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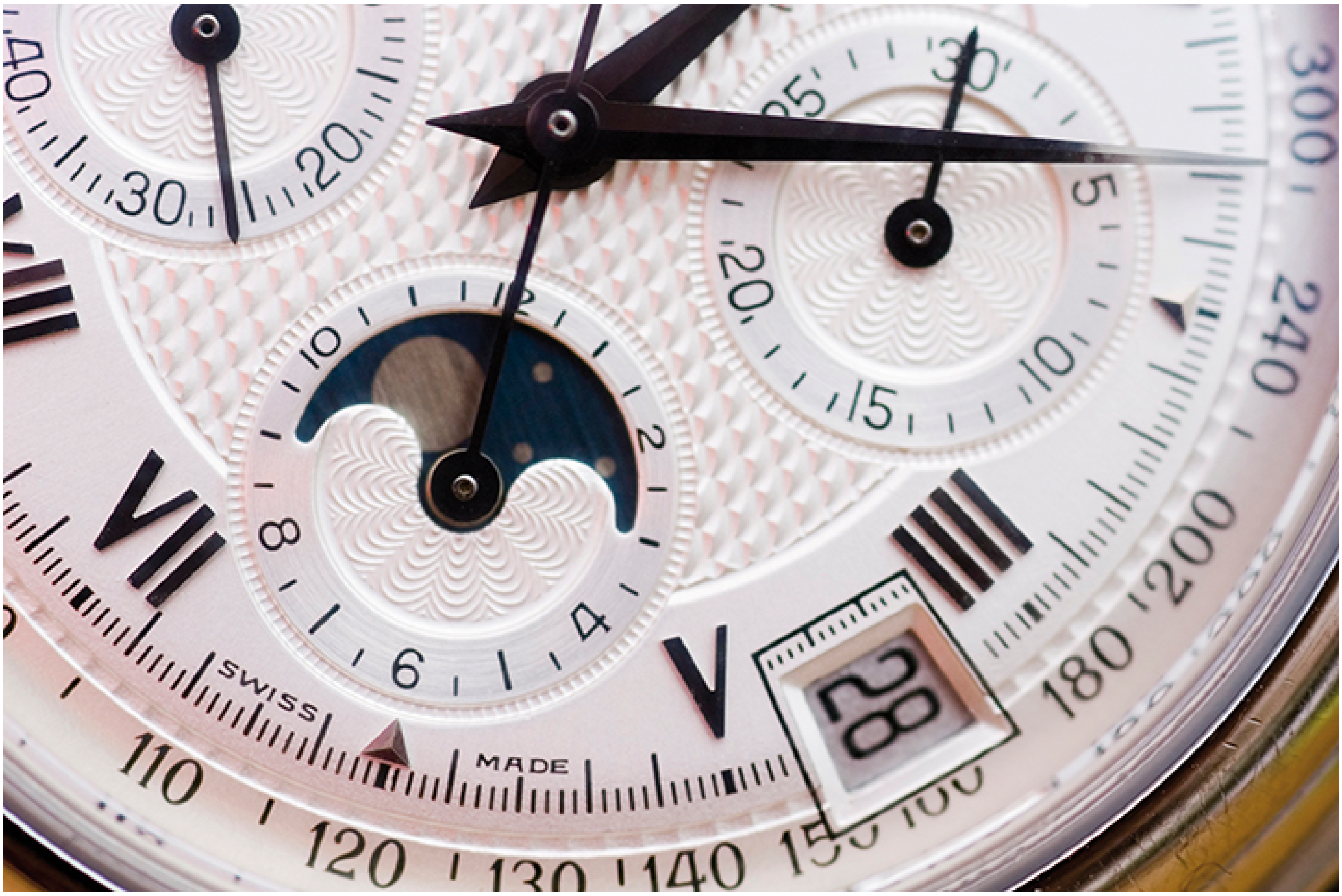
LUXURY & PREMIUM GOODS MARKET IN POLAND



LUXURY & PREMIUM GOODS MARKET IN POLAND

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1. Foreword

The Polish market is hungry for new premium and luxury brands. Its growth pace is much stronger than in Western European countries as the society becomes richer and there is still a major gap to be filled in with new market entrants.
The economic forecasts are positive and the overall business environment is stable.

