-term future.

# Sector updates


*Image: Reuters*

Luxury brands have found themselves amongst the targets for protestors rioting in cities across the USA, in response to the death of George Floyd whilst being held by a police officer in Minneapolis, Minnesota. A **Louis Vuitton** store in Portland, Oregon was broken into and looted and a **Mercedes-Benz** dealership in Oakland, California saw rioters cause hundreds of thousands of dollars worth of damage to the showroom's motor vehicles. Some commentators have opined on the manifest unfairness and injustice felt by the protestors and that this has expanded into attacking symbols of inequality should be no surprise. It is often said that all publicity is good publicity, but in Barton's view, it's doubtful that in these circumstances the context makes for appetising reading for the brands involved.

About four years ago, **Hong Kong**'s choicest commercial streets for luxury brands were becoming so expensive that many brands began to feel they could no longer justify the investment. Fast forward to 2020 and rents have crashed to their lowest level in over 12 years. Why? Well COVID-19 is partly to blame but the rot set in well before global lockdowns were in vogue. Visits from mainland China had been plummeting for months due to the ongoing political crisis between the Special Administrative Region and Beijing. The year on year change of first quarter rents on Russell Street ( -27%) makes the -6% equivalent on New York's Fifth Avenue look positively healthy and a world away from the 0% change experienced on the choice streets of London and Paris. Barton thinks the dichotomy between Hong Kongers' attitude towards the government of the mainland and luxury brands' heavy reliance on consumers from the mainland will soon bring more problems.


*Image: Straits Times*

*Image: Ajay Suresh*

Another quarter, another department store brand files for bankruptcy. **Neiman Marcus** – founded in Dallas in 1907, at the height of the craze for department stores – filed Chapter 11 on 7 May due to unsustainable debts. One of its most famous assets is the legendary Bergdorf Goodman of Fifth Avenue. The building was constructed in 1928 on the site of one of the Gilded Age's largest town mansions, built for Cornelius Vanderbilt II. That massive private building lasted just 45 years; its replacement – at least the concept – has lasted over double that. The CEO, Geoffroy van Raemdonck, immediately connected the bankruptcy to COVID-19, blaming store closures and social distancing. However, Barton thinks the reality is that it would have needed more than a couple of months of good sales to service immense debts of $4.3bn. The department store model is now as anachronistic as Vanderbilt's castle-like folly.