

# Challenges and Opportunities Facing the Luxury Industry





An aerial photograph of a large industrial or logistics facility. On the left, there are several large, light-colored buildings with flat roofs. To the right of the buildings is a paved area with white parking lines. Several white semi-trailers are parked in a row. Further right, there is a curved road or ramp with white directional arrows. A red and white striped traffic cone is visible on the ramp. The overall scene is brightly lit, suggesting daytime.

# OVERVIEW

## INTRODUCTION

As the global high net-worth individual increases gradually around the world, demands for luxury goods have seen a rise. This fits the exact definition of luxury goods in economics, the goods' demand increases as people's income or spending power increases. To the general public, however, luxury goods may refer to specifically branded goods and luxury items or goods which bring status and an elevated sense of living. This report will examine recent challenges and opportunities ahead for the luxury market, through in-depth analysis of market insights and trends, with particular focus on the following markets: Hong Kong, China, Singapore, Taiwan, South Korea and Japan.



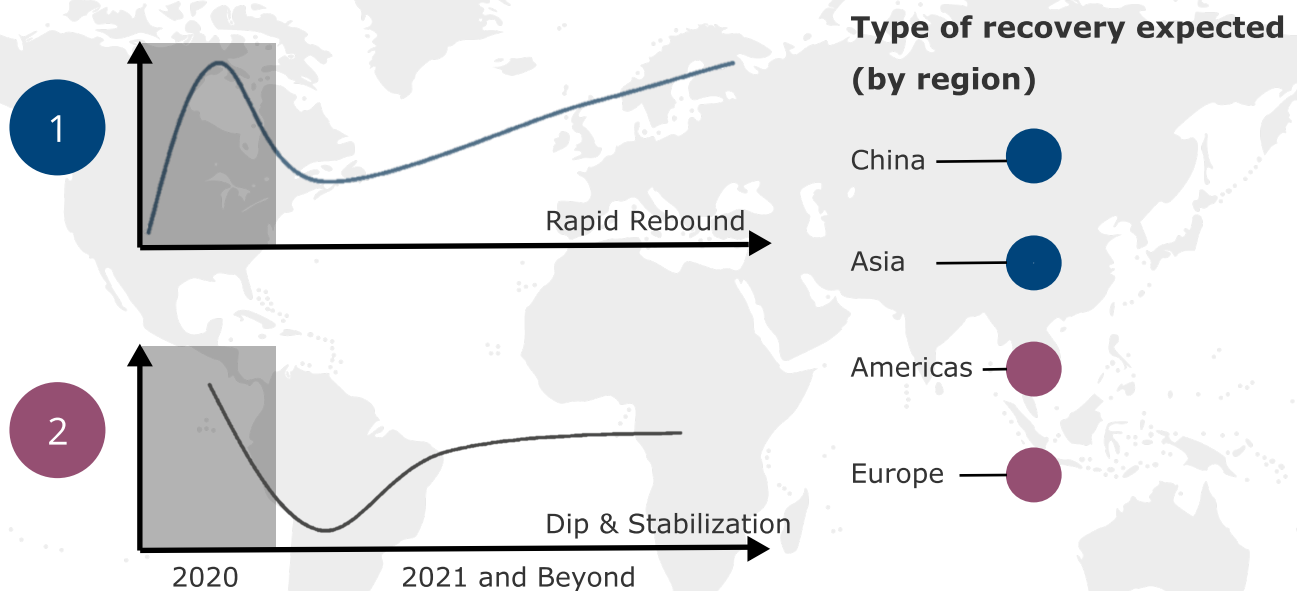
# GLOBAL MARKET

## MARKET INSIGHTS

This year has not been kind to the luxury industry. We started off with a global pandemic and swept everyone by their heels. The pandemic has caused mass economic contraction and reduced mobility of people and resources. Predictably, the revenue for global luxury goods has dropped by 16.9 percent till the second quarter this year according to a report from Bank of America. While Bain & Co. estimated a 20-35% contraction for the full year earlier this Spring. The imposition of lockdowns and the collapse of tourism in many regions has amplified the decline of luxury goods sales, while consumer mood also plummeted earlier this year.

Fortunately, experts predicted a gradual recovery ahead, according to Bank of America, the impact of COVID-19 has been a 'one-off' headwind. As the underlying demands of luxury products remain solid, a strong bounce back of revenue growth might occur across the following years. The bank's luxury demand indicator has seen gradual increase, signifying a possible rebound of buyer consumption. Growth is also expected as a result of Mainland China's recovery, pent-up demand by millennials and Gen Z as well as ongoing maturity of digital channels. According to Statista, the market is expected to increase to US\$388 billion in 2023, at a cumulative annual growth rate of 6.4%.

