



"In a recession, airlines provide advertisers with great efficiency"

● Julie Sherborn on in-flight media, page 28

ANALYSIS 5

Luxury sector loses its recession-proof status

Falling sales in Japan mean luxury brands are looking to China for growth, but recession is biting there too. By Glenn Smith

SECTOR INSIGHT

Over the years, luxury has built up a reputation as a recession-proof sector. Luxury brands have, after all, weathered plenty of downturns — the top 10 luxury franchises in a recent Interbrand ranking of brand value have an average age of 123.

But those days may be over. In the 1990s, the industry 'democratised' its customer base, pursuing a two-pronged strategy by wooing aspirational consumers as well as its traditional elite customers. With those aspirational customers hit by the global slowdown, is Asia's once-burgeoning luxury sector about to suffer?

Today, the capital of luxury's new world order is Japan, the end-destination of an astonishing 45 per cent of the world's luxury goods, according to HSBC. "Japan is the world's largest market, and has the highest per capita spending for luxury goods," says Claudia D'Arpizio, managing partner of Bain & Company, Milan, and author of the annual Luxury Goods Worldwide Market Survey.

D'Arpizio believes the HSBC estimate is high, though only by a few percentage points. "Much of that volume is from Japanese purchases while on trips to Hawaii, the US or Asia," she cautions.

The Bain study measures 'in-country' purchases, and of the global total of €175 billion (US\$222.7 billion) in luxury sales last year, Asia took a quarter (€42 billion), and half of this was for sales in Japan (€21 billion).

But Japan, ominously, was the first to experience negative growth in luxury consumption, dropping two per cent year on year in 2007 and seven per cent last year. The rest of Asia, in contrast, posted growth of 14 per cent in 2007 and 15 per cent last year. Takeshi Oshima, senior research executive at TNS-

Infoplan, says some prestige brands in Japan experienced a 30 per cent sales drop last year. "Many luxury consumers are of average income, and in tough times like these, they are looking to cheaper brands such as Uniqlo or H&M. A few years ago, Chloe bags over 200,000 yen (US\$2,200) sold easily. Now consumers won't look at a bag over 200,000."

Outside Japan, the largest Asian markets include South Korea (€4.9 billion sales in 2008), Hong Kong (€3.6 billion), Singapore (€2.2 billion), Macau (€600 million) and India (€800 million).

However, it is to China that many in the luxury industry have been looking to boost growth. The Chinese spent €5.9 billion on luxury goods last year, according to D'Arpizio, a mere 2.7 per cent of global sales. However, the balance is shifting. By her count, half of the BRIC countries' total of 819,000 high net worth individuals are from China, and she forecasts 30 per cent growth for the next five years.

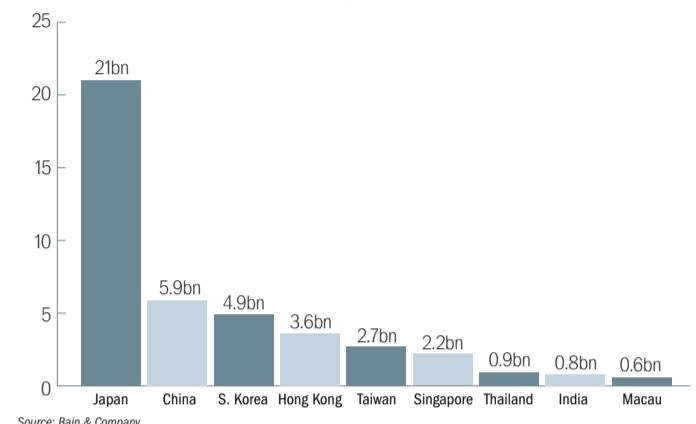
This depends, of course, on the economy. Declines in China's stock markets have already flattened the paper wealth of the country's economic elite, and the US credit crunch is starting to hit China's upper middle class.

"In China, the luxury market is quite affected by the crisis," says Sandy Chen, luxury specialist and research director at TNS.

"Spending on automobiles and high-end luxury goods are both down. These are strong when the economy is good, but when things are bad, they are first to be cut and they are cut the most."

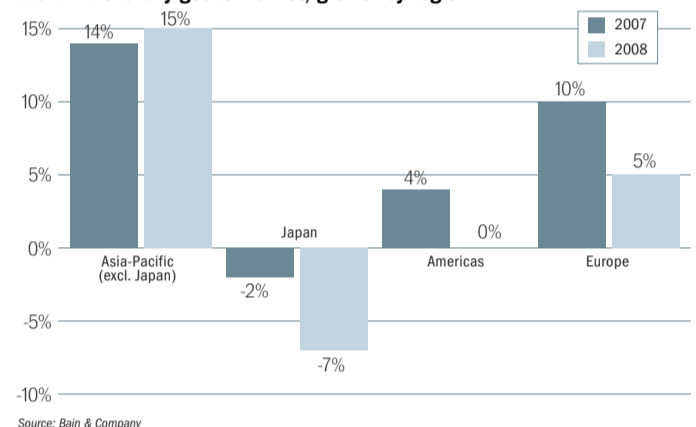
Chen points out that the market is only 10 years old. "Luxury is status-driven in China, and more about the consumption of product than about the experience of it. There is a lack of brand knowledge and product heritage, although in Beijing and Shanghai we are seeing a shift toward individualism and discernment of taste typical of a

Asia-Pacific luxury market by country (2008, € billion)



Source: Bain & Company

Worldwide luxury goods market, growth by region



Source: Bain & Company



Uniqlo... offers cheap alternative



Vertu... opening Japanese store

mature market." With the Japanese market in decline and Chinese growth stalling, luxury might be due for a makeover in Asia, says Milton Pedraza, chief executive officer of the New York-based Luxury Institute.

"There are more aspirational consumers in Asia than in other parts of the world," says Pedraza.

"But when their net worth is down 30 per cent even the wealthiest stop and pause. Luxury has to reinvest itself every few years, and I believe it will return to the traditional meaning of something unique and exclusive."

Got a view?

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Analyst comment



Steven Snipes
Managing partner,
Lux Research
Japan

"Japan is the world's largest market for luxury brands, accounting for anywhere between 12 and 40 per cent of global sales, depending on the market definition.

Luxury consumption is deeply ingrained in the social fabric of Japan, a fact that does not seem likely to change anytime soon. Having the 'right' brands is an important method of broadcasting social position and level of sophistication for both the upper and middle classes.

Although the Japanese luxury market expanded throughout Japan's stagnant, post-bubble economy, sales are currently falling off, and a pessimistic mood has settled in. A number of high-profile news stories, such as the cancellation of Louis Vuitton's flagship building in Tokyo's Ginza district and the bankruptcy of high-end jewellery retailer Maki, have added to the recent gloom.

Sales of luxury handbags may be down, but rentals of luxury bags are up, indicating consumers still wish to be seen with the 'appropriate' brands.

We see the current downturn as temporary, however, and many luxury brands are also taking a long-term view and positioning themselves for growth when better times return.

Luxury Belgian chocolatier Godiva, for example, is proceeding with plans to open two new cafés in Tokyo, and a dedicated shop for the Vertu luxury mobile phone is planned to open in Ginza. Demographic changes, such as the increase in dual-income families, an increase in the number of wealthy households and the emergence of women in their 40s as a luxury consumer segment, also indicate continued growth in the future."

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