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RESEARCH

Unequal prices drive EMEA and APAC consumers overseas: L2

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Burberry Art of the Trench photo with costume designer Jacqui Getty

By FORREST CARDAMENIS

A lack of pricing transparency is driving foreign consumers to the gray market, according to a new report from L2.

Even with attempted price leveling, a Burberry trench coat is still 40 percent more expensive in China than the United States, and those that haven't made attempts to equalize price are even worse, with Calvin Klein women's jeans nearly triple the price. To better court a loyal global consumer-base, a brand needs to be consistent in its price offerings both through its own outlets and through a retailer.

"For global brands, the U.S. and Western Europe frequently emerge as low-cost players compared to APAC countries," said Eleanor Powers, head of Insight Reports at L2, New York. "The Web's transparencyexacerbated by gray market retailers and volatile currency marketsincentivizes consumers to exploit price differentials across markets. The impact is significant: 80 percent of EMEA and APAC consumers have shopped cross-border."

L2's "Localization: Online Pricing" studies the relative prices in the United States, the United Kingdom, China, Hong Kong, South Korea, Japan, Russia Brazil, Canada, Germany and France of 67 brands. Findings show that differences in price tend to be quite large.

Price choppers

In one key finding, L2 found that even if a brand does not offer ecommerce directly to the consumer, simply listing prices in the local currency still sways consumers away from unofficial channels.

Just as important, retailers often exploit pricing gaps in their own operations. In an example cited in the study, Calvin Klein jeans are advertised by Bloomingdale's as costing $56, an apparent steal compared to the $101 price tag on the brand's local ecommerce site. However, in the final stage of checkout, Bloomingdale's adds in more than $130 in shipping and duties and taxes.

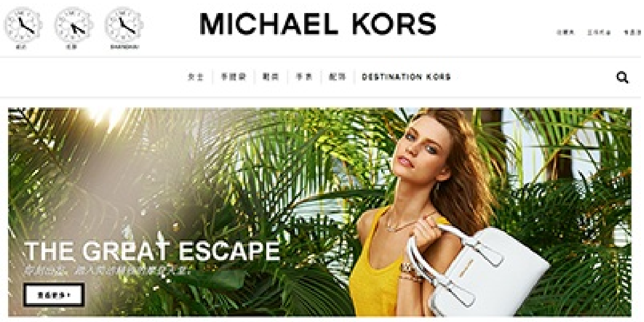
Chinese consumers lineup outside a Louis Vuitton boutique

This process both reflects negatively on the quality of the brand and also frustrates consumers, possibly driving them to the gray market. Brands will need to work with retailers to prevent this practice from getting out of control.

The Internet makes it easy to compare prices across markets, occasionally leaving a brand open to criticism for unfairly exploiting consumers, as was the case with J.Crew before it lowered its prices for Canadians to put them in line with U.S. prices. Such pricing differences contribute to arbitrage.

Unsurprisingly, American and European consumers are far more likely to buy locally or regionally than those in Japan or China especially. Less than one-fifth of Chinese consumers shop for luxury goods locally, while in Japan the number is just over half.

Not all brands have large pricing disparities by country. While Burberry charges about 125 percent more for women's jeans in Japan and China than the U.S. while offering them for about three-quarters of the U.S. price in Canada meaning that a $150 product in Canada could cost as much as $450 in China Ralph Lauren and Michael Kors have much narrower ranges.



Michael Kors' China Web site

Ralph Lauren's most expensive country is the U.K., around 25 percent more expensive than the U.S., and 25 percent less expensive in South Korea. For Michael Kors, which only offers products in Japan, South Korea and Canada in addition to the U.S., prices in foreign markets hover around half of the U.S. price.

Because of exchange rates, duties and taxes and operational expenses, global prices tend to fluctuate.

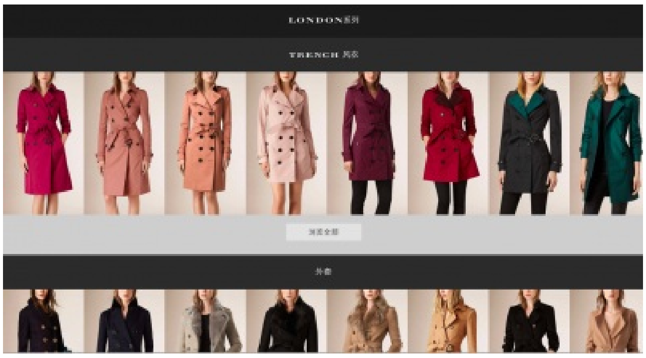
While ecommerce outlets allow a brand to tap into consumers in a distant region without building a bricks-and-mortar store, they also make it far easier for those consumers to pursue and seek out lower prices in other markets, meaning the ecommerce operation may not be as profitable as originally expected.

Besides overseas trips that could potentially work out for the brand, large differences in pricing could sway consumers to gray market distributors or to local retailers who would set the goods at a lower price. These unofficial offers sometimes sell the product for less than half of the brand's price.

Sweet harmony

For this reason, some brands are attempting to equalize prices across global markets. Burberry has dropped prices of its trench coats and knit products by 18 percent in China and 12 percent in Hong Kong while raising them slightly in New York, London, Paris and Milan.

These price changes are often harder to implement in ecommerce channels due to the additional costs associated with international shipping; as such, a Burberry trench is still 40 percent more expensive online in China than the U.S.



Burberry's Chinese ecommerce site

While price harmonizing may cut down on bricks-and-mortar traffic from overseas consumers, who might turn to a brand's ecommerce channels when prices are equal, that does not mean that the expensive transactions of such consumers who do travel needs to fall.

Indeed, the lower price of luxury goods abroad is certainly a driver for Chinese consumption, so brands must understand and anticipate the motivations that lie underneath the surface of purchasing.

Albatross Global Solutions' "Chinese Travelers and the Luxury Shopping Experience" survey aims to move away from what the industry already knows the spending power and growing importance of Chinese consumers abroad to focus on shoppers' desires, behavior and expectations. While Chinese consumers make up one-third of global luxury purchases and purchase two-thirds of items outside of China, what truly drives the changing preferences of this demographic?

Fifty percent of those surveyed said that the better selection drives their choice for wanting to travel. Importantly, more than half said that they expect a luxury brand abroad to have inventory that is not found in China and nearly all respondents said they were interested in buying new brands not sold in China at all, regardless of the retail push put forth by many to have a presence in the country (see story).

An L2 report from last month identified other obstacles and opportunities that localization presents for ecommerce outlets.

Global heterogeneity presents many obstacles for brands looking to maximize their share through localization efforts.

The share of ecommerce sales in the luxury industry has tripled since 2009 and is set to triple again by 2025, but obstacles such as currency, language, selection and payment method may make it difficult for brands to expand and capitalize on their reach. As social media, the Web and the development of BRIC and Asian nations, as well as Sub-Saharan Africa in the future give brands more visibility, it is essential that they monetize global consumers (see story).

Although localization presents brands with a number of issues, with pricing transparency and global price harmony just one among them, the tools to determine the significance of these details are available.

"Armed with data, brand execs need to have an adult conversation regarding the benefits, and balance, of global brand management (i.e., price discrimination by region) versus brand confusion/erosion and cart abandonment (confused and angry customers abandoning their carts) in an increasingly small/transparent world," Ms. Powers said.

"Regardless of the accepted/targeted balance, brands can reduce the damage via more robust digital hygiene (turning off global shipping options, monitoring retailers' pricing and offering local currency options)," she said.

Final Take
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