## Possible Market Recovery Shapes



# OVERVIEW

## GLOBAL TRENDS

- **Oriental Power** - China makes up about 33% of the global luxury market and will continue to grow up to 40% by 2025
- **New Normal** - Online channel for Luxury Goods will grow to account for up to 30% of the global luxury market by 2025
- **Gen Z and Millennials** - Growth in wealth for the younger generations will cause an uprise in market share for luxury goods

### China's Rise

China will continue to be the majority force in driving growth in the luxury market, it currently makes up about 33% of the market and is expected to rise to 40% by 2025, the country would represent 75% of the market growth between 2018-25. With vastly-developed online sales channels, internal policy and a rise in wealthy population, companies should focus at least part of their resources in broadening their footsteps in the region.

### E-commerce

As mentioned in our previous issue (CN Logistics Business Intelligence: Cross-border E-commerce Logistics Trends), the world has seen a rise in online shoppers and spending across time and region. The key cause of market decline earlier this year has been travel lockdowns causing loss of revenue from tourists and luxury lovers. Trapped in their homes, high net worth buyers will engage in their shopping spree online.

While in the last year, the online channel for luxury goods has already experienced double digit growth. It is expected to gain share and will account for up to 30% of the market by 2025. It is vital for luxury brands to ride on the bandwagon and start their digitalisation journey.

### Younger Generation

With the billionaire populations growing, the market shares of previously younger generations (e.g. Gen Z and millennials) will begin to become dominant. Millennials who currently already represent around 32% of the luxury market will make up 50% in 2025. While the Gen Z are representing 8% of the market currently, their expectations on luxury brands differ drastically from their predecessors; hence it would be important for luxury brands to align with their values and taste in order to engage with this new group of customers.





# HONG KONG MARKET

## MARKET OVERVIEW

Hong Kong has long been a shopping paradise for tourists and a city with high purchasing power, making it a strategic location for luxury brands worldwide. As the city's proximity with China, the travel disruptions brought by the pandemic and recent social unrest has led the local luxury market to contract. Yet Hong Kong's high-net-worth individuals spend 10% more than general luxury customers, making the local demand potential strong for the city. Luxury brands in the city will have to shift strategically to capture locals and communicate more with them.

## CONSUMER ANALYSIS

Hong Kong customers shop more for their personal lifestyle and internal value, with emphasis placed on the stories behind the

product and craftsmanship. Minimalistic designs are also favoured by customers. To them, luxury is not a one-off aspirational purchase, but a lifestyle; this explains why according to a research done by Google in 2018, 93% of shoppers intend to maintain or increase spending in luxury goods in the next 5 years.

Hong Kong's Gen Z and millennial shoppers rely on the internet for their research, where 89% of shoppers aged 18-34 spend up to three weeks researching a luxury purchase. Online should not be treated as a separate channel to offline, since the respective experience should be symbiotic. One of three consumers surveyed said they make luxury purchases to keep up with trends, and younger consumers tend to shop more often, with 52% of shoppers aged 18-34 reported making premium purchases once every three months, compared to just 41% of shoppers aged 35+ who did the same.

### Did you know?

**Gen Zs** stands for those being born between mid-to-late 1990s to the early 2010s. Most of them are children of Gen X (Those born between 1965-1980) and Millennials (1981-1986).

They are dubbed "Digital Natives" and care less about brand loyalty, are much more influenced by social media and open to new concepts, and buy impulsively.



# HONG KONG MARKET

## LOOKING AHEAD

Surprising, according to Local Luxury industry leaders, Hong Kong's luxury e-commerce has been under-invested, despite the high internet penetration rate in the city. This is due to the consumer preference of shopping in-store rather than online as well as the city's geography made it easier to always be close to a store. Local consumers valued the offline shopping experience for exclusive service, therefore it would be crucial for luxury brands to emanate the experience through online means as well. This may take form in express online shipping of luxury products, personalised virtual shopping experience and many more. Note that 63% of Hong Kong people surveyed expect the same high-touch brand experience online and offline.







