



## The South-Korean Luxury Market: The Basics

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In January 2012, SémioConsult buys Sarah Goudenèche's proposal to investigate the South-Korean luxury market, as the country holds great development potential for luxury companies. She has conducted a series of interviews with young South Koreans, as luxury prospects. The basics of the market have thus been identified and are summarized in the present document. Do not hesitate to get back to us, should you need a deeper analysis of the market or should you have any queries regarding this project.

### ***Why should we pay attention to the South-Korean luxury market?***

- ✓ In South Korea, the luxury business amounts almost for 3.5 billions of Euros and stands for 45% of the Asian demand (excluding China & Japan). The country is the third pillar of the luxury industry in Asia and represents 2.5% of worldwide luxury demand, on its own.
- ✓ The picture for luxury companies in South Korea is close to the Japanese one: large urban areas gathering 80% of the country population. Luxury demand is thus urban and quasi-nil in rural areas.
- ✓ The South-Korean market has gone through huge structural and economic changes during the past twenty years, which have enabled strong national economic growth and consequently important salary-increases.

Such an evolution has had a direct impact on luxury brands coming to South Korea: this large increase in GDP, the urbanisation of the population and the ever-growing awareness of South Koreans regarding luxury brands and products have highly stimulated local demand for such goods.

Ultimate key point: 70% of luxury purchases are being done by young women.

*What you should remember:*

- **Large spending for luxury goods:** luxury products are no more superficial consumption for South Korean, but gradually becomes a necessity product.
- **Decline of the Japanese market:** Japan is the first Asian luxury market, but has shown important decline for a few years. With cultural changes, household consumption has evolved as well. The South Korean Market, which is currently experiencing growth, may help compensate this decline.
- **Professional success is highly valued in South Korean (Social Pressure):** social norms are very important, and demanding. A lot of South Koreans are eager to display their success not to be left apart. Buying a luxury good is perceived as making a « social investment ». Some individuals even starve themselves to spare money to be spent on a luxury product.
- **The cult of beauty,** which is necessary for personal success. There is a real culture of beauty in South Korea: aesthetics and perfection are highly valued. Fashion is a good way to display one's sense of aesthetics, and luxury products are certainly an asset.

*The young South-Korean prospect: results from the interviews*

- **The importance of product attributes**

For South-Korean consumers, some product attributes hold an important role for decision making. Quality is the most important one (97%), followed by product aesthetics (88%), especially for women. Price is the third most important factor (64%).

- **Brand equity is key**

The most notorious brands are the most consumed. Young South-Koreans are receptive to the brand name and image. 60% of them take it into account while making a luxury purchase. The individual brand is more important than the corporate brand.

- **Hedonic consumption**

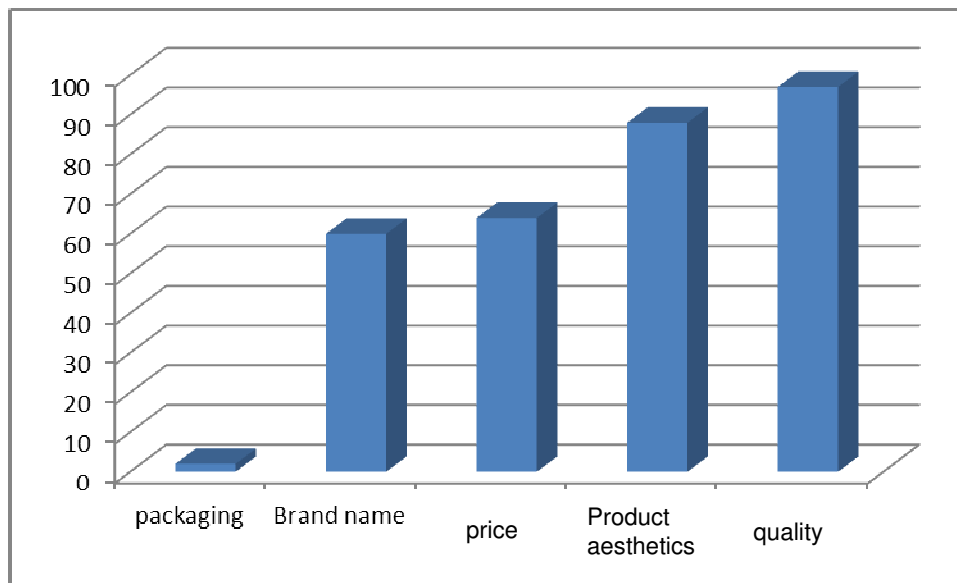
Pleasure is very important for young South-Korean consumers. They acknowledge buying luxury goods for self-satisfaction purposes. Self-gratification is also an important motivation to acquire a luxury product for 73% of the interviewees.

- **Status consumption**

Status is important in South Korea: one should display one's success and social level. Luxury goods should be ostentatious, with easy recognition of the brand behind the product.

- **New trends**

- ⇒ The price: more and more young consumers do consider it as an important factor in the decision-making process. They are looking for a good quality to price ratio, being more and more sensitive to price.
- ⇒ Niche premium brands are highly valued: a new mode of consumption appears, thanks to consumers' interest in more confidential brands, such as Bottega Veneta. Such consumers are not buying more famous aspirational brands nor are they interested by fast fashion brands (Zara, H&M, etc.).



*Product attributes preferences (in %)*

- ✓ What you should remember

- The most important product attributes are : quality / product aesthetics / price (ranked in order of importance)
- The South-Korean prospect has an hedonic and selfish luxury consumption
- Brand equity is key
- Some product attributes do not play a role at all : the country of origin, the packaging and the logo-display

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***Keys to succeed in South Korea***

① **Take care of consumer relationship**

For South Koreans, trust and commitment are very important, including towards foreign brands. Any company willing to expand its business in South Korea should communicate consistently and respectfully

with its consumers. The brand should build trust with them, emotions being quite important in the decision-making process. One of the keys to succeed for a luxury brand is thus a focus on long-lasting relationship building:

- **Flawless services during and after-purchase:** South Korean clients demand very high levels of service quality. Salespeople should be 100% professional, efficient, and ready to answer all consumers' expectations.
- **Focus on frequent clients:** being quite numerous, it is very important to detect them and seduce them thanks to aspirational goods, exclusive promotions and customized services. In order to do so, it is necessary to build a detailed database. Creativity is needed to provide such individuals with particular relationship based on emotional bonds (CRM).

## ② Adapt one's communication style to the South-Korean culture

Companies should set-up an efficient communication strategy.

- Written communication should be short and straightforward. South Koreans prefer explicit messages to implicit ones.
- Frequent communication, along with efficient intelligence on competitors' communication.

## ③ Bet on innovation

Consumers, especially young ones, do not buy anymore a product for its brand and its prestige (which are a given). They are more and more price-sensitive and thus expect brands to be innovative in terms of product offer and communication design.

## ④ Do not forget POS merchandising

Retail spots should be well-thought in order to seduce consumers and drive them through a unique experience. When buying a luxury product, South Koreans not only expect material things but also emotional and relational experiences with the brand and salespeople.

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