



Luxury retailers in Hong Kong and neighboring markets face Coronavirus crisis

March 12, 2020

Over the past ten months in Hong Kong, luxury retailers have encountered a challenging market on an unprecedented level. Hong Kong has traditionally been a popular destination for Mainland Chinese seeking to purchase luxury goods, but recent political unrest and consequent protests have seen a dramatic reduction in cross-border visitors and a narrowing market for the luxury goods sector.

Now, the world faces the challenge of a pandemic public health crisis. The novel coronavirus (COVID-19) which began in Wuhan, China has spread at speed through other Asian economic hubs, to the Middle East, the Americas and Europe (with, as things currently stand, Italy on nationwide lockdown). As of March 12, the Coronavirus has infected 126,908 people worldwide, and killed more than 4,737 people. Unfortunately, the toll climbs with each passing day. Government quarantines affecting travel to and from Asian economic hubs and cities around the world have been put in place and are expected to continue for the foreseeable future.

Luxury goods stores in Mainland China and Hong Kong are seeing a significant reduction in consumer footfall. In respect of Hong Kong, the combination of the protests and COVID-19 has clearly had a significant impact.



With no indication that the political protests will cease after COVID-19 is under control, online shopping becoming more prevalent, and other shopping locations available to Mainland Chinese, the Hong Kong market is likely to continue to be a challenging one. However, when SARs struck the city in 2003, the retail market in Hong Kong recovered quickly, and many in Hong Kong hope for a similar outcome after COVID-19 subsides. Indeed, some say there may be an opportunity for retailers who are able to offer consumers RetailTech innovations such as AI and other digital store engagements to enhance the in-store shopping experience.

As for the Mainland China market, luxury retailers should have seen an uptick in sales in Mainland China stores, due to shoppers discouraged from travelling to Hong Kong, but it appears that quarantines and fear of infection are discouraging many consumers from visiting stores in Mainland Chinese cities as well.

In addition, many organizations are facing the difficulty of staff being unable to work, either because they are unwell, quarantined or stranded overseas.

In these circumstances, luxury retailers face a number of potential legal issues arising from their Greater China operations, including:

- (a) issues arising from the closure (indefinite or otherwise) of stores, including contractual and other matters relating to premises and service providers;
- (b) employee and data protection matters under local employment laws;
- (c) supply chain risk (including risks associated with air and sea shipping); and
- (d) non-Asian consumer concern regarding goods / materials originating from Greater China.

If COVID-19 has or might have an impact upon their people or operations, organizations should take swift steps to assemble an internal crisis response team and, where a necessary external advisor to ensure that they are in the best position to adapt to what is a fast-developing situation.

We are here to help

Hogan Lovells is deploying its Crisis Leadership Team and practitioners with expertise and deep industry sector knowledge to help guide our luxury retailer clients to ensure that they:

- (1) have the policies and protocols in place to promote the health and welfare of their employees and representatives including appropriate dissemination of key medical information and updates regarding COVID-19 and, where necessary, emergency medical treatment and travel/evacuation protocols;
- (2) activate regular and clear internal reporting channels;
- (3) are in a position to promote increased online retail activity and other RetailTech solutions;
- (4) are able to communicate to customers and vendors the current status of their operations in Asian markets;
- (5) have a clear understanding of the terms of any contracts which are impacted by COVID-19, including in relation to premises and local service providers;
- (6) understand local employment and data protection laws with a view to understanding: (i) how to implement protective measures in the workplace; (ii) the potential need to report employee information to local health authorities; and (iii) mandatory quarantines, as well as long-term shutdowns of offices and stores, are handled under those laws;
- (7) maintain consistent communication with downstream suppliers to ensure they are able to meet demands during the outbreak;
- (8) communicate with customs and sanitary and phytosanitary agencies and officials to ensure shipments meet all standards when originating from China;
- (9) prepare for shipping and logistics disruptions to find alternatives if air or sea shipping is slowed or stalled;
- (10) where necessary, maintain key lines of communication with relevant government departments, both home and overseas; and
- (11) Devise and implement public relations and reputation management procedures including internal and external communication protocols – particularly involving social media.

By devising and following a strategic plan that covers these steps, affected organizations have the opportunity to lead through this crisis and to ensure that they are equipped to emerge stronger, more resilient and better prepared for the next unforeseen event.

As the region looks to move towards containing the crisis it is hoped that possibilities for growth as it comes through the other side may well come to bear. Businesses that are resilient enough to weather the storm, recover and adapt will hopefully see opportunities as the desire for luxury goods among Chinese and other consumers in the region is unlikely to wane in the long-term.

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