

Japan luxury market



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McKinsey Consumer and Shopper Insights June 2012 Standing Tall: Japan's Resilient Luxury Market Brian Salsberg Naomi Yamakawa Photograph: Abbie Chessler 2 In the immediate aftermath of the tsunami, earthquake and nuclear disaster that hit Japan last year, killing 19, 000 people and battering the nation's already shaky confidence, it was hardly surprising that people didn't feel like shopping. At the time, the conventional wisdom was that such restraint was likely to last.

People would still have to shop for essentials, of course, but the market for things like high-fashion apparel and luxury handbags was surely bound to suffer long-term damage. Such thinking made eminent sense – except it didn't happen. Fifteen months on, today's luxury market looks a lot like the luxury market that existed the day before the Great East Japan Earthquake, much as we anticipated in last year's report. 1 Our findings at the time were necessarily tentative, coming as they did less than three months after the disasters.

Today, we can assert this with more confidence. When asked if the disasters had changed their attitudes, for example, fewer than 20 percent of the 1, 450 Japanese consumers we interviewed were less interested in shopping for luxury goods than they were before the disasters (Exhibit 1). The Cabinet Office's Consumer Confidence Survey report from May 15, 2012, shows that consumer confidence has risen strongly since March 2011 (to 40. 3) and is back to up to levels last seen in 2010. Moreover, in a small but telling sample, when we asked 20 Japan-based luxury company CEOs about their sales outlook, every single one said 2012 would be better than 2011, and almost three-quarters said that the disasters of 2011 had no effect (63

percent) or, counter-intuitively, had a positive effect (10 percent) on company performance. Seventy percent of CEOs Exhibit 1: A vast majority of consumers still have strong interest in luxury Which best describes your own attitudes towards shopping for luxury goods since the earthquake and tsunami on March 11?

Percent selecting “ Somewhat less interested,” or “ Less interested” on a 5-point scale Less interested 20s n = 224 30s n = 497 40s n = 414 50s+ n = 323 4. 6 5. 8 10. 4 Somewhat less interested 7. 8 14. 6 22. 4 8. 2 12. 8 21. 0 12. 5 15. 7 28. 2 SOURCE: McKinsey Japan Luxury Consumer Survey 2012

were optimistic about the near future and the prospects for Japan’s luxury market (Exhibit 2). Japan’s luxury market rings up between \$10-20 billion a year in sales (depending on how the market is defined).

That figure is unlikely to grow much, given Japan’s shrinking population, slow economic growth, and cost-conscious consumer attitudes. Strictly from a sales ratio perspective, Japan’s luxury market will continue to wane in importance for most luxury manufacturers. A case in point is LVMH. Just five years ago, Japan accounted for 13 percent of the Exhibit 2: Most executives we surveyed maintain an optimistic view of the future of Japan’s luxury market Which best represents your perspective on the mediumterm future of the luxury goods market in Japan?

Percent; n = 20 Somewhat pessimistic 30 35 Optimistic 35 Somewhat optimistic SOURCE: 2012 Luxury CEO survey 1. http://csi.mckinsey.com/Home/Knowledge_by_region/Asia/Japan/japanluxury.aspx 2. Cabinet Office of Japan, <http://www.esri.cao.go.jp/en/stat/shouhi/shouhi-e.html> 3 “

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When it comes to watches, we see customers trading up to higher-end brands and higher-end products. ” —Japan president, luxury watch manufacturer company’s global revenue. By 2011, the figure had dropped to 8 percent (and that marked an improvement from 2010).

Compare that performance with the rest of Asia, where the company’s sale share rose from 17 percent to 27 percent over the same period. 3 And yet, such figures make it easy to lose sight of one simple reality: Japan remains the world’s third-largest luxury market, after the US and China. more high-end brands than cheaper brands. Not surprisingly, their spending on luxury is not as high as for other age groups, but a higher percentage of them are active in the luxury market (5 percent compared to 2. 3 percent of those age 50 and up).

