

Ruder Finn Public Relations and IPSOS Group Release the 2015 China Luxury Forecast, Revealing New Insight into the Luxury Sector

Positive consumer dynamics will continue to drive Chinese shoppers as the world's number one luxury force

December 11th, 2014, Beijing, China – Ruder Finn, one of the world's largest independent public relations firms, and IPSOS Group, the third largest market research company in the world, have released the sixth edition of the *2015 China Luxury Forecast*, providing analysis of key trends in the luxury sector in mainland China and Hong Kong.

The report reveals that overall market dynamics are unchanged and consumer confidence remains high, attributing the slowdown observed by many luxury brands in the China market to a shift in the spending patterns of Chinese luxury shoppers. Travel is now the number one category of luxury for Chinese consumers, and spending by Chinese travelers is expected to drive more growth in luxury markets outside China. The rise of e-commerce represents both the next major challenge and opportunity for luxury brands.

Surveying 1,933 consumers across mainland China and Hong Kong, the *2015 China Luxury Forecast* covers Greater China in depth, with 1,616 consumers from over 14 major mainland Chinese cities and 317 consumers from the Hong Kong Special Administrative Region. 30% of mainland consumers were from first tier cities, 38% from second tier cities, and 32% from third tier cities. Average annual household income was RMB 774,876 in the mainland, and HKD 983,300 in Hong Kong.

Unchanged Market Dynamics, Noticeable Shift in Consumption Patterns

The *2015 Forecast* finds that consumer confidence and intent to spend will maintain ongoing momentum, with further growth expected in the coming years, despite the slowdown observed by many luxury brands in the China market: A large majority of mainland consumers said they would spend more, or at least the same, on luxury in the next year. 18-38% of Hong Kong consumers planned to spend more on luxury in the next year, and 52-62% would spend the same.

Simon Tye, Executive Director of Ipsos said, "In mainland China, we are seeing that demand for luxury remains strong – particularly in first tier cities - and we predict that the market momentum will remain relatively unchanged. Hong Kong luxury consumers continue to pursue innovative products and design. They seek new perspective from brands and are ready to embrace new offers that incorporate strong creative and empathetic services. There is continued strong demand for unique and customized products that retain the heritage of the brand."

Consumption patterns of Chinese luxury shoppers now indicate that these consumers are primarily looking to spend on luxury goods and services for themselves and their families. The number one category of luxury on which consumers from both the

mainland (50%) and Hong Kong (38%) plan to spend more on travel.

With the growth of outbound travel, the report predicts that Chinese consumers will continue to drive growth in overseas luxury markets. Duty free shopping is becoming a leading distribution channel for luxury goods, with 53% of mainland consumers shopping at duty free stores in the past year. The vast majority of consumers are dissatisfied with luxury retail services in mainland China. Only 19% of Mainland China consumers and 10% Hong Kong consumers said they were very “satisfied” with luxury retail services at home. Consequently, when shopping overseas, these consumers expect high service standards and understanding of their needs, as well as a broader product selection.

“Despite the impact of the anti-corruption campaign on the luxury industry in China, consumer maturity has grown since last year, with shoppers looking to spend more on rewarding experiences than products,” said Anne Geronimi, Vice President, Lifestyle & Luxury Practice, Ruder Finn Shanghai. “The challenge today for luxury brands is maintaining the brand loyalty established in China, as consumers travel and purchase high-end goods overseas.”

Challenges & Opportunities for Luxury Brands Online

Consumers are more willing to purchase luxury goods online. Shoppers in both mainland China (57%) and Hong Kong (54%) reported greater confidence in purchasing luxury online over the past year, but both groups still raised concerns over service, trust, and overall professionalism of the website when asked about the credibility of online stores. The majority of Chinese shoppers (81% in Hong Kong and 78% in mainland China) said they still preferred to visit physical stores before deciding to purchase to seek further product information and check product attributes.

Social media is now a well-established channel of communication for consumers in Greater China, particularly in the mainland, where over 90% of Tier 1 consumers affirmed the relevance of social media to everyday life. Across Greater China, news about products, promotions and discounts generated the most discussion on social media.

“E-commerce is both the next big opportunity and challenge for luxury brands. To fully tap the potential of the luxury online market, brands need to consider two options: either creating their own platforms or riding on existing ones. The solution lies in striking the right balance between online product offering, customer experience, and customer service, both online and offline. Focusing on optimizing the online customer experience is more crucial to success than ever before,” said Gao Ming, Senior Vice-President and General Manager of Ruder Finn Shanghai.