



South Africa:

a New Frontier for Luxury Brands?

Luxury Branding

Luxury Branding is an agency that provides Consulting, Creative and Communications services to the global luxury industry.

The Southern Africa Luxury Association is a non-profit organisation dedicated to supporting the growth of the luxury and premium lifestyle sectors in South Africa.

South Africa: a New Frontier for Luxury Brands?

Luxury Branding



Singita Sweni Lodge, Kruger National Park

Foreword

2009 has been a trying year for the luxury industry, as it has adjusted to the global economic downturn and sought shelter from the chill winds of austerity precipitated by the credit crunch.

Although there have been recent signs of an upturn in Europe – from Hermès and Mulberry among others – according to Bain & Company, sales of luxury goods were flat in 2008 and the market will contract by 10% this year before recovering to a modest growth of around 1% in 2010.

With the US and Japan hardest hit and Europe not far behind, emerging markets are assuming greater importance for luxury brands. Asia, and in particular China, for example, continues to show strength where growth is being driven by a still swelling number of newly affluent consumers.

Unlike Asia, Africa may not be home to tigers (of either the striped or the economic variety), but South Africa's economy – the biggest in Africa – *has* proved more resilient than most: the most recent indicators suggest that the country's first recession in 17 years may nearly be over.

South Africa's banking sector, which the World Economic Forum rates 15th out of 134 countries, and the government's commitment to nearly \$100 billion of infrastructure spending – much of it to help prepare the country to host the 2010 FIFA World Cup – are just two factors which have led analysts to predict that the economy will shrink by just 1-1.5% this year,

before resuming slow growth in 2010. I am sometimes asked how I justify being in the business of luxury in a country where a quarter of the 47m population earn less than \$1.50 per day and on a continent where – for too many people – sanitation and regular sustenance are what constitutes luxury.

While it is undeniable that South Africa displays a marked dual economy and a very high rate of income inequality, it has to be said that it also has one of the fastest growing emerging middle classes in the world. Furthermore, according to the World Wealth Report published by Merrill Lynch and Capgemini in July 2009, South Africa is home to nearly 51,000 dollar millionaires and they represent more than 50% of all the millionaires in Africa.

These factors are creating real dynamism in the emerging South African luxury market and this, in turn, provides many exciting opportunities for local and international luxury enterprises.

To help harness this potential, the Southern Africa Luxury Association (SALA) was formed earlier this year. Its goal is to support the growth of international luxury brands in our market as well as to enhance product quality and raise awareness of local luxury brands within the region and overseas.



Rebecca Hiller, photographed by Chris Saunders in Khayelitsha.
Styled by Louw Coetzer

SALA's purpose is to encourage interaction and collective thinking within the luxury industry. This will be accomplished by providing fresh industry intelligence and by facilitating informed debate, networking and collaboration opportunities between our members. This is intended to stimulate product and service improvements across all sectors.

This volume is the result of a landmark enquiry into the consumer and the market for luxury brands in South Africa, and marks the first in a series of annual research initiatives that will be conducted in association with SALA.

We hope that the findings are both insightful and inspiring and we look forward to receiving your feedback.

Chris Saunders

CHAIRMAN
SOUTHERN AFRICA LUXURY ASSOCIATION
CAPE TOWN, OCTOBER 2009

Executive Summary

Global context

Recent times have been characterised by contradiction, uncertainty and a number of harsh realities intruding on the previously tranquil ivory tower of luxury brands.

An unprecedented degree of soul-searching is now evident in the market, both on the consumer and the brand side, suggesting that a fundamental change is on the cards. Exactly what form this will take, however, and when it will manifest itself, remains only partially clear. Have the dynamics of consumption now changed permanently or will it be back to luxury business as normal when the good times roll again?

Local reaction

South Africa is by no means immune to the vagaries of global trends but it is also subject to its own set of unique issues. The country's dual role as regional hub and continental entry point, the blurring of boundaries between 'old' and 'new' money, combined with a global shift back to the basics of craft and authenticity (two touchstones of South African culture), is garnering Africa's single largest economy increased attention and interest from luxury onlookers overseas.

I don't believe you!

Luxury brands are, on the whole, narcissistic and selfish, which seemingly positions them at odds with the world's newly ethical agenda. Recognising, however, the integrity that's evidenced by many luxury brands' obsessive pursuit of perfection, could not that same scrupulousness also inspire more responsible beliefs and practices? Going forward, brand

owners must seriously consider how they will incorporate universal consumer values into their business as this is one trend that does look set to stay.

