

The Luxury Fashion Industry in South Africa

INDUSTRY REPORT



OFFICIAL PROGRAM

THE LUXURY FASHION INDUSTRY IN SOUTH AFRICA

Date: November 2015

Language: English

Number of pages: 22

Author: Lodestar Marketing Research

Other sectorial Reports: Are you interested in other Reports for other sectors and countries? Please find more Reports here: s-ge.com/reports

DISCLAIMER

The information in this report were gathered and researched from sources believed to be reliable and are written in good faith. Switzerland Global Enterprise and its network partners cannot be held liable for data, which might not be complete, accurate or up-to-date; nor for data which are from internet pages/sources on which Switzerland Global Enterprise or its network partners do not have any influence. The information in this report do not have a legal or juridical character, unless specifically noted.

Contents

1.	FOREWORD	4
2.	EXECUTIVE SUMMARY	5
3.	MARKET OVERVIEW	6
3.1.	The South African Environment	6
3.2.	Wealthy South Africans: Who are they?	7
3.3.	Wealthy South Africans: What do they want?	8
3.4.	Trends	9
3.5.	The South African retail landscape	11
4.	REGULATORY OVERVIEW	13
4.1.	Entities involved in the regulatory environment	13
5.	OPPORTUNITIES AND CHALLENGES	14
6.	IMPORTANT MARKET PLAYERS	14
6.1.	Potential local Partners	14
6.1.1.	Surtee Group	14
6.1.2.	Apsley Group	15
6.1.3.	Edcon	15
6.1.4.	VividLuxury	15
6.1.5.	Luxury Brands	16
6.2.	Luxury print media	16
6.3.	Digital Media	20
6.4.	Events	20
7.	ATTACHMENTS	21
7.1.	Sources	21
7.2.	Disclaimer	21
7.3.	Contact Information	21

1. Foreword

South Africa is a strategic partner country of Switzerland and is one of Switzerland's most important economic partners on the African continent. The bilateral trade volume reached approximately CHF 1.3 billion in 2014.

There is a growing consumer appetite for luxury goods in the underpenetrated African market. Luxury-goods retail sales reached \$4 billion in 2014, and the market may expand 31.2% by 2019, according to Euromonitor. Africa has about 50 directly operated global luxury single-brand stores, with LVMH (Moët Hennessy – Louis Vuitton) and Richemont accounting for 60%. Morocco and South Africa are the region's luxury oases, with 80% of luxury monobrand stores operating there, and attracting higher luxury spenders.

As the number of millionaires in Africa continues to rise at a faster rate than in the rest of the world, the African continent is witnessing the fastest growing number of consumers buying luxury goods and services. South Africa offers an already established luxury market, infrastructure and quality shopping centers and is perceived by many retailers as one of the shopping destinations of choice on the continent. According to the Wealth Report 2015, the number of "ultra-high net worth" individuals on the continent, these individuals have assets worth more than \$ 30 million, is expected to grow by almost 50% to 903 individuals by 2024. The South African market is already at this stage "outperforming expectations" for personal luxury goods like designer apparel, handbags and accessories, fine jewellery and watches, and cosmetics and fragrances and the future looks very promising.

The publication "Luxury Fashion Industry South Africa" provides the reader with important background information on the sector and highlights market opportunities for companies from Switzerland. I wish you pleasant reading and look forward to welcoming you in South Africa. Sawubona!



Anita Dietiker
Head of Swiss Business Hub Southern Africa

Swiss Business Hub Southern Africa
P.O. Box 2508, Brooklyn Square
0075 Südafrika

Mail anita.dietiker@eda.admin.ch
Phone +27 12 452 06 91
s-ge.com

2. Executive Summary

- South Africa has seen a significantly higher percentage growth of High Net Worth individuals in the past decade compared to global figures, and this trend is expected to continue.
- South Africa's luxury goods market is growing, and is being driven by the growing middle class, women becoming more actively involved in the economy with well-paying jobs, and by an increased demand from foreign visitors taking advantage of the weaker Rand.
- Luxury fashion consumers are diverse but biased towards female, between the ages of 30 and 50, local, African or International. They want strong brand heritage, quality and personal service.
- South Africa has an advantage over other African countries with regard to its sophisticated and well-developed retail environment. The most attractive shopping malls for luxury brands are Sandton City, Melrose Arch and HydePark Corner in Johannesburg and the V&A Waterfront in Cape Town.
- Forecasters are predicting that the Millennials will have a significant impact on marketing in the luxury industry. Although traditional marketing channels and particularly magazines will continue to be relevant, maximizing the online experience will be important for luxury brands who want to reach consumers that are accustomed to using digital tools and social networks to educate themselves about brands.

3. Market overview

In the past few years, international luxury brands have flooded the local market to take advantage of the mushrooming middle-class in Africa. According to the African Development Bank report released last year, 34% of 370 million people represent the middle-class in Africa, with growth forecasts expecting this group to represent 42% of the African population by 2060.

Africa is also witnessing an impressive increase in high net worth individuals: analysts at New World Wealth say that Africa now has the highest growth among high-net worth individuals. Africa currently has about 165,000 dollar millionaires (have net assets of more than US\$1m, about R14m), with 49,000 of them in South Africa and 15,700 in Nigeria. Andrew Amoils, a senior analyst at New World Wealth, estimates that 16% of South African dollar millionaires are from previously disadvantaged backgrounds.

3.1. THE SOUTH AFRICAN ENVIRONMENT

Africa's 50 richest have a combined net worth of around US\$110.7 Billion. Behind Aliko Dangote at number one with a fortune of US\$21.6 billion, comes South African luxury goods magnate Johann Rupert, worth an estimated US\$7.3 billion. His Compagnie Financiere Richemont has a stable of luxury brands including Cartier, Montblanc and fashion house Azzedine Alaia.