This cohort are more likely to be willing to pay full price and are also more likely to see owning luxury goods as something special. As for men, while they make up a minority of luxury shoppers in Japan, they have stayed more loyal to expensive brands. There are an estimated 3 million men under the age of 34 living alone in Japan. According to government data, average incomes for this group increased by 7 percent Exhibit 3: in 2011, and their spending jumped by 13 percent. Compare this to single women, whose spending grew less than 2 percent, and the average Japanese consumer, whose spending dropped. Young men, it seems, saw the March 11 disaster as a good reason to live for the moment, and Japan’s luxury goods market appears to be a beneficiary. Finally, when we look at segmentation by income, Japanese who spend more than a million yen (about \$12, 000) a year on luxury goods are more than three times as likely to say they are

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switching to high-end brands than to low-end brands (Exhibit 3). Those who spend less than half as much are reporting the opposite. What we learned Here are some of the most striking insights from McKinsey's 2012 Luxury Consumer Survey: ?

Japan is a market of markets That is, some niches and segments are more promising than others. In terms of products, for example, highend Swiss watches, such as Rolex, Omega, Piaget, and TAG Heuer, have reportedly enjoyed significant growth in the past year. 4 Why? Because luxury consumers seek both emotional and functional benefits. A great watch, they believe, is the kind of item that appreciates in value and can be passed down to the next generation. In terms of behavior, there is opportunity on the sales floor.

For reasons that range from a more stable economy to better upselling skills, consumers are trading up in some luxury categories, even as they trade down in others - primarily apparel and similar categories with shorter shelf-lives and greater selections of alternatives. Demographically, younger consumers and men are worthy of particular attention. Twentysomethings are the only group buying Big spenders appear to be " trading up" to higher-end brands Annual luxury spend (JPY) I am purchasing luxury goods . . . Less often More often Above 1 mil (n = 48) 15 8 I have switched to buying . . More high-end Cheaper brands brands 6 21 0. 5-1 mil (n = 100) 16 5 9 14 Up to 0. 5 mil (n = 953) 22 4 15 5 SOURCE: McKinsey Japan Luxury Consumer Survey 2012 Photograph: Abbie Chessler 3. Wall Street Journal, February 21, 2012.

4. Nikkei Weekly, April 2, 2012. 5. Statistics Bureau of Japan, " Family Income and Expenditure Survey," first quarter, 2012. 4 ? Experience is increasingly

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valued The in-store experience is a key element in enjoying luxury, and it may be particularly important in Japan, whose customers are renowned for their high service standards.

Asked what were the key elements that enhanced the buying experience, the top two answers Japanese consumers gave were: 1) The staff was kind, and 2) The staff was knowledgeable. Responses were consistent across categories. Luxury executives tell us that for their best customers, the in-store experience and overall customer relationship are nearly as important as product performance. Luxury brands, by definition, are about high quality and exclusivity; providing an excellent customer experience helps to deliver something extra, and those we spoke with are convinced that doing so is well worth the investment.

One executive told us that his company, a luxury automaker, saw tremendous value in closely monitoring the daily customer relationship management activities of its sales team and using the information to coach staff, not only on closing a sale, but on upselling various options and features. The value of experience also comes through in what consumers tell us they want. There is clear potential for luxury experiences to become “ the next big thing. ” Asked their level of interest in various products, those 30 and up named luxury hotels above all others (it came in second among those in their 20s). Spas and beauty services also scored highly (Exhibit 4). We also asked one of our favorite questions from previous surveys: “ Imagine you won 300, 000 yen (about \$3, 800) in a lottery today. How would you spend it? ” Except for those in their 20s, travel scored highest by a decisive margin (Exhibit 5). ? Digital marketing in Japan has far to go Even the executives we

spoke to agreed with this. More than twothirds of them admitted that luxury brands have been “ less successful” Exhibit 4: n capturing the changing behavior of consumers, and just 15 percent called online sales a “ meaningful” part of their business in Japan. At the same time, 90 percent said online marketing and promotion was “ somewhat” or “ very” important. A look at the demographics confirms that digital complacency would be a mistake for most luxury players. For one thing, women are more likely than men Are luxury-branded experiences the next big trend? Very interested Interested Think about the luxury brands you like most. When that brand is associated with the following product or service, what would be your level of interest?

