***RESEARCH SUMMARY***

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# Study on Luxury Import Brand Market in Japan 2008

**~ "Super Luxury" or "Accessible Luxury" – Progressing polarization of the market ~**

## Research Outline

**Yano Research Institute has conducted a study on the luxury import brand market according to the following research outline.**

1. Research objectives:
   The objective of this research is to seek directions of the import brands operating in Japan through the research on the market trends of the import brands from Europe or the U.S that deploy the business of clothing and general clothing merchandise in Japan and on their operations in Japanese market.
2. Research items: Clothing and general clothing merchandise of luxury brands from Europe or the U.S.A.
3. Research targets: 200 import brands marketing clothing and general clothing merchandise in Japan
4. Research period: From Feb. 1, 2008 to May 10, 2008
5. Research methodologies: Face-to-face interviews with relevant personnel and questionnaire surveys by post were primarily employed.

## Summary of Research Findings

- **The 2007 Luxury Import Brand Market in Japan (in Retail Sales Value) Estimated at 1,156.9 Billion Yen, 99.8% Year-On-Year**
  The market size of the luxury import brand clothing and general clothing merchandise in Japan for 2007 was estimated to be 1,156.9 billion yen, 99.8% of that for 2006. The trends by product type show that only "leather clothing", a category of expensive items, and "shoes and other footwear", a category of the related items have achieved positive growth.

- **The Market Staying Flat after Bottoming Out, Each Band Managing to Maintain The Market Size with Flagship Shops and New Types of Retail Outlets**
  The market shows unfavorable trends, trends of slight decrease or leveling off on the bottom, being affected by price increase due to appreciation of Euro and by slowing economy observed at the holiday selling season in the last year end. Therefore, each brand is trying its best to maintain the business scale by opening new stores including flagship stores and the stores in outlet malls.

- **"Super Luxury" or "Accessible Luxury" Is The Key Word for Future Market**
  With the progressing polarization of consumption patters, appropriate marketing for old and new "wealthy classes" who should form "super luxury" market and product development for new category of what is called "the accessible luxury" without deteriorating brand value are becoming more and more important for the success of the market.

## Report format:

Published report: "Luxury Import Band Market in Japan 2008"
Issued in: May 2008
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Format: 345 pages in A4 format
Price: 105,000 yen (5,250 yen of consumption tax will be additionally charged for sales in Japan.)

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## Trends of Luxury Import Brand Market (Overview of the Research Outcome)

### 1. Market overview

The size of import brand market (for imported luxury clothing and general clothing merchandise) in Japan in 2007 was estimated at 1,156.9 billion yen (in terms of retail sales value), 99.8% of the previous year, and has showed the trends of staying flat since the last year.

Although the latest market size has been kept almost the same as that of the previous year (2006), long-term trends have shown large scale shrinkage of 740 billion yen (approx. 40% decrease) for the last ten years or so from 1,897.1 billion yen (retail sales basis) achieved in 1996, and the industry has not been able to climb out of this long-time slump. The market size for 2007 was held up through such efforts of each brand as the opening of directly operated flagship stores and the opening of new stores in outlet shopping malls, while the industry is still in the difficult phase without showing any apparent growth.

The reasons why the industry is in the difficult phase are because, firstly, degree of price increase due to Euro appreciation was too large, and secondary, sluggish share prices caused by the problems of subprime loan and decline in consumer confidence due to the economic uncertainty for the future made the market even more inactive. The impacts of these factors were particularly large at the time of holiday selling season. Thus, the market in 2007 was largely determined by the external factors as described above.

Other additional factors include the significant decline in the number of “the middle incomer earners”, or “the upper-middle class (high income group of the middle income earners)” (with annual salary of between 6 million yen and 10 million yen) more specifically, who are said to have largely supported import brand market in Japan. As for the actual numbers, the number of people in the upper-middle class decreased by about 1.5 millions from 8.6 millions in 1997 (19.3% of the working population) to 7.09 millions in 2006 (15.9% of working population). (Furthermore, “the upper class (upper income earners)” (with annual salary of over 10 million yen) had decreased by 6 points from 5.6% to 5.0% of the working population according to the survey by the National Tax Agency.)