Apart from its 49,000 dollar millionaires, South Africa has 2,060 multimillionaires (have more than US\$10m net assets) and 581 Ultra High Net Worth Individuals (UHNWIs) – with an average per capita wealth of US\$124.7 million (R1.3 billion). South Africa's millionaires have grown by 106% over the past decade and 120% for multi-millionaires, compared to global figures of 58% and 71% respectively. The future looks just as positive with New World Wealth predicting that the total number of \$ millionaires in the country will reach 62,400 by 2017 and 86,700 by 2030.

According to An Hodgson, an income and expenditure manager at international business intelligence research firm Euromonitor: “Sub-Saharan Africa has been experiencing solid economic expansion, with real gross domestic product growth averaging 5.5% per year over the past decade. The continent's impressive strides in growth, in stark contrast with sub-Saharan Africa of the early 1990s, have given rise to the narrative of ‘Africa Rising’ and captured the attention of global businesses.” Sub-Saharan Africa seems a particularly attractive option to brands, Hodgson continues, especially when considered against the backdrop of prolonged weakness in the global economy since the 2008-2009 global financial crisis, because “it offers a relatively empty marketplace with untapped opportunities and an alternative growth avenue to companies struggling to expand in developed markets”.

Despite the current weakness in the local currency and domestic economy, South Africa's luxury goods market is growing: the Euromonitor report, *Luxury Goods in South Africa 2015*, reported that the local luxury goods market grew by 65.2% in the five years between 2009 and 2014, representing a CAGR of 10.6%. Deloitte's 2015 *Global Powers of Luxury Goods Report* forecasts steady growth in the luxury goods industry that is largely expected to be driven by women who have become more actively involved in the economy of sub-Saharan Africa with well-paying jobs, the growing middle class in South Africa and increased demand from foreign visitors to the country who are taking advantage of the weaker Rand.

And, what are wealthy South Africans spending their money on? New World Wealth's Andrew Amoils says they have bought a lot of luxury collectibles over the last decade, particularly luxury investments that hold their value well over time. Collectibles such as art, wine, classic cars, jewellery, stamps and super-luxury items have become increasingly popular for the rich ‘to store their wealth’, and accounted for \$1.5 billion of the total assets of South Africa's wealthy last year.

Deloitte: *Global Powers of Luxury Goods 2015: Engaging the future luxury consumer*; The New World Wealth Report 2015; African Development Bank Annual Report 2014; Unilever Institute of Strategic Marketing: *4 Million and Rising Project 2013*; www.sundaytimes.co.za; www.citypress.co.za

Looking forward, Deloitte's analysis of the Global Powers of Luxury Goods 2015 report says that the appetite among high-end consumers for luxury goods and products remains stable: these include designer clothing, accessories, handbags, fine jewellery, watches, cosmetics and fragrances.

Luxury goods sales in sub-Saharan Africa grew 35% between 2008 and 2013 and are predicted to climb by another 33% over the next five years, according to Euromonitor. The highly developed retail environment in South Africa gives it an advantage over other African economies that may be performing better currently: Nigeria is now ranked as Africa's biggest economy but the luxury market is hampered by the lack of retail space: there are hardly any shopping malls in Nigeria. Other potential markets – Kenya, Ghana and Angola – are better but are not nearly as sophisticated and well-developed as South Africa.

The outlook is bright for global brands that can overcome the many logistical, social and political challenges that South Africa presents. It is estimated that the country's apparel and footwear market is currently worth \$15.6 billion, but, in just four years time, Euromonitor projects that the size of the South African market will swell by \$6 billion more. The ready-to-wear designer slice of the market will grow during the same period, from \$400 million this year to \$600 million in 2018.

3.2. WEALTHY SOUTH AFRICANS: WHO ARE THEY?

The middle class in Africa is growing fast, and has a more disposable income than in the past. The largest share of this growth is among black South Africans. Cape Town's Unilever Institute of Strategic Marketing (UISM), which has been conducting research on the country's black middle class since 2004, reported in 2013 that black middle class spending skyrocketed to a staggering R420 billion per annum – substantially outstripping white middle class spending power (R320 million).

Designer labels enjoy high spending priority among this growing black middle class. Vanessa Borchers, Western Cape Industry Director at Deloitte South Africa, believes that there will be a continued demand for luxury goods among locals: "In South Africa, the continued growth of the middle class creates a market segment where there is an aspiration for the finer things in life, which in turn creates the desire for status symbols. This is a market that luxury brands should continue to monitor closely as it is likely that the luxury buyers of the future will emerge here."

Currently, the average age of South African multimillionaires is 55, slightly below the world average of 56. The financial services industry – asset management and brokering – is the main route by which they have acquired their wealth: it is the primary source of wealth for 20%. Other important industries include real estate, construction and basic materials (New World Wealth 2015).

Although much of the country's wealth still remains in the hands of the white minority, the momentum of the rising black middle and upper classes has been not only an essential social improvement; it has also been an important driver for the economy. It is this demographic change that is quite literally changing the face of the fashion business in the country at the moment and creating much of the dynamic atmosphere felt by local players. This means that, in terms of numbers, there are currently more White high net worth individuals in South Africa than other race groups. However, White HNWIs are in decline while Black African and Indian HNWIs are on the rise. In 2007, there were 2,300 black African HNWIs and at the end of 2014 there were 4,900, a growth of 113%. In 2007 there were 36,900 white high net worth individuals while at the end of 2014 there were 32,100, a contraction of 13% (New World Wealth reports that many of the Whites have left the country, mainly to the United Kingdom, European Union, United States, Canada, Australia and New Zealand).

Johannesburg, in particular, has one of the strongest forecast growth rates for high net worth individuals over the coming decade, according to Margaret Nienaber, global chief executive of Standard Bank Wealth & Investment. Johannesburg is home to the highest concentration of millionaires and multimillionaires in Africa. Most of South Africa's multimillionaires live in Johannesburg (990), followed by Cape Town (380), Durban (115) and Pretoria (105). The most popular suburbs for multimillionaires in Johannesburg are Sandhurst, Hyde Park and Bryanston, in Cape Town are Camps Bay, Bishopscourt and Constantia, and in Durban are La Lucia and Umhlanga.