Percentage of those who are “ very interested” and “ interested” on a scale of 6; n = 1, 458 Total Hotel Perfume Home textiles Cosmetics Furniture Spa and other beauty service Home electronic products 13 10 9 10 8 9 8 26 20 21 19 19 17 17 30 30 29 27 26 25 39 20s 14 16 12 16 9 15 24 23 26 29 25 30 33 38 36 45 40 45 30s 14 11 10 12 9 10 27 21 22 20 20 23 24 32 32 32 29 33 41 40s 15 24 39 50s+ 9 5 6 26 19 19 25 25 35 10 15 25 10 18 29 10 14 23 9 15 24 9 12 21 11 18 29 5 16 21 3 20 4 10 14 22 23 9 15 24 7 17 3 19 SOURCE: McKinsey Japan Luxury Consumer Survey 2012

Exhibit 5: Overall, luxury shoppers show an increased appetite for travel Imagine you won 300, 000 yen in a lottery today. How would you spend it? Aggregated average by age group; n = 1, 458 20s 100% = 244 Luxury goods 26 30s 224 27 40s 497 21 50s+ 414 21 467 22 410 26 257 27 323 22 Travel Hobbies Living expenses Savings Other 27 25 29 32 26 36 37 9 5 20 2 2011 38 12 6 21 2 2012 6 8 32 1 2011 7 7 33 1 2012 9 7 31 3 2011 9 7 30 1 2012 <https://assignbuster.com/japan-luxury-market/>

10 8 28 2 2011 11 6 22 4 2012 1 Includes leather goods/bags, shoes, watches/jewelry SOURCE: McKinsey Japan Luxury Consumer Survey 2012 5

We see big tickets becoming even bigger. The level of customization on luxury performance cars has hit a recent high this year: this is where all the money is made. ”—President, luxury car manufacturer to use digital means on their Consumer Decision Journey; 6 this matters because women account for about 75 percent of luxury sales in Japan. For another, almost 16 percent of 20-somethings who had a smartphone or tablet had used it for their last luxury purchase, compared to 5 percent for over-50s; and a full 75 percent of younger consumers had used their device to check prices (Exhibit 6).

Capturing the younger consumer is vital, given the looming cloud that is Japan’s relentlessly aging society. As established brands strive to ensure they remain relevant to Japan’s technologically-oriented young people, it is plausible, even likely, that a digital component will be central to those efforts. Likewise social media cannot be ignored. A February 2012 Nikkei survey of Japanese smartphone users showed that about 80 percent of women in their 20s and 30s, 80 percent of men in their 20s, and 60 percent of men in their 30s and 40s use social media. 7 ?

Old-school rules – by default Because the luxury experience is so important, it stands to reason that both sexes and all ages strongly prefer to do their high-end shopping in person. They still like it best of all in department stores (Exhibit 7). It would be a mistake, however, to conclude that the department store format is thriving. On the contrary: while the sheer number of department stores in prime locations all but guarantees a large audience of

shoppers, the tired format has yet to find its place in today's more dynamic, user-friendly retail landscape.

What it all means Based on this research and our experience with many retail clients, we have identified several important implications. ? Own the interplay between digital and in-store touchpoints and embrace social media Just a few years ago, at one of McKinsey's annual luxury leader dinners in Japan, the consensus in the room was that social media and Exhibit 6: luxury were mutually exclusive. After all, the thinking went, social media is inclusive by definition, and luxury is exclusive.

Today, companies like Burberry are demonstrating just how backward and self-defeating that thinking was. Burberry boasts 12 million Facebook followers, 800, 000 Twitter followers, and 12 million views on 250 different YouTube videos. In a statement accompanying Burberry's results over the sixmonth period to September 30, 2011, Angela Ahrendts, the CEO, Smart phones have become an important tool in purchase process for younger consumers General public Do you own a smartphone or tablet PC? Did you use it for your last luxury purchase?

