

Who are China's Affluent Consumers?

By Javier Calvar



Chinese consumers account for about one-third of the world's total spending on luxury, even though only 8% of such consumption takes place on China's mainland¹. It is estimated that, by 2025, some 7.5 million affluent Chinese households will be spending Rmb1 trillion (US\$147 billion) on luxury goods, this representing a year-on-year growth of 25% since 2016². It is little wonder that China is a top strategic priority for lifestyle and luxury brands.

An evolving consumer landscape

A number of macro forces including attitudinal shifts, younger consumers, women's participation in the workplace, and technology, have been at play in China over the past five years or so that have changed and continue to change China's consumer landscape as far as lifestyle and luxury offerings are concerned.



The growing tension between projection and protection among Chinese consumers. The middle class (loosely defined as those who can afford non-essential items) is torn between a need to project status and the equally important need to adhere to existing social structures and norms³, for example, humility and respect for others within Confucian hierarchies. In the recent past we have seen a shift from 'Group Think' to 'I Think'. We categorise these two different ways of seeing the world into two broad consumer groups: 'Status-Seekers' and 'Appreciators'. Status-Seekers are motivated by ownership of highly visible and recognizable luxury or premium brands. Appreciators, on the other hand, place more value on experiences and knowledge about brands, which is social currency for these consumers, who like sharing it with others. Ultimately, both consumer types share a common goal: advancement, and brands must help them strike a balance between standing out and fitting in.



The emergence of Chinese women as independent consumers of lifestyle and luxury brands. Chairman Mao's affirmation that Chinese women hold half of the sky could not be truer: about 40% of Maserati and Porsche vehicles sold in China over the past couple of years were purchased by affluent women⁴. Consumption of luxury goods by Chinese women is set to grow as they consolidate their financial independence and pursue their ambitions. At around 70%, China's female participation in the workforce is amongst the highest in the world. And of the 88 female billionaires included in the latest Hurun Global Rich List, 56 (or nearly two thirds) are Chinese⁵.



Millennials (or 'Post-90s', as they are referred to in China) are driving change in China's consumer landscape. According to a survey by the Luxury Conversation, 95% of Chinese millennials had not bought print media in the last year, 72% had a favourite key opinion leader (KOL), and 100% had used WeChat that day and bought something using their phone in the previous week⁶. This younger consumer constituency are savvy and demanding, expecting more from brands than any other consumer group. For these consumers, there is little differentiation among fashion and luxury brands.



Technology: 'No line' is the new normal in China. Chat platforms, used heavily by key opinion leaders (KOLs), exponential growth in mobile payments as well as disruptive e-commerce and omnichannel models offering the best of the physical and digital worlds have blurred the online/offline divide. The reach and influence of WeChat and Weibo have been well documented⁶ but other innovations have also had (or will have) a significant impact on how consumers interact with brands.

EXAMPLES

- Launched in 2016, **1919.cn** is an e-commerce platform for alcoholic beverages which commits to fulfilling orders within 20 minutes anywhere in the country. It would be hard to find an e-tailer elsewhere in the world that can match this, considering China's geographical size.
- **Alibaba's 'Three-Kilometer Ideal Living Community'** concept is another revolutionary business model. The joint initiative between the e-commerce juggernaut and its partners (including Hema Supermarkets, Tmall, bike-sharing business Ofo and navigation service-provider Autonavi) seeks to create communities that are empowered by convenient online-offline services.

Customer-centricity in response to change

Yet, in the midst of all these developments, Chinese consumers feel that change may be too much, too fast and feel a need to regain ownership over their lives. A recent survey conducted by Ipsos shows that while 86% of Chinese consumers (versus 76% globally) agree that technology makes life better, 81% (versus 66% globally) wish their life was simpler.

Importantly, 56% of the Chinese consumers surveyed (versus 32% globally) stated that they would rather have a company or expert choose products and services for them rather than making decisions themselves.⁷

Some brands are proactively addressing these calls for simplicity and convenience. For example, Alibaba's Home Times, a furniture and home décor retailer, blends technology and traditional retail to put the customer at the centre. The brand analyzes the behavior and preferences of users within a five-mile radius of the shop.