Polish customers are increasingly interested in quality watches. They mostly pay attention to the history and the image of the brand as well as the presentation effect. Two main factors explain the recent surge in interest for premium watches in Poland. First of all the positive economic background has resulted in increased financial possibilities of Poles. Second is the preference of the local clientele for “traditional” products such as watches as well as their strong appreciation of high quality.

Beside of some Swiss watch companies, also Swiss brands from other sectors have already benefited from the positive business environment in Poland. Lindt has become locally the most renowned premium chocolate brand and Jura Poland has successfully started distributing its coffee machines.

The brands that will decide in the upcoming years on entering the Polish market can expect not to be disappointed with their sales figures. Not only do the affluent and rich Poles increasingly seek for luxury accessories, they also associate goods from Switzerland with the highest prestige and superior quality – values that are the most important for the Polish customer when making purchasing choices.

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2. Executive Summary

According to KPMG's estimates, **by 2018, the value of the luxury goods market in Poland will increase by 17%, reaching a level of nearly PLN 16.5 billion (approx. € 4 billion).** No matter the economic context, the luxury market in Poland has been growing very fast over the last decade and according to the forecasts this trend will continue in the upcoming years.

Over the recent years brands like Louis Vuitton, Maserati or Bentley have entered the Polish market as a result of a growing appetite of the local clientele for this segment of goods. Nonetheless, the phenomenon of "Made in Poland" has grown substantially in parallel to the arrival of international brands. More than a half of affluent Poles claim that they tend to choose Polish brands as long as they are comparable quality-wise to the foreign ones.

Very pragmatic, the Polish consumer of luxury and premium goods seeks quality rather than image when making their mind about the choice of brand. The most important factor seems to be the relation between quality and price. This can explain why the cars or watches segments observe a stronger annual sales growth in Poland than for example the fashion category.

3. Overview of the luxury & premium goods market in Poland

3.1. GENERAL MACROECONOMIC CONTEXT

3.1.1. The state of the Polish economy data

With a population of about 38 million and GNI per capita of 12,590 euros (2015), **Poland is the largest economy in Central and Eastern Europe and sixth strongest market in the European Union.** It is one of the key markets of EU member countries and part of the Schengen area.

Poland is ranked 20th worldwide in terms of GDP and classified as high-income economy by World Bank. The largest component of its economy is the service sector (62.3.%), followed by industry (34.2%) and agriculture (3.5%).

Despite the fact that economic growth slowed in the first half of 2016 to 3.1%, **private consumption grew at a robust pace of 3.2%**, the latter being the result of a strong labour market performance and real incomes. According to World Bank forecasts, the economic growth in Poland should remain stable with estimates of 3.3% for 2017 and 3.4% for 2018. Therefore the consumption levels will continue to grow consequently.

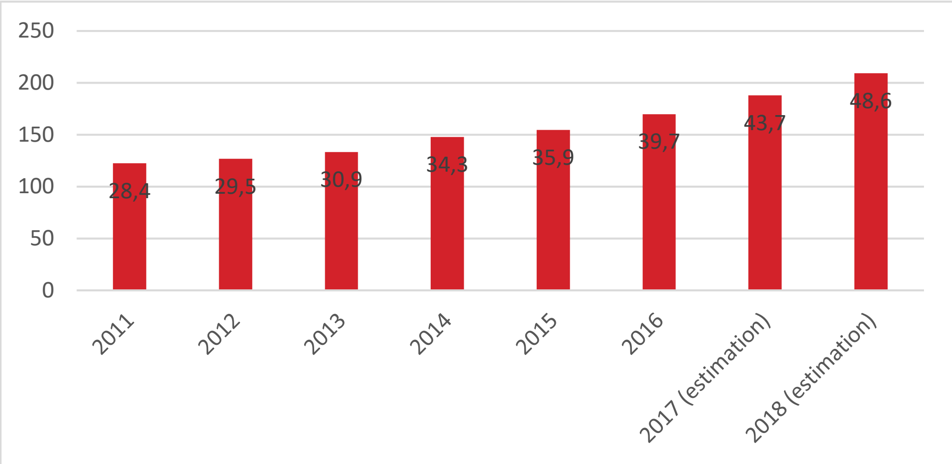
3.1.2. Population: wages and purchasing power