Percent, n = 1, 458 Shoppers who used a I used it on my last smartphone or tablet PC on I have smartphone/tablet PC luxury purchase last luxury purchase 20s n = 224 30s n = 497 40s n = 414 50s+ n = 323 12 68 36 53 26 46 20 27 Luxury purchases 23 16 22 12 17 8 19 5 SOURCE: Impress R&D ? Smartphone/mobile use trend survey? , 2012 Luxury CEO dinner respondent survey Exhibit 7: Department stores continue to play crucial role for the category, but three other channels are also strong Thinking about the

past 12 months, what channels did you visit to buy luxury goods? (multiple answer) Department Fashion goods n = 296 Leather goods n = 294 Watch/jewelry n = 270 Shoes n = 236

64.2	77.0	Brand shop	35.5	27.0	34.2	39.2	17.0	33.0	Outlet	39.7	39.7	Duty Free Shop	35.4	32.3	28.6	29.7
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SOURCE: McKinsey Japan Luxury Consumer Survey 2012

6. The term “ Consumer Decision Journey” refers to the progression from initial consideration, active evaluation, and moment of purchase to post-purchase experience and loyalty, first presented in the McKinsey Quarterly, “ The Consumer Decision Journey,” June 2009.

Nikkei Shohi Watcher, “ The ‘ Smart’ Set is Mainly Female” (“ Suma-ju” na hitobito shuuyaku wa josei), February 2012, p. 22.

6 attributed the company’s strong results to “ continued investment in innovative design, digital marketing, and retail strategies”. Tiffany & Co. has also embraced digital media, with a highly regarded e-commerce site, Facebook presence, and even an iPad app showcasing its famous line of engagement rings. A key to succeeding in social media is to deliver the brand story and heritage consistently across media while tailoring messages to the specific consumer segments that are using each media format.

It’s also important to understand the role each medium plays in the Consumer Decision Journey. For example, in cosmetics it can be easier to introduce cosmetic routines (e. g. , how and in what sequence to apply the product) in store, but consumers often seek out additional information and reviews online. For apparel and accessories, customers may go to the store to buy, since they want to be able to touch items and try them on. The initial

introduction and attraction often happens outside the store – from storefronts, word-of-mouth, or magazines.

Winners will be those who can excel at multichannel marketing and sales. ?
Make the most of travel retail Japanese consumers love to travel – up to 20 percent of all luxury consumers have shopped abroad in the past 24 months (Exhibit 8). This accounts for the crucial role of duty-free shops, where a third of luxury consumers have shopped in the last year. Women are particularly prone to stopping by duty-free, with 36 percent of them buying there. As a result of international travel and the Internet, consumers today know what luxury goods cost both inside and outside Japan, and they may be timing their shopping to take advantage. This is especially poignant for luxury manufacturers – they need to recognize that the consumer relationship with any given brand crosses international borders. That fact has implications for after-sales service, and underscores the importance of maintaining consistency with the face of the brand across both channels and geographies. For a number of years, we have been observing the emergence of “ global tribes”, that is, groupings of consumers who have more in common with their counterparts in other geographies than with their fellow countrymen.

Easy access to social media and cheap travel will only deepen this phenomenon. In response, luxury manufacturers will need to do much more than simply accept that today’s consumers are global; they will need to make their brands even more so. ? Manage parallel imports Parallel imports – identical products imported from a foreign country, then sold for much less – cannot be prevented, but can be managed. Some brands are trying to

restrict parallel imports by tracking serial numbers to determine where the imports are coming from, and decreasing Exhibit 8:argins for retailers who are caught. Others are putting limits on aftersales services available to parallel imports. Few companies have chosen to move to one global, exchangeadjusted recommended retail price, though that may become a more standard approach. ? Embrace customization and made-to-order luxury Building off a trend popularized by other consumer-goods companies, such as Adidas and Nike in sports footwear, luxury auto manufacturers, and luxury handbag and accessory players are embracing customization.