Products are then handpicked from these users' top preferred categories and placed on the store shelves. Not only does this approach give customers a reason to return to check out what is new, but it also cuts down the time required to source products. The frequent, fast updates of product ranges is a win-win for the consumer and for the business

Another example is 7FRESH, JD's response to Alibaba's Hema Supermarkets. JD uses data from over 266 million e-commerce consumers to create a 7FRESH shopping experience that places the consumer firmly centre-stage, blending educational and experiential elements. This can be seen in action by retailers such as 'Starbucks Roastery' (the super-premium outlets of the coffee chain) or Hema Supermarkets (founded and powered by Alibaba) who have a mobile app that allows consumers to learn further information about items on sale as they browse.

How long before fashion and luxury brands take a leaf of these retailers' book to increase visitation with a more consumer-centric offering?



Rising consumer expectations

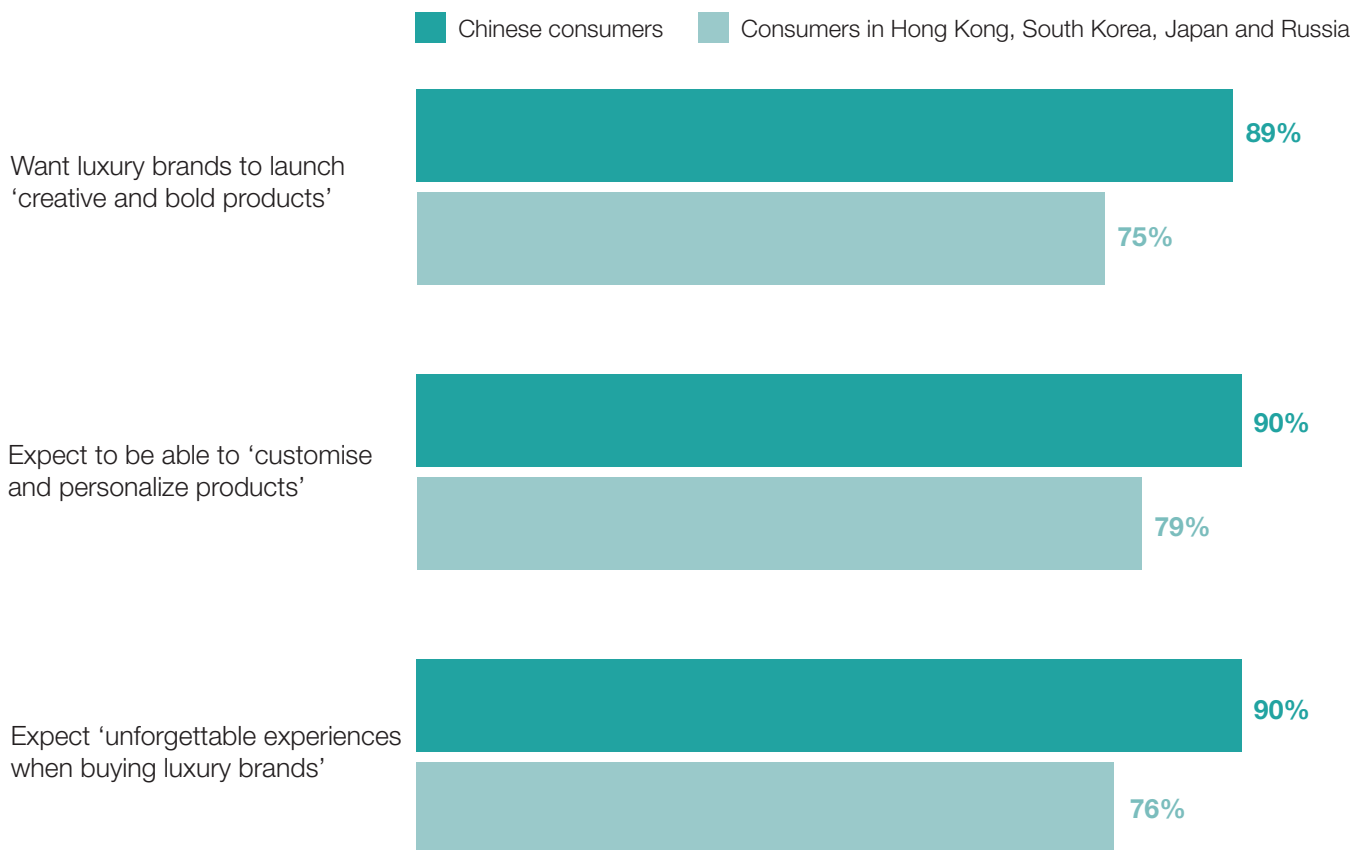
The answer should be 'pretty soon' because these developments are contributing to rising consumer expectations, particularly towards lifestyle and luxury brands. Chinese consumers of luxury are leading the way with what they expect from brands. The Ipsos World Luxury Tracking surveys identify a demand for creative and bold products, the ability to customise and personalise, and memorable experiences as part of the consumer's shopping experience, and this is stronger in China than elsewhere in the region (Japan, Hong Kong, South Korea and Russia) and can be seen in the charts below.