Deloitte: Global Powers of Luxury Goods 2015: Engaging the future luxury consumer; Euromonitor: Luxury Goods in South Africa. February 2015; The New World Wealth Report 2015; Unilever Institute of Strategic Marketing: 4 Million and Rising Project 2013; www.sundaytimesnews.co.za; www.citypress.co.za; www.gbn.co.za; www.destinyman.com; www.businessinsa.com; www.biznews.com; www.bdlive.co.za; www.mg.co.za; www.ft.com Johannesburg is also the city that attracts wealthy visitors from Nigeria, Ghana,

Angola, Kenya and Botswana who come to buy labels that are not available in their home country. This means that there is a steady stream of African shoppers arriving in Johannesburg all year round, compared to Cape Town which tends to be more seasonal coinciding with the northern hemisphere's winter months.

The largest growth area is Durban, where millionaire numbers have increased by 200% since 2000, compared to the national increase of 135%. The city's growth has been fuelled by Indians, who have risen nationally more than other racial group. Professor Dilip Garach, a financial coach to the wealthy, says that, "In most cases the wealth has been acquired post-1994, after South Africa achieved democracy and hence the wealth is 'new' money and not inherited." Andrew Amoils, head of research at New World Wealth, identified finance, real estate, retail and media as the top sectors for Indian millionaires.

The number of female HNWIs is also on the rise: the Euromonitor reports that a growing number of South African women have become more economically active with well-paying jobs, with a resultant interest in luxury fashion and accessories, "As more female consumers in South Africa are embracing global fashion trends."

3.3. WEALTHY SOUTH AFRICANS: WHAT DO THEY WANT?

Luxury Goods in South Africa 2015 reports that the growth in the desire to show career success has been through purchasing luxury items ranging from fast cars to clothing. There is a group of consumers with more than enough spending capacity as long as the brand or product gives them what they deem to be value for money.

Demand for luxury products in South Africa has been highly driven by factors such as strong brand heritage, and international brands are perceived to be of good quality compared to similar goods made in South Africa. This has been the result of the brand heritage that has been built by many global brands over the years, and the marketing edge they have in being able to promote products in different countries at the same time. Consumers in South Africa also see exclusivity as a sign of brand strength; this makes most international brands more competitive in the eyes of luxury consumers.

African luxury customers want quality. Jonas Windahl, Tiger of Sweden's brand manager in South Africa says, "The middle class are getting stronger here and they are increasingly aware of fashion. We have found that South Africans are very astute about quality particularly." Fokker de Jong, Suitsupply's chief executive agrees, describing the African customer as informed: "They understand luxury, as in they understand the inherent quality of products – unlike what you might have seen some years ago in some emerging Asian markets where customers were simply associating luxury with big labels. The African consumer has a natural feeling for high quality garments and is a consumer that is curious about learning more."

Anita Stanbury, CEO of the recently formed South African National Fashion Council (SANFC) says, referring to prices for international products that can be inflated by 45 percent because of import taxes, "Retailers cannot underestimate the South African consumer. Don't expect them to be grateful for second rate product, or for being overcharged. Even high-end international brands are often held hostage by the licensee, with brand integrity at stake, due to the unavailability of sizes, stock and customer service. The 'fun stuff' is not available in South African stores, as retailers send slow-selling Northern hemisphere stock, or 'safe stock' here."

These customers also want personal service. Tania Habimana, general manager for Suitsupply in South Africa and the head of the brand's African expansion department, says "The African luxury consumer is a consumer that has been, for centuries, accustomed to very tailored experiences, up until recently, when a more Western model of retailing appeared. Before that, it was custom-made and personalised garments or products purchased from abroad, which translates into a consumer that demands and appreciates high levels of service and attention."

Deloitte: Global Powers of Luxury Goods 2015: Engaging the future luxury consumer; Euromonitor: Luxury Goods in South Africa. February 2015; The New World Wealth Report 2015; www.ft.com; www.iol.co.za; www.mg.co.za; www.adlip.com; www.businessoffashion.com; www.businesstech.co.za; www.sundaytimesnews.co.za; www.destinyman.com; www.citypress.co.za

Of interest is the comment from a number of high-end retailers who say that, because their suit ranges are limited, buyers often want an extra pair of pants so that they can wear the suit for longer. These same buyers want the retailer to display the on-trend shirt and tie that will go with the suit, and will often buy more than one of each, again to extend the life of the outfit.

International visitors to South Africa, shopping for fashion say that the price they pay in South Africa is the same as they pay in Europe. However, because of the brand heritage and their experience of the brand quality, they are happy to pay this.

Historically, South Africa has followed international fashion trends six months later because of the seasonal differences. However, international high-end fashion stores cater to international travellers and stock items that are currently in stock in their European stores (one season ahead of South Africa) as well as items that are relevant to the current South African season (six months after Europe). With the focus on quick response and fast fashion, South Africa is beginning to see a more general shift. For example, the online retailer, Spree.co.za, and the traditional Equality, have an eight week turnaround from styling to in-store.

Niccidix is another example of a company responding quicker to international fashion trends. Marine Louw, buyer and founder of Pretoria-based high fashion stockist Niccidix, says, “Our niche in the market is to give to boutiques what is current and happening and trendy in Europe.” Every five weeks for 10 days at a time, Louw travels to Europe and other destinations to buy and import unique garments and stock that does not come from the East to supply the local market. The stock arrives in South Africa and once ready for distribution the company invites and visits boutiques nation-wide to choose items for their customers. Turn-around time from buying stock overseas to it appearing in local boutiques is around one month, she said. “We never order in advance, as fashion is an industry where trends can change weekly. Boutiques and chain stores, however, often have to order six months in advance. That is purely because of local production,” says Louw. “We begin our winter season in January and it ends in June. Summer season starts in July and ends in November.”

In terms of payment, this is either via cash or credit card, with African and International visitors more often paying with cash and local buyers usually using their credit card.

