

Korea Duty Free Market: Analysis By Product Category (Cosmetics, Perfumes, Leather Goods, Fashion Accessories, Alcohol And Others), By Nationality (Chinese Buyers, Domestic Buyers And Foreigner Buyers), By Sales Channel (Downtown And Others), Size and Trends with Impact of COVID-19 and Forecast up to 2029

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Abstracts

Duty-free refers to the ability to purchase items without paying customs duties or other taxes like import, sales, value-added, or consumption taxes. Duty-free shops, commonly found in airports and on ships, offer goods that are free from government taxes, making them potentially more affordable for consumers. One of the primary objectives driving the growth of duty-free sales is the cost savings for consumers. The duty-free market in Korea is a significant sector within the country's retail industry, catering to both domestic consumers and international travelers. The Korean duty-free market showcases unique competitiveness by offering a wide range of domestic and global brands, including 'K-beauty' products and Korea's distinct culture. Korea duty free market value in 2023 stood at US\$ 18.43 billion, and is likely to reach US\$ 26.13 billion by 2029.

One of the prominent factors driving the rise in Korea duty free market demand include increase in international travel and tourism. The steady growth of the duty-free retailing market in recent years has been primarily driven by an increase in international travel and tourism, attracting visitors from countries like China, Japan, and Southeast Asia to Korea for its vibrant culture, tourist attractions, and duty-free shopping opportunities. Additionally, competitive pricing strategies and tax-free benefits have also made duty-free shopping an attractive proposition for travelers, further boosting sales in the Korea duty-free market. Furthermore, the Korea duty free market is predicted to grow due to

continued emphasis on digital transformation, personalization and data analytics, sustainability, rise of social media and growing awareness about K-beauty and food products etc. The Korea duty free market value is projected to grow at a CAGR of 5.21%, during the forecast period of 2024-2029.

Market Segmentation Analysis:

By Product Category: According to the report, the Korea duty free market is bifurcated into six segments based on the product category: cosmetics, perfumes, leather goods, fashion accessories, alcohol and others etc. Cosmetics acquired majority of share in the market in 2023 due to rising popularity of K-beauty, and diverse product offerings. Moreover, tourists, particularly from China, Japan, and Southeast Asia, are drawn to Korea for its vibrant culture and beauty trends. The appeal of Korean cosmetics, known for their high quality and effectiveness, drives tourists to purchase these products in duty-free shops, boosting the demand for cosmetics in the market. While, alcohol segment is the fastest growing segment because of Korea's deep-rooted cultural appreciation for alcohol, including traditional liquors like Soju and a growing interest in Western spirits. Additionally, the allure of premium and luxury alcohol brands attracts consumers seeking exclusivity and quality. Government initiatives, such as increased duty-free allowances and streamlined visa processes, further bolster duty-free shopping, including alcohol purchases.

By Nationality: According to the report, the Korea duty free market is bifurcated into three nationalities: Chinese buyers, domestic buyers and foreigner buyers. Chinese buyers acquired majority of share in the market in 2023, as China is geographically close to Korea and has a large population of affluent travelers who frequently visit duty-free shops. Secondly, Korean beauty and fashion products are highly coveted among Chinese consumers due to their perceived quality and trendiness. This demand drives Chinese tourists to purchase these goods in bulk at duty-free stores, taking advantage of tax-free prices. Furthermore, favorable government policies, such as visa relaxations and increased duty-free allowances for Chinese tourists, encourage travel and shopping in Korea.

By Sales Channels: According to the report, the Korea duty free market is bifurcated into two sales channels: downtown and others. Downtown segment acquired majority of share in the market in 2023 due to their prime locations in high-traffic urban areas like Myeongdong, offering convenience to both local and international shoppers. They boast a diverse range of products, including luxury brands and cosmetics, appealing to a broad customer base. Leveraging effective marketing strategies and the allure of tax-

free prices, downtown stores attract and retain customers, solidifying their dominance in the Korea duty-free market.