# CHINA MARKET

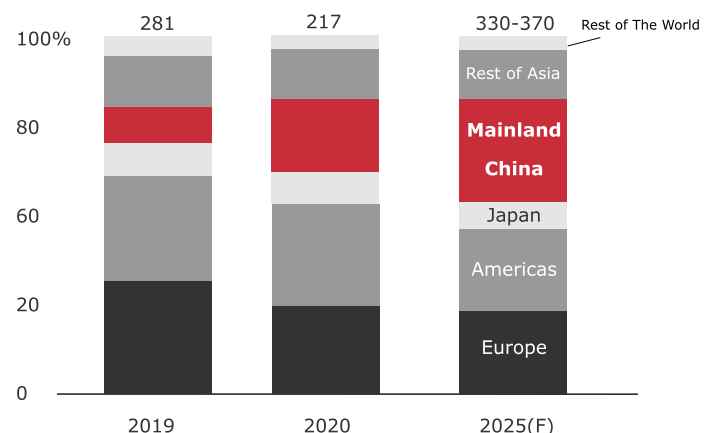
## MARKET OVERVIEW

China's share in the global luxury consumption has been significantly rising in recent years. According to a report released by Boston Consulting Group in Q3 2020, the demand for luxury products from Chinese shoppers is predicted to increase by about 30% this year, this juxtaposes the worldwide declining spending on the sector. This is evidenced with luxury behemoths like Estee Lauder, LVMH and Kering to all report double-digit growth in China for Q2 2020. Further growth is expected in the coming months.

Recently, the People's Republic of China has announced a policy on "Dual circulation" and "Internal circulation" in its new strategy towards tackling and growing in global supply chains. Where the country can sustain itself through establishing itself as both a regional demand and supply centre while integrating with Asian or East European countries through its infrastructural projects. This policy is to deal with the cross-border trade challenges recently, and the country has tried its best efforts in keeping businesses to stay "in China and for China". This accelerates China's

recovery from the pandemic and American trade sanctions, with hopes to dig into the country's ever expanding purchase power, which would definitely benefit the luxury market that thrives under higher consumption demands. Bain & Co. forecasts that China will overtake Americas and Europe to become the largest luxury market by 2025.

**Regional share of personal luxury goods market**  
(%, B Euro)



Mainland China's market share in the global luxury market nearly doubled in 2020, paving its way to becoming **the biggest market by 2025.**





# CHINA MARKET

## CONSUMER ANALYSIS

Unlike other countries, Chinese luxury buyers are usually younger in age of 25 - 35 year old. This group of shoppers prefer e-commerce rather than shopping in store. This is why many luxury brands join Chinese e-commerce platforms like Alibaba's Tmall marketplace. In late September, Boston Consulting Group (BCG) joined hands with Tencent Marketing Insight (TMI) to release the 2020 BCG x Tencent Digital Luxury Report, which has further provided the following tips for brands to better engage with Chinese consumers:

### PERSONALIZED SERVICE

#### Omni-channel shopping journey

- 70 percent of purchases were influenced by or came directly from brand interaction.
- Brands shall be wise to proactively create an immersive experience through omni-channel platforms to better penetrate the daily lives of consumers and inspire spontaneous purchases.
- A mix of online and offline could allow engagement with customers across time and space restrictions while also catering to the increasing need for online shopping experiences by younger shoppers

#### 1-on-1 sales services

- Research showed 1-on-1 sales services to be the most critical factor in consumers' purchase, and is equally important in driving repeat purchase

#### Personalised CRM and data

- The data collected from omni-channel customers' activities is crucial to the brand's future operations.
- With around 45% of consumers expressing that personalized information is the most crucial factor in improving the consumer experience

## SOCIAL-DRIVEN BRANDING AND MARKETING

#### Engage via multiple touch points

- Utilise social media and build a presence to enforce positive social image

#### Social-driven

- Younger consumers (Gen Z or millennials) are fashion-conscious and socially active

#### Utilise social fission

- Brands should develop social media presence, where consumers can share content through social media with their friends.
- By motivating customers to initiate spreading and sharing brand content, brand traffic could be expanded via social fission



# CHINA MARKET

## LOOKING AHEAD

The future ahead for the Chinese luxury market remains optimistic and full of opportunities. Brands should utilise social media tools to leverage the power of social fission and sharing in the country, while also catering to the younger generation. As the country's economy continues to open up, luxury brands should enter the market and spread their influence to capture these shoppers inside their own cities, either through setting up new physical stores or expanding its online retail channels. Shipping of goods and stocks into the country shall be carefully handled by trustworthy logistics partners.