3.4. TRENDS

Jolandi Grace, Africa Fashion and Luxury Brand Leader at Deloitte, commenting on the Global Powers of Luxury Goods 2015 report, said, “Several key aspects of the luxury goods sector will become unrecognisable over the next few years. For instance, the traveling luxury consumer is expected to change the concept of national boundaries; millennial consumers will grow to represent a significant percentage of sales volume in luxury goods; and the competitive forces driven by technology will disrupt at an accelerated pace. As such, global luxury brands must overcome significant challenges in order to maximise engagement with their digitally-savvy, time-sensitive and socially aware consumers or risk being left behind.”

Luxury brands need to have a strategy that will reach a new type of consumer. The African Development Bank report found that millennial consumers are expected to grow to represent a significant percentage of luxury items purchased and although traditional marketing channels such as magazines and store browsing continue to be relevant, if you are a brand trying to access this generation, your best advertising channel would be the internet, through mobile-friendly sites, as 58% of millennial consumers go online, while 31% use social media for gathering information on luxury items compared to just 10% of older luxury consumers.

Andreas le Roux, Deloitte SA consumer business leader, says that “the luxury sector in South Africa needs to maintain strong relationships with diverse technologies that are influencing the luxury goods value chain. The legitimate fear of diluting a brand’s exclusivity in the broadly accessible online world requires brands to move carefully to ensure sustainable, long-term value creation.”

Deloitte: Global Powers of Luxury Goods 2015: Engaging the future luxury consumer; McKinsey: The Opportunity In Online Luxury Fashion. February 2015; The new World Wealth Report 2015; African Development Bank Annual Report 2014; www.gbn.co.za; www.fin24.com; www.citypress.co.za; www.themediainline.co.za

The millennials are a group of individuals who came of age during the technological boom and therefore demonstrate a different set of behaviour to their luxury predecessors. In order to capture this important segment, luxury brands need to fully understand their buying habits and influencers. Making the online experience as unique and innovative as possible will help luxury brands attract the millennial generation.

“In the 21st century, there are so many touch points to consider as a luxury brand, ...we have seen that many of the traditional luxury brands started off being quite resistant about going into different media channels, and then quickly capitulate when realising that this is a new world order and there are different ways of doing things,” says Dion Chang of Flux Trends (a South African trends analysis company: www.fluxtrends.co.za). “Luxury brands need to partner with different people, mediums, or channels in order to provide a holistic brand experience.... A lot of the conspicuous consumption comes in the form of asset building, and once the middle class is exploding, the appetite grows for change from luxury product to luxury experience. The experience is a softer form of conspicuous consumption, it is a little bit more equitable, and I am feeling a lot more comfortable about a luxury experience rather than just a luxury product,” says Chang.

“Africa is generically laden with challenges around infrastructure, supply chain and the like, and as a result, you are getting technologies that are completely leap frogging to first world concepts,” Chang explains. He further comments that “herein lies a huge opportunity, because everyone is waiting for the next big thing, and piggy backing these innovations would provide the sweet spots in differentiating one brand from another.”

McKinsey’s 2015 report on the Opportunity in Online Luxury Fashion says that, “after a slow start, luxury fashion has earned its place in the digital universe. Most brands now interact with consumers both through their own branded online store and on multi-brand e-tailers. And even though pure online transactions are currently just a sliver of the total luxury goods market, this isn’t going to stay the case for very long. Nearly half of luxury goods buying decisions are already influenced by what consumers hear or see online.”

Deloitte’s Global Powers of Luxury Goods 2015 report says that the ever-sophisticated luxury consumer is increasingly digitally-savvy, time-sensitive and socially aware. According to the report, the luxury industry is going to have to meet three significant challenges in order to engage with the luxury consumer: Despite its challenges, many luxury brands are showing great innovation and embracing the potential for digital technology to reach new audiences, enhance brand awareness and establish a broader geographic reach, and the sector will need to continue to forge a strong relationship with an ever-increasing array of technology; The rapidly evolving consumer profile makes it critical for companies to understand the changing desires, buying behaviours and channels of luxury consumers: And the luxury brand’s commitment to its history, provenance and community will strengthen brand equity and create long-term strategic and financial reward for the business.

In South Africa, online shopping is still in its infancy but is expected to see a double-digit CAGR in the next year: PricewaterhouseCoopers (PwC) released a study early this year that revealed that the value of online retail sales in South Africa was R5.3 billion for 2014, which is just 1% of total retail sales in the country, and most of these sales are for books, airline tickets and music with clothing only making up 2.6% of sales. Currently, the most successful multi-brand retailer of fashion in South Africa is the online retailer, Spree, owned by the media giant Naspers. Another is Superbalist, recently amalgamated with Take-a-lot.com. However, these sites are targeted at upper income rather than luxury fashion consumers.

Preserving the strength of the traditional store, a high proportion of consumers (73%) say they browse online but purchase in-store. So, it seems that the online shop is a place to research and compare for later in-store purchases. PwC concludes that, although online and mobile technology is a very small piece of the pie in terms of overall retail sales, it is increasingly a critical factor in setting the stage for a purchase. The Luxury Goods Market SA report agrees, “Millennial customers are expected to grow to represent a ‘significant percentage’ of items purchased and if you’re a brand trying to access this generation, your best advertising channel would be the internet, through mobile-friendly sites, as 58% of millennial consumers go online while 31% use social media for gathering information on luxury items.”

Deloitte: Global Powers of Luxury Goods 2015: Engaging the future luxury consumer; McKinsey: The Opportunity In Online Luxury Fashion. February 2015 PwC’s Annual Consumer Survey: Total Retail: Retailers and the Age of Disruption 2014; www.mg.co.za; www.adlip.com; www.bizcommunity.com; www.fin24.com

South African luxury consumers are no different to their international peers, and luxury brands need to overcome their reservations about exclusivity and control, and become more comfortable selling and marketing on both their own site and that of select department store or pure play luxury e-retailer partners in select markets. These channels are not mutually exclusive as they target different shopping occasions and therefore different consumer groups. McKinsey's 2015 report on the Opportunity

in Online Luxury Fashion believes that "Multi-brand sites are expected to capture a greater portion of the growth in online fashion, as single-brand sites have more limited growth potential. Multi-brand e-tailers allow large luxury brands the opportunity to reach both time-pressed consumers who don't have time to shop around on multiple mono-brand sites and more rural customers who aren't easily able to visit urban boutiques."