This is consistent with a broader consumer trend in developed markets (the “ My” generation) where niche is replacing mass in many areas and consumers have grown used to customizing everything from their playlists to their iPhone covers. Luxury has always been synonymous with exclusivity, but with so many stores and so many new channels to buy from, we have begun to see a “ commoditization” of exclusivity. In a sense, then, customization is the ultimate in exclusivity. For example, Louis Vuitton recently launched a service in Japan that allows customers to select the leather and then design unique

Japanese consumers continue to purchase luxury items abroad 2012 2011 2010 Which of the following places did you make a luxury purchase in last 2 years? Percent of respondents who bought luxury goods in category abroad within last 24 months; multiple answer; 2012 Top 5 Hawaii Korea Europe North America (excluding Hawaii) Hong Kong/Macau SOURCE: McKinsey Japan Luxury Consumer Survey 2011/2012 14 10 12 14 17 17 18 22 21 22 22 25 27 32 19 7 “ We continue to be concerned about the relevance and <https://assignbuster.com/japan-luxury-market/>

impact of department stores. We can't stop experimenting with new concepts. —Japan president, global luxury accessory and apparel player products. Some luxury carmakers tell us their strong revenue growth in Japan has come not because they are selling more cars, but because buyers are loading up on various bells and whistles to create their own personalized, ideal vehicle. Of course, customization comes at a cost to luxury manufacturers, adding complexities to the supply chain and beyond. It must be reserved primarily for truly high-end products. The number of car-sharers has increased 10-fold, to 170,000, and revenues could surge to \$550 million by 2016, according to estimates from Frost & Sullivan.⁹ This shift to value is real and enduring. So, we believe, is the emphasis on discretion. In the wake of the earthquake, the percentage of those who said that showing off luxury goods was in bad taste rose sharply, from 24 percent to 49 percent; this year, it was 51 percent. The quest for value and a desire to avoid the appearance of conspicuous consumption are not necessarily antithetical to an appreciation of luxury. These attitudes can co-exist.

In fact, that precisely describes the state of the Japanese market: Consumers are ready, willing, and sometimes eager to buy. But they are doing so with rigorous deliberation. Exhibit 9: Brian Salsberg is a principal in McKinsey's Tokyo office and a leader of the Consumer & Shopper Insights center in Asia. Naomi Yamakawa is a marketing expert in Tokyo. The authors wish to thank Georges Desvaux, Todd Guild, Ryu Iwase, Euljeong Moon, Yuka Morita, and Kohei Sakata for their help. Conclusions Only a little more than a year after the worst crisis to hit Japan since World War II, the Japanese luxury market is stable.

Ultimately, it comes down to this: despite deflation and disaster, Japanese consumers continue to want luxury goods and to buy them at a good clip. But – and this has been true since the financial crisis hit in 2008 – they are more cautious about price and more demanding. They do not just want an expensive product to look great and to work beautifully, but to satisfy other needs, whether emotional or even social. Half of luxury car buyers, for instance, say that “eco-friendliness” is important to them (Exhibit 9). The quest for value, in all its forms, is becoming characteristic up and down the retail chain.

As we argued in the McKinsey Quarterly in 2010, many consumers have diverted a chunk of their spending away from high-priced prestige. 8 Wal-Mart, Amazon, Costco, Ikea, Daiso, Uniqlo, private-label foods, and the low-to middle-end specialty apparel players are all doing conspicuously well. Then there is carsharing – short-term rentals by the hour. This service barely existed in 2009 (revenues were about \$17 million). Today it has become positively mainstream. With many Japanese deterred by the high price of owning and maintaining a car,

Photograph: Abbie Chessler What do luxury consumers think of luxury automobiles? 2012 2011 Regarding luxury cars, do you agree/disagree to the below statements? Percent who answered “strongly agree” and “agree” within 6 scale; n = 1, 458