Experience matters

In this 'experience economy', even the simplest product brands are looking for ways to deepen their relationships with their customers.

Respondent opinion in our survey was divided, however. Some believe that the 'experiential phenomenon' is merely a new method of delivering sales. Others believe that building platforms on which brands and consumers can meet and interact meaningfully is essential new vocabulary in the brand-customer dialogue.

The answer, as ever, lies more in the 'how' than the 'if', but when it comes to experience provision, South Africa has some significant strengths upon which to draw: its high-end lodges and hotels are regarded by international audiences as equal to the best in the world.

There is also a growing belief that an informal brand of 'African' service could yet emerge to host great experiences across many luxury categories.

The luxury condition

It is tempting to draw a familiar axis between 'old (white) wealth' and 'new (black) money', the one predominantly located in Cape Town, the other arising from Johannesburg. It would also be easy to categorise the former as being driven by 'discernment' with the latter more motivated by 'status', as exemplified by the ascent of new money in Russia. This study demonstrates that such simple generalisations are less prevalent than might be expected.

The apartheid effect

The South African consumer's relationship with luxury brands is complex, not least because the profile of the luxury consumer is itself so very diverse; but more than complex, it is intense and loaded. This acuteness has its roots in the country's troubled political and social history, but a more recent contributing factor is the policy of Black Economic Empowerment. This has catapulted a new elite from poverty to affluence in less than a decade, creating a relatively small but highly visible echelon of new luxury consumers in the process.

Uncharted territory

South Africa is still a new and almost completely uncharted frontier for luxury brands. Although instinct and anecdotal evidence suggest that it has significant potential, the actual size and nature of the opportunity remains almost entirely a matter of conjecture. At the heart of this uncertainty is a lack of sufficiently granular customer data available to luxury and premium brands to inform their decision-making.

We know roughly how big the new black middle class is and how quickly it's growing; what's much less certain is how its attitude to spending and consumption is evolving with its increasing affluence. How different or similar are the behaviours of widely varying cultural and geographic groupings? Will the appetite for all things international continue unabated or will the South African luxury consumer finally develop a taste for indulgences created closer to home?

Local considerations

On the negative side, difficulties persist around the skills base, tax structures, access to public and private funding as well as the expertise and confidence of local entrepreneurs to take advantage of these opportunities. There remain significant barriers to breakthrough and it's telling that, with the possible exception of 'Singita', South Africa does not yet have a luxury brand to call its own.

Realising the opportunity

One encouraging factor is an expanding footprint of international luxury brands trading in South Africa. The already impressive brand list is due to grow significantly over the coming year and shows that many international houses are alive to the opportunity that the country presents.

In terms of homegrown or 'outbound' potential, the consensus from our respondents is that the country's real strengths lie in raw materials, hospitality and wine and that these should be leveraged first. There is also a sense that certain global factors are aligning and that these could provide a vital catalyst in unlocking South Africa's indigenous luxury potential.

Creative direction and design by & SMITH

& SMITH is an independent graphic design studio based in London. Passionate about the craft and value of design, they work closely with clients to achieve a full understanding of their business. This enables them to produce work - across a range of media, that both engages and inspires the intended audience.

& SMITH can be found online at
www.andsmithdesign.com

Printed by

Gavin Martin
www.gavinmartin.co.uk

Photography by Chris Saunders

Chris Saunders is a Johannesburg-based South African photographer with a keen eye for cultural counterpoint, to which his work in this publication attests. Having launched his career featuring local bands and skateboarders as subject matter, he retains an edgy, alternative visual style and illustrates the power of photography as a medium for social commentary. Chris' photographs of 'young, gifted and black' youngsters in Soweto and the homegrown Black Coffee fashion label are, for us, the perfect embodiment of the creative contrasts that reside at the heart of South Africa's vibrant future.

Chris can be found online at
www.imagination.co.za and
<http://chrissaunderssa.blogspot.com>.

© Luxury Branding 2009

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, graphic, electronic, mechanical, photocopying, recording or otherwise, without prior permission of Luxury Branding.

www.luxury-branding.com

Price: Euro 350
ISBN 978-1-85669-674-6