That digitisation is already having an impact on traditional markets is apparent. Lauren Avgitidis, brand manager of TopShop and Topman SA, say that "As a result of the digital explosion, South Africans have become increasingly aware of international brands, leading to an astute and trend-focused consumer. This created the perfect environment to introduce our directional and innovative brands." The response, she says, has been as expected: "The brands have been well received, catering to a consumer hungry for the latest fashion trends."

3.5. THE SOUTH AFRICAN RETAIL LANDSCAPE

Destination shopping has become the new buzzword in South African retail, which in recent years has seen existing malls expand and upgrade their properties to create attractive spaces for international luxury brands. Fazel Surtees, managing director of the Surtee Group, a major luxury retail player in South Africa whose portfolio of fashion brands include Burberry, Giorgio Armani, Hugo Boss, Paul Smith, Lacoste and Versace, among others says: "It can be seen that growth will be consistent, whether from local spenders when the economy is strong, or by tourists taking advantage of travelling to this destination when the economy is weaker." The Surtees Group has been particularly aggressive in expanding its portfolio and he says the company's growth, "has been dependent on the strengthening South African economy following the apartheid era, as well as the resultant urbanisation and increased affluence throughout the region." The company's aggressive expansion is a response to the growing demand for luxury brands in both South African and greater Africa.

The norm in South Africa is for retailers of luxury products to be housed in one common area, with distribution of luxury products usually restricted to exclusive boutiques. The desire to control products' quality and brand integrity has led to most retailers resorting to the use of their own boutiques to distribute brands. For example, Louis Vuitton have only two retail outlets across SA, which exclusively sell the Louis Vuitton brand. No other retailer is authorised to sell their brands in SA. Global brands such as Hugo Boss, however, dominate the majority of luxury brands as they have wider coverage in terms of outlets as well as distribution partnerships with ensure that their brands are available in other retail outlets wishing to stock their brands. Hugo Boss products also have a wider appeal to consumers as their products are generally considered as affordable luxuries, particularly in categories such as designer.

With 60% of Africa's millionaires in South Africa, the country has the continent's most developed luxury retail sector. South Africa holds the sixth spot in the world in terms of the number of shopping centres (about 2,000). However, most of South Africa's luxury retailers are housed in two major shopping malls, namely Sandton City in Johannesburg and V&A Waterfront in Cape Town.

"Although many African consumers will visit international destinations for luxury shopping, the increasing availability of luxury goods also means that there is an increasing number of South Africans who do their high end purchases at home...High income consumers from Angola often visit Cape Town for shopping and consumers from Mozambique, Zambia and other neighbouring countries stop in Johannesburg for luxury shopping," Izaskun Bengoechea, a research manager at Euromonitor, says.

Deloitte: Global Powers of Luxury Goods 2015: Engaging the future luxury consumer; Euromonitor: Luxury Goods in South Africa. February 2015; McKinsey: The Opportunity In Online Luxury Fashion. February 2015; PwC's Annual Consumer Survey: Total Retail: Retailers and the Age of Disruption 2014; www.fin24.com; www.iol.co.za; www.mg.co.za; www.bizcommunity.com; www.fin24.com

The Luxury Fashion Industry in South Africa

Similarly, Kevin Lings, Stanlib's chief economist, says South Africa is seeing a "lot more tourism" that was boosting retail activity. "Our tourism inflows, money wise are the highest ever recorded... this is supporting some of the retail activity, which is tending to be higher-end luxury shopping... so its specifically people arriving and shopping in Sandton City, Hyde Park or the V&A Waterfront," he says.

Sandton City, with well over 2 million visitors per month, is the most attractive to visiting and local shoppers in search of luxury brands. It is strategically positioned where most of the important foreign businesses and major banks have their offices. The dazzling new R185-million Diamond Walk was opened in 2015 and has seen the introduction of a number of new international luxury labels such as Prada, Ermenegildo Zegna, Dolce & Gabbana, Giorgio Armani, Burberry, Jimmy Choo, Gucci and Arque Champagne Crescent.



Prada opened its megastore at Sandton City's Diamond Walk in May 2015. Designed by architect Roberto Baciocchi, the space covers 800 square metres (Prada's biggest in the world) and features black and white marble chequered flooring, crystal tables and velvet sofas. Picture: Dennis Guichard

In Johannesburg, Melrose Arch precinct is another favourite, with more of a premium focus (Lacoste, Tiger of Sweden, Etincelle), all set in a series of courtyards. "Before we opened our first store in 2009 in Melrose Arch, we didn't have South Africa on the map. But since we entered the country, performance has been very good," says Jonas Windahl, Tiger of Sweden's brand manager in South Africa.

Hyde Park Corner is the other high-end retail area in Johannesburg, with a Fashion Court housing international brand names such as Burberry, Longchamp, Jigsaw, Armani, Versace and a luxury Tiger of Sweden concept store. Peter Prinsloo, chief executive of Hyprop, the owner and developer of Hyde Park Corner, said the presence of these exclusive global brands "further underpin Hyde Park Corner's exclusive fashion offering and reputation as the luxury shopping destination of choice." Hyde Park Corner is also home to multi-brand luxury boutiques such as Apley House, A2, Callaghan, Studio 8 and Luminance.

Euromonitor: Luxury Goods in South Africa. February 2015; www.iol.co.za; www.mg.co.za

Other centres that have experienced “phenomenal growth in recent years, attracting the best local and international brand retailers, to appeal to the city’s rapidly expanding middle-to-upper-class market” (Marius Muller, chief executive of Pareto Limited, South Africa’s premier shopping center investor) are the Zone, the Firs and Rosebank Mall, Killarney Mall, Norwood Mall, Cresta Mall (all in Johannesburg) and Menlyn Park shopping centre in Pretoria.