## Did you know?

**Omni-channel** refers to taking a multichannel approach to sales. Brands focus on providing seamless customer experience, where no matter the client is shopping virtually through their smart phones, their laptop or physically in a brick-and-mortar store



# SINGAPORE MARKET

## MARKET OVERVIEW

Singapore has been known as one of the best cities to live in and do business, with 5.6% of all luxury goods stores and 4.9% affordable luxury goods opening in the country in 2018. Revenue in the market amounts to US\$2,142 million in 2020 and is expected to grow annually by 8% till 2025. The country was ranked the 21<sup>st</sup> in global luxury consumption. E-commerce has also been on a rise in the city (as mentioned in the last issue of CN Logistics Intelligence). 20% of the total revenue in the luxury goods market will be generated online by 2021.

## CONSUMER ANALYSIS

Singaporean consumers particularly favour buying luxury fashion, watches and jewelry. Their purchasing power is strong while their emphasis was placed on quality assurance, brand consciousness when considering a luxury purchase.



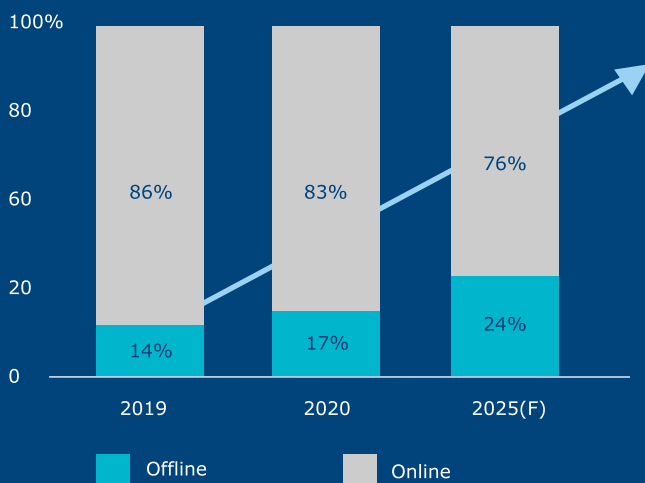


# SINGAPORE MARKET

## LOOKING AHEAD

Consumers spent their day and nights in front of their phone screens; this makes e-commerce one of the fastest growing channels (coupled with the pandemic that forced everyone to stay indoors). The luxury goods market segment is likely to witness positive growth over the next few years, and it is likely that Singaporean will be more willing to splurge on luxury goods.

## Sales Channel in Percent





# TAIWAN MARKET

## MARKET OVERVIEW

Despite the recent economic difficulties and policy changes on public pension, luxury goods sales continued to increase during 2019. Travel bans brought by COVID-19 have caused an impact on the market's luxury market due to the lack of high spending tourists. The stability in the country's fashion market has made it captivating for luxury brands to continue investing in the region. Demand for luxury products also holds high potential, according to the 2019 Knight Frank Wealth Report, Taipei was actually ranked the 9th in the world for the highest number of ultra-high-net-worth individuals.

## CONSUMER ANALYSIS

Based on a research conducted by the Taiwan National Central University and Tamkang University, the following observations could be made:

1. Bags are the most favoured luxury product for Taiwan Customers
2. Brand preference, brand awareness and brand of the popular website/catalog/advertising projects such as image recognition are more significant to drive luxury purchase
3. The majority of consumers express preference for an online luxury product shopping experience





# TAIWAN MARKET

## LOOKING AHEAD

Similarly, Taiwan's luxury market players should gear their efforts to promote to younger consumers. One of the biggest challenges for luxury companies would be to develop or revamp brand images and product ranges that appeal to younger consumers without undermining the history and heritage of their brands. Taiwan is also known as a production leader of high performance, advanced and eco-friendly textiles; 70% of the world's outdoor sportswear is made using Taiwanese textiles. With younger consumers placing a stronger focus on values and sustainability, it would be a great opportunity for luxury brands to collaborate with local manufacturers and engage with logistic companies to make Taiwan part of their global supply chain.





# SOUTH KOREA MARKET

## MARKET OVERVIEW

South Korea is one of the biggest rising economies in Asia in the past decade, with the rise of a rich sense of culture and appeal to young consumers through K-pop or K-dramas. Needless to say, the growth in affluent communities and a chase for status has been a trend in the country. The expansion of the wealthy population has raised demand for luxury goods in the country. In 2019, the luxury goods market in South Korea was valued at about \$13 billion, making it one of the fastest-growing luxury markets globally.