Statement	2012 (%)	2011 (%)
Luxury cars have characteristics that justify the premium price	31	37
It's worth the money to buy a luxury car for the superb driving experience	33	30
Being “eco-friendly” is as important for luxury cars as design or driving experience	35	33
Luxury cars are worth the money to buy	41	39
Luxury cars are worth the money to buy for the driving experience	9	12
Luxury cars are worth the money to buy for the design	11	11
Luxury cars are worth the money to buy for the driving experience	11	10
Luxury cars are worth the money to buy for the design	13	13
Luxury cars are worth the money to buy for the driving experience	12	12
Luxury cars are worth the money to buy for the design	51	47
Luxury cars are worth the money to buy for the driving experience	48	50
Luxury cars are worth the money to buy for the design	56	52
Luxury cars are worth the money to buy for the driving experience	52	44

SOURCE: McKinsey Japan Luxury Consumer Survey 2012 About the Japan Luxury Consumer Survey McKinsey conducted this national online survey of 1,450 consumers in April and May 2012, for the fourth year in a row.

Focusing on four categories (fashion, leather goods, shoes, and watches/jewelry), we interviewed 250 to 300 luxury consumers (defined as those who have purchased any one of 174 brands in the last two years). We also spoke to 350 “lapsed” luxury buyers. Two-thirds of the respondents were female. 8. McKinsey Quarterly, “The new Japanese consumer,” March 2010. https://www.mckinseyquarterly.com/The_new_Japanese_consumer_2548

9. Frost & Sullivan, “Strategic Analysis of the Car-Sharing Market in Japan,” July 2011 8 What McKinsey’s Consumer and Shopper Insights portal has to offer Where do more than 15,000 executives get their daily dose of consumer insights? csi.mckinsey.com. Sign up now. It’s free. ? ? ? ? ? How are China’s hypermarkets different from Western ones? (One clue: those live chickens in the food aisle.) How is the digital consumer changing? (In six major ways.) How are Mexican consumers feeling? (Not great. Are global luxury shoppers cutting back? (Not so much.) Is Poland promising territory for online retailers? (Yes.) The 21st century has already seen the unimaginable and the improbable. But here is one certainty: The world is about to see the biggest increase in consumption in history. Learn all about it—and be part of the conversation—at csi.mckinsey.com. These are just a few of the questions asked and answered on csi.mckinsey.com. As a global consultancy, McKinsey has the resources, and the desire, to explore the ever-changing, ever-elusive global consumer.

To take just one example, we have spoken with more than 60,000 Chinese shoppers to discern what they are thinking, buying—and thinking about buying. Here's another example: Since August 2008, McKinsey has interviewed a representative sample of Americans every six months to track their attitudes and spending. How do the world's digital consumers spend their online time? We can tell you that, too. While csi.mckinsey.com is a rich forum for McKinsey's work, we also spotlight the best of others, not only on the site, but on our Facebook and Twitter accounts (@mckinsey_csi).

By combining the best of McKinsey and the best of the rest, we add something new to the site almost every day. We believe this makes csi.mckinsey.com the go-to place for those who need the freshest, smartest thinking on why consumers do what they do. What's next? We want to get our users more involved; we'd also like to diversify how we present our materials. So we hope you will join us as we continue to improve csi.mckinsey.com. Just click the sign-up button on the top right of the site, or email us at com. We'll send you notices of what's new about twice a month. <http://csi.mckinsey.com> 9 McKinsey Consumer and Shopper Insights You can download McKinsey's previous luxury reports at <http://csi.mckinsey.com> July 2010 McKinsey Asia Consumer and Retail McKinsey Asia Consumer and Retail Luxury goods in Japan: Momentary sign or long sayonara? How luxury companies can succeed in a changing market Japan's luxury consumer: Detecting a pulse? Special Report: McKinsey & Company Japan Luxury Goods Survey 2010 Brian Salsberg Naomi Yamakawa Luxury goods in Japan: Momentary sign or long sayonara? (June 2009) Japan's luxury consumer: Detecting a pulse? (June 2010) June 2011