Cape Town’s retail landscape is dominated by the V&A Waterfront – the most visited tourist destination last year – which has a luxury wing, or the “Platinum Mile”, where Gucci, Louis Vuitton, Burberry, Dunhill and Jimmy Choo are all found along a quiet corridor deliberately hidden from the crowds below.

4. Regulatory overview

South Africa has a world class, progressive legal framework. Legislations pertaining to commerce, labour and maritime issues is particularly well developed, while laws relating to competition policy, copyright, patents, trademarks and disputes conform to international norms and conventions.

South Africa’s trade incentives are aimed at encouraging economic growth and development. As a founding member of the World Trade Organization (WTO), it is an active participant in the multilateral rules-based trading system.

South Africa is also a member of the Southern African Customs Union (SACU), which allows free exchange of trade between South Africa and the other four countries – Botswana, Lesotho, Namibia and Swaziland. Member states form a single customs territory, and tariffs and other barriers are eliminated on the trade for products originating in these countries. A common external tariff applies to countries that are not members of SACU.

South Africa has a Free Trade agreement with the European Union (EU) and with the Southern African Development Community (SADC). The SARS website (www.sars.gov.za) carries comprehensive details on South Africa’s trade agreements. More about trade with the EU can be found on the European Commission’s South Africa profile page (http://ec.europa.eu/index_en.htm).

Since 2008, a trade agreement has been in place between the SACU and the European Free Trade Association (EFTA), which comprises Iceland, Liechtenstein, Norway and Switzerland. This facilitates trade and also deals with issues such as intellectual property.

4.1. ENTITIES INVOLVED IN THE REGULATORY ENVIRONMENT

Entities involved in the regulatory environment

Imports are controlled and administered by the International Trade Administration Commission of South Africa (ITAC) and the South African Revenue Service (SARS).

The **International Trade Commission of South Africa (ITAC)** (www.itac.org.za) is a legislative body that aims to foster economic growth and development by administering international trade. Its core functions include customs tariff investigations, trade remedies as well as import and export control, including issuing of permits.

Apart from controlling and regulating revenues, **SARS** is a useful source of data with regard to import information. Their site (www.sars.gov.za) includes trade statistics, import data and the top ten trade commodities listed by value.

www.sars.gov.za; www.itac.org.za; http://ec.europa.eu/index_en.htm

5. Opportunities and challenges

The main challenge in the luxury industry is low stock turnover rate which may not be ideal for smaller players with limited funding. The luxury market remains a high risk business in South Africa and therefore requires retailers with adequate funding which helps ease the pressure to have quick sales as most luxury items take long to sell and such a business is not sustainable for retailers with limited funding. This remains as a major barrier to entry for new players.

African markets outside of South Africa have even greater challenges: "Poverty remains widespread, infrastructure is weak, retail markets are undeveloped and brand awareness is lacking. Corruption can also be a problem, as can political instability in some countries," Euromonitor luxury goods research head, Fflur Roberts, says.

6. Important market players

6.1. POTENTIAL LOCAL PARTNERS

The three main companies that partner with Luxury brands are Surtee Group, Apsley Group and Edcon.

The two main marketing and communications agencies are VividLuxury and Luxury Brands.

6.1.1. Surtee Group

Physical address: 8th Floor, Sandton City Office Towers, Rivonia Road, Sandton

Postal address: PO Box 786164, Sandton, 2146, Johannesburg, South Africa

Tel: [+27 11 884 1425](tel:+27118841425)

Fax: [+27 11 884 2582](tel:+27118842582)

Website: www.surteegroup.com

Surtee Group, The Power of Trading (Pty) Ltd, is a company incorporated in South Africa and has grown over the last 15 years to be one of the largest and most highly recognised high-end fashion retailers in the country. The company is owned and managed directly by Fazel Surtees and his family. The company currently has a staff roll of 222 employees as of April 2015. The company's headquarters is located in Sandton City Office Towers, Johannesburg. All operations are funded by the owner with no utilisation of external funding.

Surtee Group's core business is focused on luxury fashion retail and has built strong and lasting relationships with a number of respected European fashion houses. Surtee Group's understanding of the high-end fashion market in South Africa, as well as its commitment to innovation and a deep-seated respect for each brand's identity and heritage has created a valuable proposition for the overseas partner.

Surtee Group currently has 42 boutiques, comprising the multi-brand store Levisons and the mono-brand boutiques Burberry, Emporio Armani, Versace Collection, Paul Smith, Hugo, Boss Womenswear, Lacoste, Paul & Shark, Armani Jeans, are located in the country's premier shopping malls such as Sandton City, V&A Waterfront, OR Tambo International Airport Duty Free etc, which attract not only high-income South African consumers but also ever-increasing numbers of tourists. The company's

track record has given it a unique stature within the luxury retail sector and is highly sought-after as tenants by the large property companies. Surtee Group has also developed long standing relationships with these property companies.

6.1.2. Apsley Group

Physical Address: 13 A Middle Mall, Hydepark Corner, Jan Smuts Avenue, Hyde Park, Johannesburg

Telephone: +27 11 325 4250

Website: www.apsleygroup.co.za

The Apsley Group represents exclusively some of the finest international luxury brands available today. The philosophy of our group is understated elegance. Our aim is to create a shopping experience unsurpassed in South Africa similar to that of Paris, Milan, London and New York, the fashion centers of the world.

Brands exclusively available from The Apsley Group are Bottega Veneta, Etro, Lanvin, Loro Piana, Celine, Azzedine Alaia, Christian Louboutin, Pomellato, Vhernier, Yves Saint Laurent, Hermes Table, St Louis Crystal, Ralph Lauren Home, Byredo, Acqua di Parma, Cire Trudon, Etro Home, Costes, Lalique, Loro Piana Home, William Yeoward Crystal, Tom Ford and Valentino.