By Region: The report provides insight into the Korea duty free market based on the geographical operations, namely Seoul, Incheon, Jeju, Busan and others. Seoul duty free market enjoyed the highest market share in 2023 as Seoul is the capital city and the largest metropolitan area in Korea, that attracts a significant portion of both domestic and international tourists. The city's status as a cultural and economic hub enhances its appeal to tourists, further driving the demand for duty-free goods.

Korea Duty Free Market Dynamics:

Growth Drivers: The growing Daigou market serves as a significant growth driver for the Korea duty-free market, primarily due to its impact on sales volume and revenue generation. Daigou, particularly large-sized ones, play a crucial role in driving sales by purchasing goods in bulk from duty-free shops and reselling them to Chinese consumers. Sales per customer are typically highest for large-sized Daigou, indicating their significant contribution to duty-free revenue. Duty-free operators incentivize Daigou purchases by offering commissions, including discounts and reward points, to travel agencies and customers who generate high sales volumes. Duty-free stores increasingly rely on Daigou to manage their inventory and boost sales, highlighting the pivotal role of the Daigou market in driving market growth. Other significant growth drivers driving the market growth include rising disposable income, broader product selection, capturing Chinese demand, government support, etc.

Challenges: Regulatory changes pose significant challenges to the Korea duty-free market, impacting various aspects of operations and profitability. Changes in government regulations related to duty-free shopping, import/export policies, and tax regimes can disrupt the supply chain, affecting product availability, procurement costs, and ultimately, consumer satisfaction. Additionally, changes in licensing regulations or permit conditions may restrict retailers' ability to operate in certain locations or sell specific product categories, posing further challenges to business operations and revenue streams. Other challenges may include currency fluctuations, etc.

Trends: Metaverse integration is rapidly emerging as a transformative trend in the Korea duty-free market. Duty-free retailers are harnessing virtual reality (VR) and augmented reality (AR) technologies to revolutionize the shopping experience. By creating immersive virtual stores and environments, retailers offer customers the opportunity to explore product offerings, interact with virtual representations of products, and make

purchases—all without leaving the comfort of their homes. More trends are believed to augment the growth of Korea duty free market during the forecasted period include, targeting emerging market segments, focus on sustainability, partnerships and collaborations, digital transformation, etc.

Impact Analysis of COVID-19 and Way Forward:

The COVID-19 pandemic has had negative impact on the Korea duty free market, leading to temporary closures, reduced foot traffic, and shifts in demand. Duty free stores experienced a sharp decline in sales in 2020 due to a fall in tourists. Luxury goods were the most popular categories, but the pandemic led to increased duty-free inventories, causing losses for many duty-free stores.

Duty-free sales in Korea have seen a rise in overall travel, indicating potential growth post-COVID. The industry has seen a significant increase in commission payments from travel agencies and guides, with travel agency commissions increasing from 30% in 2019 to almost 40% after the pandemic. China's duty-free sector is projected to experience significant growth directly impacting the Korea duty-free market. International travelers are increasingly open to e-commerce and focusing on zero-waste production and sustainable consumption practices, which could enhance the Korea duty-free market post-COVID.

Competitive Landscape and Recent Developments:

Korea duty free market is a competitive and concentrated industry with the top five players controlling almost 90% of the overall market. This diverse landscape leads to a dynamic market environment that addresses the growing demand for duty free products. Key players of Korea duty free market are:

Shinsegae
Hotel Shilla
Hyundai Department Store
Lotte Corporation (Lotte Duty Free)
DongHwa Duty Free
City Duty Free
Kyung bok kung Duty Free
FANFAN Duty Free
Shilla IPark Duty Free Store (HDC Shilla)

The key players are constantly investing in strategic initiatives, such as adoption of new technologies, introducing their services to emerging markets and more, to maintain a competitive edge in this market. For instance, in March 2023, Hyundai Department store duty-free announced that it had signed a memorandum of understanding (MOU) with OlimPlanet for the metaverse platform business and in the same month Lotte Duty Free signed an agreement with Seoul Metropolitan Government to boost Korean beauty and fashion brands. Also, in December 2023, Shinsegae Duty Free formed strategic alliance with Cathay Pacific to drive passenger spend.

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