Since the import brand products are nonessential or luxurious items and those imported luxury clothing and general clothing merchandise, the major products of the import brands, tend to be influenced largely by the amount of disposable income for consumption, the decrease of disposable income of the consumers should be a serious problem for the industry.

### 2. The trends of consumer behavior and strategies of each brand

As for the consumption propensity, what is called “the wealthy people” (or, “super executives”) are likely to be more high-end oriented on one hand. On the other hand, second-generation baby boomers, or “the next generation customers”, more strongly tend to buy single items or to shop as need arises. These tendencies are particularly obvious among the next generation customers of the import brand products in their twenties or thirties, and it should be extremely important for each brand to respond properly to the needs of these generations.

With the market status mentioned above, buying opportunities are becoming more and more diverse and broad as seen with recent activities of each import brand such as increased store openings in outlet malls in suburban areas in addition to the store openings in large scale commercial facilities in urban areas and the openings of large luxury brand stores, typically in Ginza. Furthermore, each major brand has been accelerating to take necessary measures to build new channel strategies associated with “Internet” and “Mobile phones”, indispensable tools for marketing of recent years.

Therefore, conventional major sales channels such as department store in-shops may be forced to have tough time, and major challenges of each brand should include how efficiently they can proceed with relocation and renovation of existing stores and how they can promote development of new types of stores in order to win new customers of the next generation.

Those import brands are thus reaching a major turning point to break away from the existing business models in terms of all the aspects including targeting and product policies as well as sales channel strategies and communication strategies.

## 3. "Leather Clothing" and "Shoes and Footwear" - The only categories that achieved positive growth

As for the market overview by category, "shoes and footwear" and "leather clothing" achieved good sales results, each of which recorded year-on-year sales of 103.5% and 104.1% respectively. On the other hand, such accessories as belts and similar types of goods that had lead the market in 2006 did not have favorable results in 2007 due to slow sales in the holiday gift season in the year-end.

With regard to "shoes market", the men's apparel brands have lately been strengthening their accessories and miscellaneous goods business in their home countries and invested for enhancing their organization with respect to production systems, planning systems, sales structures, etc. instead of acting only as OEM suppliers. As a result, they have expanded their customer base including wholesalers in aspects of both quantity and scope.

Although "handbags, other bags and small leather goods" are still absolutely popular items, accounting for 44.2% of the total import brand market in 2007, and maintained approximately 500 billion yen of the market size, the market of these items is continuously in a trend of slight decrease represented by 99.2% of the year-on-year ratio and had a tough time in the year of 2007.

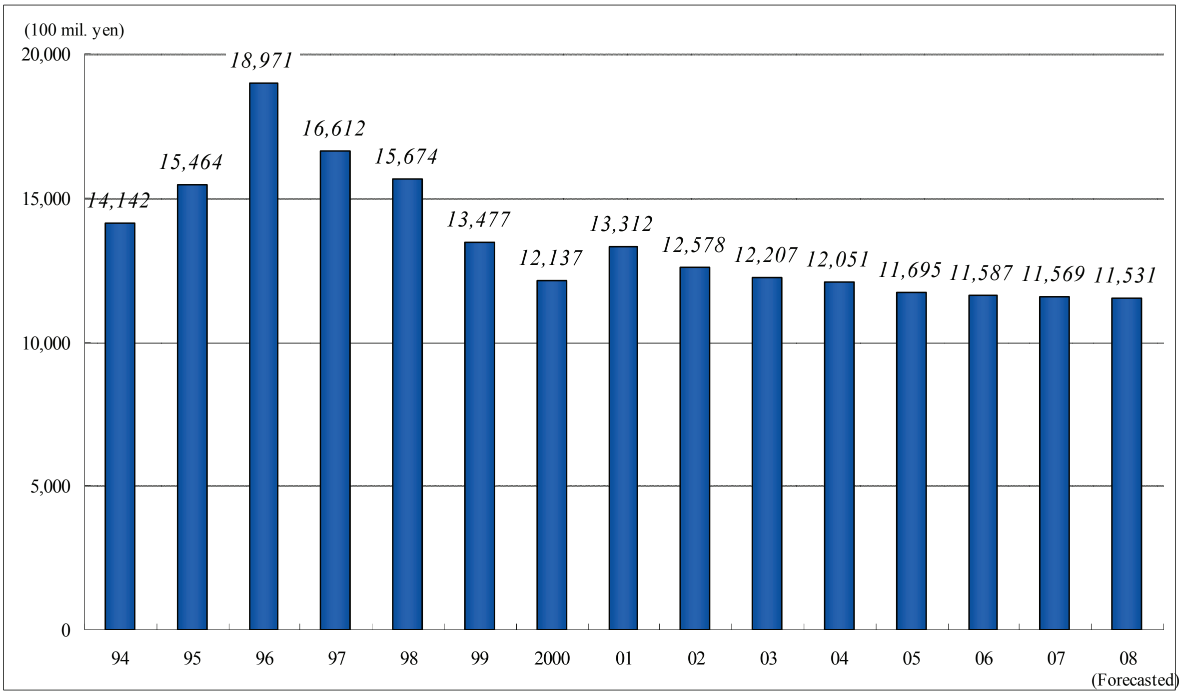
The market of "handbags, bags and small leather goods" seems to have managed to maintain the overall market size close to that of the previous year by promoting tote bags and some other products featuring "accessible price" and responding to the needs from the market for casual line of products to compensate the sales decrease from the sluggish sales of the luxury "handbags" (mainly, of the price range over 200,000 yen).

