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RESEARCH

Japan, Western Europe lead luxury market in Q1: Bain

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Steinway and Sons in the Integral House

By JOE MCCARTHY

Currency fluctuations drove uneven growth in the luxury market in the first quarter of 2015, according to a new report by Bain and Fondazione Altagamma.

Over the past 15 years, the global luxury market has increased from 140 million to 350 million consumers, and touristic shopping now accounts for more than 50 percent of luxury shopping. The globalized, fractured nature of luxury market means that brands have to achieve a level of elasticity only possible through digital.

"Current market dynamics shine a light on how the industry has changed over the last 15 years," said Claudia D'Arpizio, a Bain partner and lead author of the report, Milan.

"Pricing, distribution and customer strategy remain at the top of the agenda for luxury companies, but the old models are being called into question."

The "Worldwide Luxury Markets Monitor 2015 Spring Update" report analyzes global market trends of the luxury market.

Volatile habits

Currency fluctuation has played a big role so far in the first quarter of 2015, dramatically affecting spending patterns and tourism.

Most importantly, the report notes that a weak Euro boosted the luxury market by 12-13 percent, inflating what would otherwise be 2-3 percent growth at a constant exchange rate.

Tourism was another major engine of growth that mostly benefitted Western Europe. Eastern Europe, however, did not receive enough of a boost from tourism and continues to struggle.

Mandarin Oriental Paris campaign

The surge of the U.S. economy has paradoxically reined in more robust growth because the strong dollar discouraged tourism and also hurt exports.

Luxury spending in the U.S. is expected to grow 1-3 percent this year, propped up by bullish domestic consumption.

Chinese tourism continued to act as the main source of revenue, uplifting not just Western Europe but also South Korea and Southeast Asia.

Also, Chinese consumers account for 30 percent of the spending in the luxury market, and rising sophistication has led to price-conscious shoppers, resulting in more off-price luxury items.

View of Shanghai

This penchant for shopping abroad comes at a cost, though. While Chinese consumers plot elaborate shopping trips abroad, Mainland China suffers.

Bain forecasts a 2-4 percent decline in the purchase of luxury goods in Mainland China, partly driven by this touristic tendency, but also propelled by spending restrictions and changing consumer attitudes.

Interestingly, Japan is expected to grow 5-7 percent this year, holding onto its title as a premier luxury destination, and, once again, Chinese tourism plays a role here, accounting for 20 percent of total sales.

In CBRE's latest report on global retail expansion, Tokyo ranked as the hottest city, adding 63 new locations among top retailers in 2014 (see story).

Asia as a whole is expected to have stagnant growth.

Filling gaps

Tourism may mean that more consumers are coming to brands where they originate, rather than the other way around, but it is no excuse for skimping on digital aptitude in every country a brand has a presence in.

Even if a bulk of consumers are spending abroad, they tend to make their decisions at home, and their research process can be influenced by the digital activity of brands.

Furthermore, a deft digital presence allows a brand to learn the habits and preferences of specific consumers that they can then leverage in stores across the globe.

However, finding the right balance is key.

Many brands have resorted to blitzing consumers with content in the misguided belief that abundance equals efficacy, according to a new report by L2 and Demandware.

Seventy-two percent of North American organizations created more or significantly more content in the last 12 months, oftentimes at the expense of content quality, visibility and utility. The positive correlation between strong content and commerce is clear and brands have to be shrewd about content deployment or otherwise watch their investments languish in a crowded space (see story).

"In this new environment, brands must undergo a fundamental paradigm shift if they want to win in the years to come," Ms. D'Arpizio said.

Final Take

Joe McCarthy, staff reporter on Luxury Daily, New York

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