The average wage in Poland has been growing steadily for the last 10 years reaching a gross of over PLN 4.000/month (approx. € 1.000) in 2016. The number of people with a monthly income in excess of PLN 7.100 (approx. € 1.650) living in Poland in 2016 exceeded 1 million for the first time. The number of the richest Poles, called HNWI (*high net worth individuals*, disposing of assets worth at least 1 million dollars) is estimated at 41,1 thousand people.

In 2016 the combined annual income of affluent and rich people amounted to PLN 171 billion (€ 40 billion), which, in **comparison to the previous year represents a 5% increase.**

Nonetheless, in Poland **the average purchasing power still remains below the half of the European average**. According to the recent analysis by GfK, out of the total of 42 European countries, **Poland is at 29th position with an average of 6 366 euro**. For comparison, Switzerland at position n°2 boasts an average of 42 300 euro.

Figure 1: Total annual net income of affluent and rich individuals in Poland (billion EUROS)



Source: KPMG, GUS

The region with the highest purchasing power is **Warsaw** with its affluent suburbs and neighbouring smaller cities like Piaseczno or Konstancin.

Residents of the Polish capital dispose of an annual average of 11 651 euros (PLN 50 142), which makes their purchasing power 83 percent higher than the national average. But it is still 15 percent less than the European average, which is 13 672 euro.

19 of Poland's 380 districts have a purchasing power level that is 20 percent or higher than the national average. This indicates growing affluence in specific regions of the country as well as growing regional income disparities.

3.1.3. The richest cities in Poland

The richest city in Poland is by far the capital, Warsaw.

It is then followed by the Tricity (Gdynia-Gdansk-Sopot, the latter being the richest of the three), Poznan, Wroclaw, Katowice and Krakow.

3.2. TYPOLOGY OF THE POLISH MARKET & LOCAL TRENDS

3.2.1. Consumer behaviour

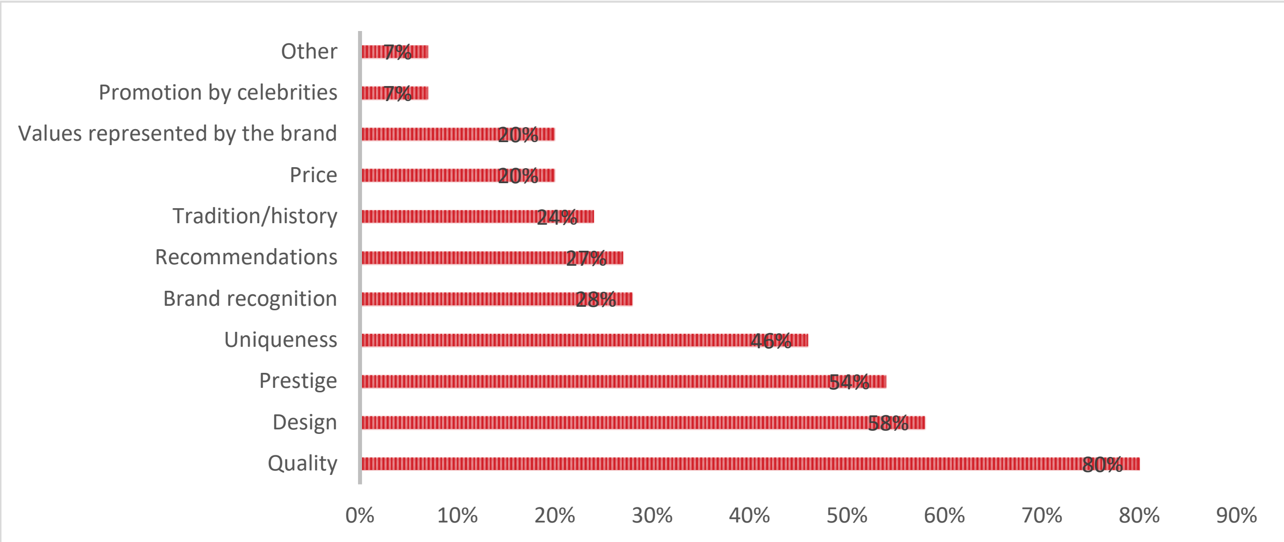
The Polish consumer of luxury goods is **much more pragmatic than its counterparts in other CEE countries**.