As for the apparel, sales of both men's and women's' apparel stayed almost flat, resulting in 99.6% of year-on-year ratio for men's and 99.8% for women's. While the sales of each type of wear are seesawing, the trend that luxury casual items are forming a solid market has been occasionally observed, and this trend might have covered the poor performance of the category of "dresses".

Small miscellaneous goods (gloves, scarves and ties) dropped back from 2006, although it is still in the growth trend compared to the year before 2006.

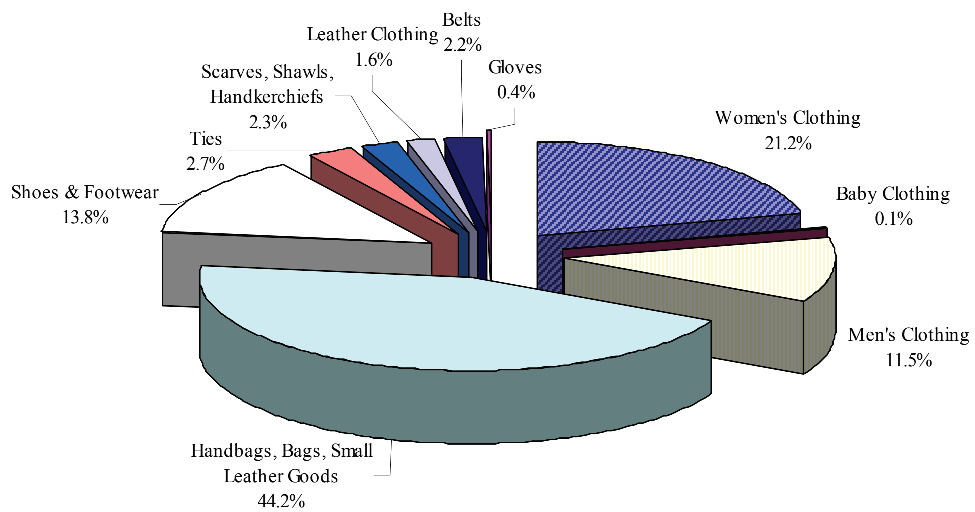
In the import brand market in 2008, it should be the key growth factor how the market of personal belongings including small leather goods, shoes, accessories, etc. can be expanded and grown, while it is expected, as an overall trends, that more and more middle-income earners, aside from the wealthy people, refrain from purchasing high-priced products (over 200,000 yen) as to the "heavy clothes" and related goods categorized in the apparel and shoes related items.

■Retail Market Size of Imported Luxury Clothing and General Clothing Merchandise




Estimated by Yano Research Institute

■Distribution of the Import Brand Market in Japan by Product Type ＜2007＞




**Total (100%) = 1,156 billion Yen**

Estimated by Yano Research Institute