6.1.3. Edcon

Physical Address: Edgardale, Press Avenue, Crown Mines, Johannesburg, 2092

Postal Address: P.O.Box 100, Crown Mines, 2025

Telephone: +27 11 495 – 600

Fax Number: +27 11 837 – 5019

Website: www.edcon.co.za

Edcon is the largest non-food retailer in South Africa. We have been in operation for more than 80 years and have expanded our footprint to include over 1,400 stores through nine different store formats.

Edcon brings iconic international brands through exclusive licences to the South African customer. These brands are found in Mono-branded stores and/or select Edgars stores around the country. Brands include TopshopTopman, Tom Tailor, Dune London, T.M. Lewin, Lipsy, Lucky Brand and Mac.

6.1.4. VividLuxury

VividLuxury is an award-winning communications agency specializing in high-end luxury brands. Over the last 8 years, the agency has established itself as a highly-acclaimed specialist in the fields of luxury and premium brands as well as high-end consumer goods and services.

As a key player in the South African luxury goods industry, VividLuxury delivers a dedicated, high value approach, ensuring exceptional skill and expertise in every project they undertake.

Operating at the forefront of an evolving communications landscape, VividLuxury prides itself in its ability to strategically execute a full range of communication campaigns for its luxury brand clients, via public relations, media relations, event management, brand activations, media planning and buying, as well as digital and social media management.

Anina Malherbe-Lan, founder and Ceo

Physical Address: 32 Wandel Street, Gardens, Cape Town, 8001

Tel: +27 - (0) 21 465 2312

Email: info@vividluxury.co.za

Website: www.vividluxury.co.za

6.1.5. Luxury Brands

Luxury Brands is South Africa's fastest growing luxury marketing group, offering direct access to over 18 000 pre-qualified high net worth individuals through its strategic membership alliances. The exclusive association brings together high level decision-makers, targeted clientele and luxury brands. This bespoke association, is facilitated by a team of experienced industry professionals with the aim of creating integrated marketing, sales and showcase campaigns.

Luxury Brands is a dynamic brand building agency co-owned by Jeremy Nel & Annette Cowley-Nel. Together, Jeremy and Annette have over 20 years of highly successful local and international marketing experience, with a proven track record and an exclusive client base that is managed with a high level of personalised service.

The agency comprises a focused team of chosen professionals, all motivated and geared towards offering a comprehensive and justifiable turn-key marketing solution. The Luxury Brands team are known to be the very best in their field, and have been instrumental in launching and positioning some of the most successful luxury brands and businesses in South Africa.

Physical address: Suite 181 Private Bag X16 Constantia Cape Town South Africa 7848

Telephone: +27 21 702 3436

Email: jeremy@luxurybrands.co.za

Website: www.luxurybrands.co.za

6.2. LUXURY PRINT MEDIA

Although online will be a key focus for luxury brands going forward, traditional marketing channels and particularly magazines will continue to be relevant for consumers gathering information on luxury brands. Magazines in SA have proved to be the most influential medium when it comes to fashion trends as well as improving product image for brand owners. Magazines often make use of celebrities, who have also helped stimulate luxury product demands.

Opulent Living (Newspace Publishing Group)

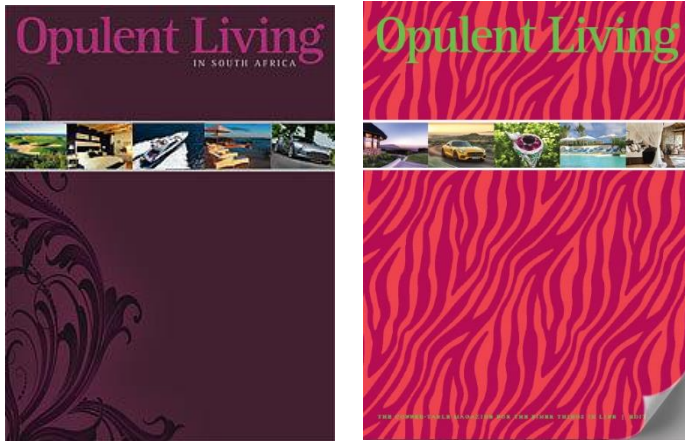
Address: 17 Braeside Road, Greenpoint, Cape Town

Telephone: +27 21 433 1699

Journalist: Barbara Lenhard: +27 79 403 2393

Website: www.opulentliving.co.za

Blurb: Opulent Living is the luxury brand that has established itself with a luxurious, bi-annual coffee-table magazine for high net-worth individuals. The brand has expanded its divisions to include an events division, Opulent Living Experiences, a bespoke travel designer division, Opulent Living Travel, as well as an online division, Opulent Living Online. The magazine was born from a vision to inspire and has grown to become the leading South African coffee-table publication in the luxury sector. It is approximately 176 pages thick, and has features on 5-star hotels, lodges & resorts, in-depth interviews, articles about luxurious lifestyle topics and stunning photo productions.



Wanted: Magazine Supplement for Business Day (Times Media Group)

Address: 4 Bierman Avenue, Rosebank, Johannesburg

Phone: +27 11 280 5130

Website: www.bdlive.co.za/wanted/; <http://businessday.newspaperdirect.com/epaper/viewer.aspx>

Editor: Alexander Parker: ParkerA@bdlive.co.za

Monthly magazine, available with Business Day nationwide, subscribers only.

Blurb: Business Day's award-winning* glossy lifestyle supplement Wanted is essential reading for the educated, the affluent and the influential. Unashamedly glamorous, it holds real appeal for discerning, cultured consumers who like to stay ahead of the game outside of the boardroom.

Wanted is for those who work hard and play even harder. Whether sipping champagne up front in an A380 or jetting down a ski slope at 100km/h, these professionals live on the edge and insist on life's finer things. It has an eclectic mix of serious, insightful and witty journalism about who's hot and going places, exclusive big-personality interviews, and the most coveted cars. We're also hot on the heels of the latest high-street fashion, tomorrow's technology, and gadgets for grown ups. Plus, we'll whisk you away to exotic destinations, while delivering first-class, non-stop lux-factor news worth knowing to use all year 'round.