According to KPMG, the vast majority of Polish consumers (**89%) consider the luxurious character of product from the perspective of its high quality**. It turns out that Polish consumers, like for example their German neighbours, consider the functional value dimension as the most important characteristic of a luxury product.

For over half of the consumers, luxury product is associated with prestige.

Polish consumers are not only more ''low key'', but they also **value the quality rather than the reputation** of the respective luxury branded product, which on the contrary is the key motivational factor for the other Eastern European nationals.

Figure 2: Key factors taken into consideration by buyers of luxury goods in Poland



Source: KPMG

Another interesting local trend is **the attraction of the label "Made in Poland"**. As KPMG reports, as many as 60% of affluent and rich buyers declare that the label 'Made in Poland' encourages them to make a purchase and every second affluent and rich buyer claims that Polish premium and luxury brands are characterised by a better relationship between quality and price than their imported equivalents. Furthermore, brands from the spirits and clothing segments are evaluated significantly higher.

Since the notion of "Made in" is essential to luxury & premium goods, KPMG Poland studied the attitude of affluent and rich Poles towards brands originating in Poland and other selected European countries. According to the results, German brands distinguish themselves with high levels of innovation and originality (44% of indications) and also craftsmanship and precision (55%). Six in ten of the affluent and rich Poles surveyed declared that Italian and French premium and luxury goods determine global trends and distinguish themselves with artistic references. Moreover, Italian and French brands are associated with a long history and tradition.

The highest level of luxury and exclusivity are commonly associated in Poland with Swiss brands (65% of respondents). Products from Switzerland are also associated with **precision and accuracy (70%).**

3.2.2. Distribution channels

3.2.2.1. E-commerce

Internet is **the second, after the shopping centres, most important Polish place of purchase of premium and luxury brands**.

Recent years have seen a dynamic growth of e-commerce, which is a growth ranged from 15-30% per annum. It is estimated that the value of the overall e-commerce market this year could reach PLN 35.8 billion (approx. € 8.32 billion), while in 2020 as many as PLN 63 billion (approx. € 14.65 billion).

Simultaneously, **49% of affluent and rich buyers in Poland use the Internet to compare the prices of premium and luxury goods. One in five affluent Poles has purchased luxury brands via Internet at least once**. With respect to clothing, footwear and leather goods as well as jewellery and watches, around one in four affluent or rich Poles admits that they buy Polish brands mainly over the Internet. In the case of perfume and cosmetics, 43% of respondents said the same.

3.2.2.2. Specialised one-brand boutiques

The development of the luxury goods market affects the boom of the High Street real estate segment in Poland. There is an increased interest from world-renowned brands, hitherto absent in Poland, from fashion to premium confectionery brands, who **desire to open flagship stores in Warsaw shopping streets**, where they will be able to build their recognition appropriately. The growth of this sector is additionally **reinforced by the growing popularity of home-grown brands** offering prestige products, looking for the highest quality locations, as opposed to the traditional shopping centre.

Nonetheless, as of today less than a third (31%) of global luxury brands available in Poland are sold in one-brand boutiques, which indicates **a low stage of maturity of the luxury goods market in the country**.

3.2.2.3. Multi-brand department stores and galleries

The development of foreign luxury brands in Poland that took off after the collapse of communism in early 1990s, started with multi-brand stores that offered selected products from various brands under the same roof. The best known one, still running till today, was Moliera 2 in Warsaw. Currently the biggest and most prestigious department store, with over 200 high-end luxury brands on offer, is Vitkac in Warsaw (www.vitkac.com/en).