Consumer and Shopper Insights August 2011 August 2010 CSI Insights Flash June 2010 McKinsey Consumer and Shopper Insights McKinsey Consumer & Shopper Insights Korea's luxury market: Demanding consumers, but room to grow McKinsey Asia Consumer and Shopper Insights No seismic shift for luxury in postquake Japan Special Report: Japan Luxury Goods Survey 2011 Understanding China's Growing Love for Luxury By Aimee Kim and Martine Shin Key themes from the 2011 McKinsey Korea Luxury Consumer Survey Every year since 2006, sales of luxury goods in South Korea have risen at least 12%¹, to an estimated \$4. billion in 2010. In the first four months of 2011, sales at department stores were up more than 30% compared to 2010. ² This continues an established trend, as last year's report on the market showed (see report at csi.mckinsey.com: "Living it up in luxury.") Still, insiders are asking whether it can last. For one thing, according to McKinsey's survey, the percentage of household income that luxury consumers spend on luxury is already higher in South Korea (5%), than in Japan (4%)³—and the Japanese luxury market has been stagnant in recent years.

Moreover, the performances of famous brands in Korea have been mixed. For example, LVMH and Ferragamo continued to do well, but others, like Gucci Group and Dior, saw sales drop in real terms in 2010. ⁴ ¹ ² ³ ⁴ ⁵ ⁶ Thus, while the headline news is that the luxury market is still growing strongly, uncertainty is also mounting. In this year's report, McKinsey addresses these concerns, which come in the form of three key questions: Can South Korea keep it up? What's changing?

And what do these trends mean for the players in the luxury industry? To answer these questions, for the second year in a row, McKinsey surveyed 1,000 Koreans who had purchased at least 1 million Korean won (\$930) in luxury goods in the previous year across four categories —fashion apparel, leather goods, shoes, and watches/jewelry. Among the respondents were 200 “heavy purchasers”—those who had spent at least 10 million Korean won (\$9,300). We also interviewed 24 senior executives of luxury-goods companies. Here’s what we found. 5

Let’s start with the proposition that not all consumers are created equal; to a startling degree, it is mainly the heavy purchasers who are keeping the Korean luxury market rolling with such force. For example, Lotte department store estimated that the number of “Most Valuable Customers”—those who spend 15 million won (\$14,000) or more a year—rose 14.4% in 2010, compared to 9.2% for other kinds of luxury consumers. The number of VIP customers at Shinsegae department store —those who spend more than 8 million won (\$7,400) —grew 35%, compared to 12% for other consumers. 6 Shopping at the high end also appears to be habit-forming.

McKinsey found that heavy purchasers are much more likely to say that they enjoy their goodies “as much as I always have” vs. non-heavy customers (33% to 12%). This difference in attitude was reflected in their actual spending: The big-spenders indicated that they had spent more on all four luxury categories in the previous 12 months. Non-heavy buyers were pickier: While they spent more on watches and leather, they spent less on South Korea: Living it up in luxury Special Report: 2010 Luxury Goods Survey

McKinsey & Company South Korea Brian Salsberg Naomi Yamakawa 1. Can South Korea keep it up?

Yes. A number of trends, small and large, are creating a model of sustainable growth for the next three to five years. McKinsey Insights China Euromonitor Ministry of Knowledge Economy McKinsey analysis Financial Supervisory Service The report surveyed at least 200 luxury consumers for each product category; luxury consumers were screened based on purchase history of select luxury brands (ranging from affordable “masstige” brands to “super premium” brands) and included 85 luxury fashion apparel brands, 57 luxury leather goods and shoes brands, and 47 luxury watch/jewelry brands.

Asia Economy, “VIP customers have increased at department stores,” August 28, 2010 No seismic shift for luxury in post-quake Japan (June 2011) Understanding China’s growing love for luxury (March 2011) Korea’s luxury market: Demanding consumers, but room to grow (August 2011) South Korea: Living it up in luxury (August 2010)