## CONSUMER ANALYSIS

As mentioned in our previous report, Korean consumers also rely heavily on online shopping channels. However, this is different for the luxury market; Agility found that more than half of surveyed affluent Koreans actually enjoy visiting a physical store when looking for branded luxury goods. This is just behind Japanese which has the highest propensity for favouring actual shops. Similar to China, Koreans boosted domestic demand for luxury goods as the pandemic shutdowns have caused them to shift their purchases from travelling or other countries back to their home country.

South Koreans define luxury goods as something that are personal and emotional, offering them self satisfaction. Luxury goods represent not only a status symbol but also the pleasant and positive feelings that come with owning high-quality items.



# SOUTH KOREA MARKET

## LOOKING AHEAD

According to South Korean consumers, the next evolution of luxury in the country would come from larger and more established brands. This shows a general interest and strong demand for luxury goods in the country. E-commerce will continue to play a strong role in the recovery and sustainable growth of the market.







# JAPAN MARKET

## MARKET OVERVIEW

Japan remains to be a critical market for luxury market players with a strong demand for goods internally. Notably, in 2019, Japan made up 13% of Hermes' global revenues. And almost 25% of all LVMH physical stores are located in the country.

In terms of e-commerce, Japan has been lagging behind its counterparts, given it does not have any cross-brand e-commerce platform. Awareness of luxury products bought online is low in the population.

## CONSUMER ANALYSIS

Japanese prefer shopping their luxury goods in department stores, which represented over half of the luxury market value in 2018. Yet other channels like brand freestanding stores, outlet malls and e-commerce have increased their reach to Japanese consumers in recent years. They have purchased a higher percentage of prestige cosmetics and fragrances, fashion as well as watches and jewelry.

Japanese millennials (including affluent ones) value integrity, credibility and rationality when spending. This makes luxury goods that represent merely status less popular. Therefore brands must rebrand their products with unique brand history and craftsmanship to draw in this group of consumers.





# JAPAN MARKET

## LOOKING AHEAD

It is forecasted that the Japanese luxury market would rebound after the pandemic in both domestic and luxury demand. Luxury brands should and would continue to find the country to be a high-quality market and would make purchases for brand value. Brands should consider broadening their online channels in the country to take advantage of the current quarantine habits as well as for the long-run development of the brand.





# WHAT'S NEXT?

In a nutshell, the global luxury market has had a bad year; however they were destined to rebound sooner or later with the increasing demand around the world.

The China market should definitely be one that brands should look out for, while other Asia markets should also be maintained through speeding up digitalization of channels.

Through catering to the younger and growing generations (Gen Z and millennials) with value-specific content and omni-channel promotion, luxury brands would be able to captivate a new group of consumers.



## ABOUT US

CN Logistics Limited is the No. 1 distributor in the logistics market for high-end fashion products in both China and Hong Kong, as well as the no.1 in the integrated freight forwarding market for wine in Hong Kong. Our business scope includes air freight, ocean freight and distribution and logistics. Our service networks cover over 100 countries, showing our capability in consolidating global freight forwarding resources. We can also be the stepping stones for our customers' expansion with our far-reaching global network. We are also one of the earliest companies to establish our own semi-automated distribution centers to provide tailor-made logistics solution for high-end fashion products.

We established long-standing relationships with major customers who have relatively low propensities to switch freight forwarding service providers, brands we serve include Kering, Lane Crawford, Gucci, Balenciaga, Alexander Wang, Alexander McQueen, Saint Laurent and many more.

We are also the leader in the wine logistics industry in Hong Kong. We manage a storage and distribution space of approximately 58,000 sq.ft dedicated to wine storage, of which the temperature and humidity are kept at an optimal level, we also own a Wine Storage Management Systems qualification certified by the Hong Kong Quality Assurance Agency.

Looking ahead, we are planning to upgrade the semi-automated distribution centre of over 90,000 sq. ft in China and establish a new centre and refurbish the existing distribution centres in Hong Kong.



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# CN Logistics International Holdings Limited

***Whatever we do,  
We do better than others  
- A Passion for Service***

Website:  
<https://www.cnlogistics.com.hk/>



E-mail:  
[info@cnlogistics.com.hk](mailto:info@cnlogistics.com.hk)



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[@cnlogisticslimited](https://www.facebook.com/cnlogisticslimited)



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