3.2.2.4. Shopping Centres

Shopping centres represent **around 70% of all sales of luxury and premium brands in Poland**. They remain the favourite place for shopping, luxury & premium brands included, for majority of Poles. The reason lies probably in the local pragmatism – it allows the consumer to see and test the good on their own, consult a sales assistant and compare to other products available under the same roof. Nonetheless, the most prestigious luxury brands are available in Poland only in selected, more high-end, shopping malls like for example Galeria Mokotow (http://galeriamokotow.pl/pl-PL/homepage#) in Warsaw or Galeria Krakowska (www.galeriakrakowska.pl/en) in Krakow.

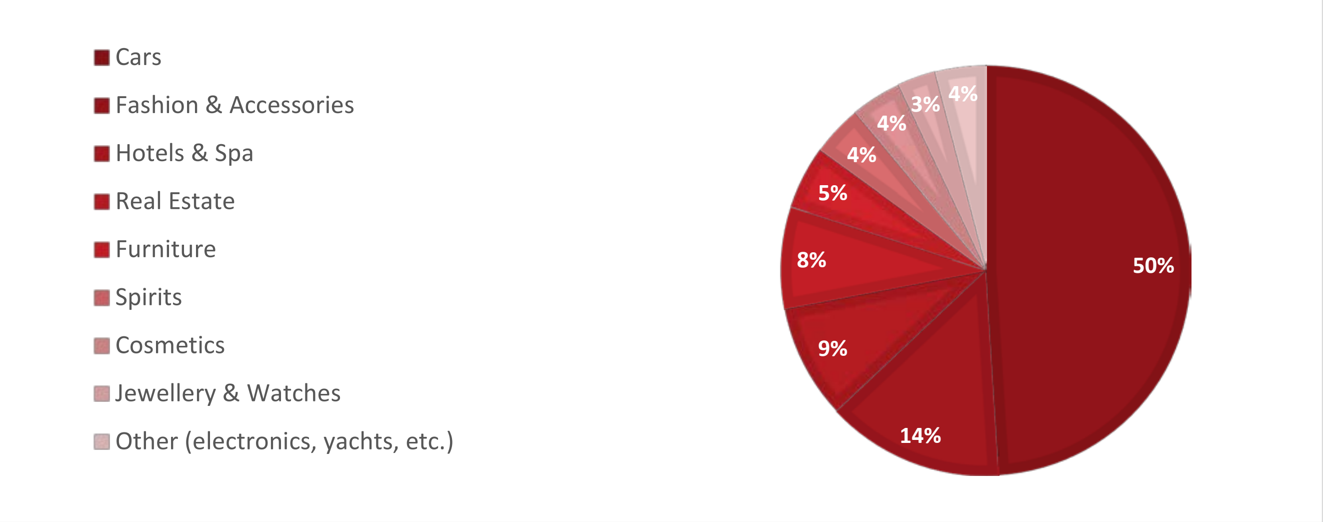
4. Market segmentation

4.1. OVERVIEW OF THE MAIN SEGMENTS

In 2016, the value of the luxury goods market in Poland was estimated at PLN 16.4 billion (approx. € 3.8 billion), which represents **an increase of 15% in relation to the previous year**.