The Luxury Fashion Industry in South Africa

Business Class: Magazine Supplement for Sunday Times (Times Media Group)

Address: 4 Bierman Avenue, Rosebank, Johannesburg

Phone: +27 11 280 5871

Website: <http://www.timeslive.co.za/businessclass/>

Editor: Charles Boffard: BoffardC@businessclassmag.co.za

Blurb: Business Class is monthly lifestyle magazine aimed at achievers with an interest in business, style and the good life. Business Class is published every month and distributed to subscribers of The Sunday Times Business Times in selected (high income) metropolitan areas. Copies are also distributed in business class lounges at airports and available to passengers as they board SA Airlink flights. It is also available in e-zine format at www.businessclassmag.co.za on the Wednesday after publication.



GQ: Conde Naste Independent Magazines (Pty) Ltd

Address: 220 Loop Street, Cape Town

Phone: +27 21 480 2300

Website: www.gq.co.za

Editor: Craig Tyson: craig@condenast.co.za: +27 21 480 2300

Monthly magazine available via subscription or magazine retailers.

Blurb: GQ South Africa is the first and last word on men's style. With access to some of the world's top photographers and writers, GQ offers professional men content that is entertaining and enlightening. Whether it's fashion, tech, business, Hollywood or investigative journalism, GQ covers it all with intelligence and imagination.

The Luxury Fashion Industry in South Africa



Elle South Africa: Isiko Media (Pty) Ltd

Publisher: Gisèle Wertheim Aymés: Gisele@elle.co.za

Address: Postal PO Box 2316 Randburg 2125

Phone: +27 11 480 2300

Website: www.elle.co.za

Editor Emilie Gambade: Emilie@elle.co.za

Monthly magazine available via subscription or magazine retailers.

Target market: LSM 8-10

Readership: 72 316

Blurb: Elle is a women's magazine offering exclusive access to celebrity photos, seasonal fashion must-haves and beauty product reviews. With 42 editions worldwide, Elle is the world's biggest selling fashion magazine. "Each month we give you the latest in fashion and beauty trends, lifestyle, and report on those issues that affect our everyday lives. Our readers are young enough to think about life as an adventure and old enough to have the means to live it." Elle SA was launched in 1996.



6.3. DIGITAL MEDIA

The millennials are expected to have a huge impact on marketing channels going forward (see '4. Trends'). However, there are currently no multi-brand luxury websites targeting HNWI's in South Africa: these individuals currently gather information via brand websites and in-store.

6.4. EVENTS

The **Southern African Luxury Association** (SALA: www.sa-la.org) is nearly four years old and has already garnered the support of over 70 member brands and nearly 4000 in the network. SALA is the leading body supporting the luxury sector, hosting top-level speakers at our elite forums attended by senior management from the luxury, premium lifestyle and wealth management industries.

"We engage with business leaders as well as UHNW and high-net-worth individuals interested in the broader luxury and premium lifestyle industry. We host both B-to-B events as well as B-to-C events bringing luxury brands in close contact with a valued client base."

The Africa Luxury and Wealth Summit is an annual event, which takes place in early March and seeks to explore the state of wealth in the South African and broader African market, as well as to identify opportunities and obstacles for growth. By bringing together pioneers from the luxury industry it aims to overcome the lack of formal research into this market by creating a platform to share key insights and knowledge. <http://africaluxurysummit.com>

SALA promotes APlus (Africa Plus) Luxury Consulting who assist international luxury brands with their market entry, positioning and client engagement strategies.

South Africa has two main local fashion events, showing South Africa's top designers:

South African Fashion Week began 17 years ago with 17 designers and now shows around 45. Lucilla Booyzen is the founder and director.

Website: www.safashionweek.co.za

African Fashion International **Mercedes Benz Fashion Week** had a name change in 2015: it was previously known as Joburg Fashion Week. Dr Precious Moloi-Motsepe is the Executive Chairperson of AFI.

Websites: www.mbfashionweeksa.co.za; www.afi.za.com

7. Attachments

7.1. SOURCES

Reports

Deloitte: Global Powers of Luxury Goods 2015: Engaging the future luxury consumer

McKinsey: The Opportunity In Online Luxury Fashion. February 2015

Euromonitor: Luxury Goods in South Africa. February 2015

The New World Wealth Report 2015

PwC's Annual Consumer Survey: Total Retail: Retailers and the Age of Disruption 2014

African Development Bank Annual Report 2014

Unilever Institute of Strategic Marketing: 4 Million and Rising Project 2013

Websites

www.businessoffashion.com; www.bizcommunity.com; www.fin24.com; www.citypress.co.za; www.themediainline.co.za; www.sundaytimesnews.co.za; www.gbn.co.za; www.destinyman.com; www.iol.co.za; www.biznews.com; www.businessinsa.com; www.bdlive.co.za; www.mg.co.za; www.adlip.com

7.2. DISCLAIMER

The information in this report was gathered and researched from sources believed to be reliable and are written in good faith. Switzerland Global Enterprises and its network partners cannot be held liable for data which might not be complete, accurate or up-to-date, nor for data which are from internet pages/sources on which Switzerland Global Enterprises or its network partners do not have any influence. The information in this report does not have a legal or judicial character, unless specifically noted.

7.3. CONTACT INFORMATION

For further information or comment regarding this report, please contact: Sylvia Jones, Lodestar Marketing Research
Director: sylviaj@lodestar-research.co.za

ExportHelp

s-ge.com/exporthelp
exporthelp@s-ge.com
T 0844 811 812



Switzerland Global Enterprise
Stampfenbachstrasse 85
CH-8006 Zürich
T +41 44 365 51 51

Switzerland Global Enterprise
Corso Elvezia 16 – CP 5399
CH-6901 Lugano
T +41 91 601 86 86

Switzerland Global Enterprise
Avenue d'Ouchy 47 – CP 315
CH-1001 Lausanne
T +41 21 545 94 94

s-ge.com