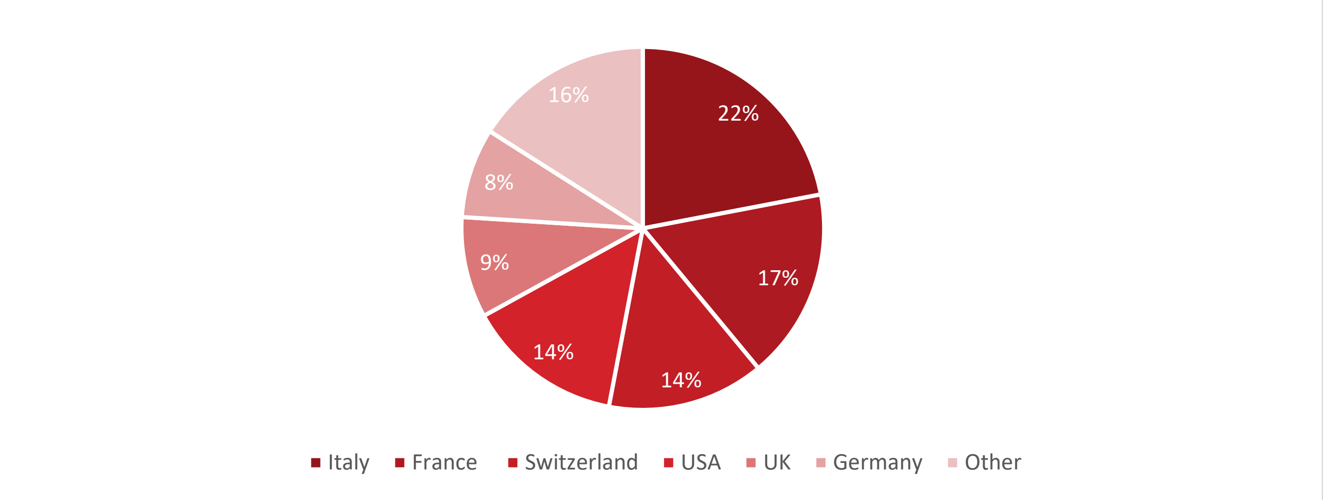
According to the latest figures published for 2016, **the largest luxury category is luxury and premium cars.** The value of this segment reaches close to PLN 8.5 billion (approx. € 2 billion), which represents **a half of the entire value of the luxury goods market in Poland.** The 2nd biggest segment is fashion & accessories followed by hotels & spa and real estate.

Figure 3: The split of the Polish luxury & premium market:



Source: KPMG

Figure 4: Origin of luxury brands available in Poland



Source: KPMG

As for the countries of origin of available in Poland luxury brands, **Italy and France lead the way with 22% and 17%** of the market share respectively.

4.2. FOCUS ON INDIVIDUAL SEGMENTS OF THE MARKET

4.2.1. Watches & jewellery

4.2.1.1. Market size and trends

In the coming years one of the highest increases can be expected in the segment of luxury jewellery and watches, steadily evolving from PLN 368 million (approx. € 85.5 million) in 2014 to an expected PLN 466 million (approx. € 108 million) in 2017. In 2016 it reached the level of PLN 322 million (€ 144.6 million) for jewellery and PLN 111 million (€25.8 million) for watches.

The market of luxury watches in Poland is much smaller than the market of luxury jewellery, **but according to estimates, between 2016-2020 it will grow faster: at an average annual rate of 15%.**

In 2016, the market of luxury jewellery and watches constituted 16.2% of the whole Polish market of timepieces and jewellery. This value is close to the global average (18.6%), yet it is still much lower than the respective value for Western Europe (39.8%).

Despite the global fall of sales of luxury watches, in Poland the trend remains positive. **2016 the imports of mechanical Swiss watches went up by 8.4% compared to 2015.** Polish customers are increasingly interested in quality watches. They mostly pay attention to the history and the image of the brand as well as the presentation effect. There is an increasing awareness that a watch is not only a device that tells the time but also an element of an outfit and personal image.

4.2.1.2. Main brands and key players

The key distributors of luxury and premium watches as well as of jewellery are Apart (that acquired in 2013 the Swiss watch brand Albert Riele), W. Kruk, Jubitom and Noble Place. Each of them offers 20 to 30 premium watch brands.

Swatch Group is the dominant player in the premium watches category, offering in Poland 8 of its brands, the most renown ones being Tissot, Longines, Omega and Swatch. Rolex is relatively widely available as well.
There is also a small, yet growing, number of Polish premium watches such as Apolonia and Polpora.

In the jewellery sub-segment the Polish market is dominated by just a few domestic players, especially W. Kruk, Apart and YES, who practically divided the market among themselves. The position of domestic brands is well grounded and enjoys solid growth. Hence, despite the growing wealth of the Polish society, 30% of leading global jewellery brands, such as Tiffany & Co. or Cartier, are still absent from this segment of the Polish market.

4.2.2. Chocolates & other delicatessen premium products

4.2.2.1. Market size and trends

Despite the lack of availability of accurate data on premium food market in Poland, sales figures show that it **grows more rapidly than the overall food market.** It is estimated that the premium food market is growing on average by as much as **10-15 % per year**, while the overall food market in Poland is growing at a rate of approx. 2-3 % annually.
Due to the growing expectations of customers, the range of premium food becomes continuously wider, and not only in holiday periods. Certain premium products observe recently and extraordinary sales boom – according to Euromonitor International, the sales figures of premium whisky brands have gone up by 18% between July 2015 and June 2016. Similarly, the sales figures

of premium coffee (especially for coffee capsules and cartridges as well as for coffee machines) went up by 15% between 2015 and 2016

It is worth noting that another strong trend in this field in Poland is the growing range of "premium category products" available at discount chains like Lidl or Jeronimo Martins Group's Biedronka store chain. Lately the Polish consumers seeking superior quality products head there more often than to the established delicatessen shops. The latter on the other hand find it more and more difficult to compete with discount chains that not only develop their own premium brands, but also start distributing more and more renown food brands. On the other hand though, the niche market for the most sophisticated premium products as well as for best quality world food is gaining its place in Poland. The recent reopening in Warsaw of the legendary Hala Koszyki, a food market hall, has rejoiced the growing community of Polish foodies. There are 18 restaurants and 11 premium groceries all gathered under the same roof. Customers can find there foreign premium brands like Kusmi Tea, a wide selection of wine and other spirits from around the world, restaurants serving 50 different types of fish or organic food. It is worth noting that Poland is the fastest growing market in Europe for organic as well as gluten-free food. The popularity of Warsaw's trendy organic food market, Bio Bazar, has resulted in creation of its two new addresses, in Gdansk and in Katowice.

As for **the chocolate market**, almost every third Pole is eager to try a new kind of chocolate or of a new flavour. That's more than in the case the residents of the largest countries in Western Europe.
Sales of premium confectionery products, currently constituting about 5 % of total sales of sweets in Poland, is growing faster and faster. In addition, more and more mid-range manufacturers aspire to this segment, creating a new image (e.g. Cadbury Wedel).

Premium chocolate products in Poland are gaining popularity, and their manufacturers recognize that quality and innovation become increasingly important for Polish consumers. Nevertheless, indications on chocolate packaging that the product belongs to the premium category are still relatively rare. This means that there is a potential for development of this type of positioning on the Polish market.

4.2.2.2. Main brands and key players

Among the premium chocolate segment in Poland the strongest position is taken by products from **Lindt**, which in addition to chocolate offers its customers a wide selection of pralines. The second biggest player in Poland is **Ferrero** with its globally known brands such as Raffaello, Mon Cheri or Ferrero Rocher. Swiss premium brands like **Favarger** already have their local distributors and others, for instance Belgian Godiva, are available at airports and selected shops in the biggest cities of the country.

The overall chocolate market in Poland is strongly dominated by three companies: Cadbury, Kraft Foods and Nestlé Poland, who control about 80% of the market.

4.2.3. Cosmetics

4.2.3.1. Market size and trends

After the Polish accession to the EU, the value of cosmetics market in Poland grew at a rate of several percent year on year, reaching in 2016 a value of 575 million PLN (approx.. 133.7 million euros). Now it experiences a significant slowdown in growth, however, it is still **the fastest growing cosmetics market in Europe.** Experts believe that the Polish cosmetics sector has reached stabilization by **ranking 6th place in terms of sales value in Europe** and in many sub-segments the strength of this market is created by the local brands whose share reaches up to 50%.

Premium cosmetics is one of the segments where "Made in Poland" represents a substantial part of the local market. The analysis by KPMG in Poland shows that, **according to consumers, Polish cosmetics brands distinguish themselves by innovation.** Polish producers are the precursors of many unique solutions in the area of cosmetics and cosmetology. Dr Irena Eris (*www.drirenaeris.com*) is the only Polish company to be a member of the exclusive Paris-based club Comité

Colbert. Another company equally important for the Polish premium cosmetics industry is Dermika (*www.dermika.pl*), which specializes in skin care. Companies that almost exclusively use natural and organic ingredients are gaining ever greater recognition in the Polish premium cosmetics market and here as well Polish brands are among the leaders: Organique (*www.organique.pl*), Phenome (*www*.phenome.eu), Fridge (www.fridge.pl) for example.

4.2.3.2. Main brands and key players

The majority of the most famous international premium cosmetic brands are already present in Poland. Clinique, Shiseido, Dior, Lancôme, Estee Lauder are all available to the Polish consumer. As elsewhere abroad, the dominant player, also in the premium segment, is L'Oréal Group.

Among the very appreciated locally Polish premium cosmetic brands the unquestionable leaders are Irena Eris and Dermika.

Polish consumers usually head to multi-brand stores to find their premium cosmetics and perfumes. The two main ones are Sephora and Douglas.

5. Development perspectives and trends

5.1. OPPORTUNITIES AND CHALLENGES

A characteristic feature of Polish luxury goods market is its low sensitivity to general economic trends. Even in the period of a slight slowdown of the economic growth surge in Poland in 2008-2012, demand for luxury goods have grown dynamically. The wealthy layer of the Polish society keeps on growing and thus the opportunities in the luxury business will continue to grow with strong dynamics.

Nonetheless, given that the Polish consumer is one of the most pragmatic in Europe and the current trend is to promote local Polish premium brands no matter in which market segment, the brands that will decide to conquer the Polish market need to underline the high quality level of their products.

STRENGTHS The Polish market is hungry for new premium & luxury brands. Its growth pace is much stronger than in Western European countries as the society becomes richer and there is still a major gap to be filled in with new market entrants. The economic forecasts are positive and the overall business environment is stable.	**WEAKNESSES** Even though the Polish society is getting richer, the average purchasing power remains relatively low. Therefore the network of the local clientele for luxury & premium goods is fairly limited. The perception of quality and luxury amongst polish consumers is still not always mature as for many years, price was traditionally the main purchasing factor.
OPPORTUNITIES In many segments like for example jewellery, 30% of global luxury brands are still absent on the Polish market. A similar situation is in watches and fashion. Wealthy Poles are therefore forced to seek some of their favourite brands abroad. It is a good moment to introduce new luxury brands in Poland. Purchasing power is increasing and awareness on quality and luxury too.	**THREATS** Distribution channels are often not structured yet and development of a new brand might face limited success due to lack of real distribution and logistics networks.

5.2. MAIN GROWTH MARKET SEGMENTS

Over the next three years between 2017 and 2020, **the highest percentage growth can be expected in the jewellery & watches segment (47%), fountain pens & other premium stationery articles (38%), and spirits (33%).** Highly dynamic activity will also be seen in luxurious cars (29%) and fashion & accessories (28%).

5.3. MARKET EVOLUTION FORECASTS

According to KPMG and Euromonitor, the luxury goods market in Poland has good prospects for growth. Yet, due to its ever increasing saturation, the rate of growth will be slower than it has been so far.

By 2018, the value of the market may reach PLN 17 billion (approx. €4 billion)**. This would represent a growth of 17% compared to 2016.**

6. Conclusions for Swiss companies

As the Polish consumer value quality over any other aspects of luxury, it is a clear opportunity for Swiss companies to gain enhanced visibility in this market. There is still a big gap to fill with new brands entering the Polish luxury market as the demand does not cease to grow.

Several Swiss brands have already benefited from the positive business environment in Poland. Lindt has become locally the most renown premium chocolate brand, Jura Poland has successfully started distributing its coffee machines, Swatch Group keeps on opening new selling points including the most prestigious one-brand boutiques and Nestlé Group is one of the leading players in the Polish food sector, having acquired several famous locally brands i.e. Winiary.

Watches, despite the global fall of sales figures, are one of the fastest growing segments in Poland and as Switzerland is perceived by the Poles as a synonym of the highest level of exclusivity and of the utmost precision and accuracy, more Swiss brands should be interested in this market characterized by the pragmatic attitude and the strong attachment to quality of its consumers.

7. Attachments

7.1. LIST OF FAIRS & EVENTS

Polish Luxury Market Summit :

- www.bookof**luxury**.com

Esse Media - the publisher of the first Polish series of guides to the most luxurious places and brands called 'Book Of Luxury':

- http://www.essemedia.pl/indexEN.html

Klub Miłośników Zegarów i Zegarków:

- http://kmziz.pl/

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