These consumer preferences – along with the high taxes on luxury items on China's mainland – contribute to the general trend of Chinese consumers preferring to buy luxury overseas.

This consumer demand in China can be linked to patterns of usage and engagement with brands via technology. 70% of Chinese consumers (versus 43% across all five markets listed above) said that they have downloaded an app offered by a luxury brand. The 2018 edition of our World Luxury Study also shows that affluent Chinese consumers are far more likely to buy online than their international counterparts (62% versus an average of 37% across Hong Kong, South Korea, Japan and Russia)⁹.

It is critically important for lifestyle and luxury brands to be aware of how the macro forces are changing the consumer landscape so that they can differentiate their brand, engage Chinese consumers meaningfully, and move from transactions to sustainable relationships. Some brands are doing just this.

Expectations of luxury consumers



Source: Ipsos World Luxury Tracking 2018

Examples of effective approaches from luxury brands

Engaging women

Mindful of women's growing affluence and purchasing power, some jewellery brands are reshaping their marketing campaigns to appeal directly to China's independent female consumers.

For example, Tiffany enlisted China's female tennis star Li Na to promote its 'Key Collection' in a campaign targeted at ambitious, determined women. The New York-based brand has also moved beyond the traditional marketing tendency to tie the gems to notions of marriage by promoting diamonds as a way for Chinese women to express themselves.

In the automotive sector, Audi has added new features to their vehicles directed towards China's female drivers' tastes, such as personalized colours and interior designs and Maserati has teamed up with Giorgio Armani cosmetics and Italian lingerie brand La Perla to host private cocktail parties for prospective female buyers.



Personalising products

In August 2016, Dior made a limited number of its iconic 'Lady Dior' bag available on WeChat for 'Qi Xi', the Chinese Valentine's Day. Dior offered customization where consumers could drag-and-drop add-ons and designs to their new handbags. To enhance the sense of exclusivity, Dior offered this only to those who followed the brand on WeChat, reducing the customer pool to those already engaged with the brand. The edition sold out in two days.

Luxury accessory brand Tod's recently partnered with top-fashion influencer Mr. Bags to launch 200 custom pieces of its three iconic bags: 'Sella', 'Double T' and 'Wave'. The campaign involved interactions with Mr. Bag's fans who provided ideas and feedback during the design process of the bags. via life-streaming and visual digital content. All 200 custom pieces were sold out at a total value of Rmb3.4 million (US\$535,000).

Unique branded experiences

The young LA-based multi-brand online store Revolve took early action to retain and grow its Chinese consumer constituency. It created a mobile-optimised Chinese site, was an early adopter of Alipay and WeChat pay, gave shoppers access to a toll-free customer service, and established a presence on China's major social media networks.

Also mindful of the importance of physical interaction with brands, the e-tailer hosted a pop-up store event in Shanghai similar to its LA events to create an offline shopping experience that would resonate with Chinese millennials. KOLs and high-value customers made appointments to browse the curated racks whilst they socialized, enjoyed refreshments and took photos of their outfits to post on Weibo and WeChat. Revolve generated US\$400 million in sales, beating other industry leaders.

Iconic brand Chanel opened its 'Coco Cafe' in Shanghai to expand its branded experience, serving refreshments while showcasing its cosmetic products. Visitors to this pop-up café booked a place through Chanel's WeChat account. Photos of long waiting lines created a social media buzz.



Leveraging digital apps

While the use of technology is apparent in some of these examples, it is worth looking further at how brands have embraced digital-technology developments.

In August 2017, Alibaba launched its 'Luxury Pavilion' for high-end products within its popular Tmall marketplace. The invitation-only platform is exclusively open to Tmall's affluent VIP members. Loewe was the first brand to become available on the Luxury Pavilion; soon followed by British fashion brand Stella McCartney.

Earlier this year WeChat – dubbed 'China's super app' – launched a new feature named 'Brand Zone' that allows brands to display their official WeChat accounts, e-stores and other customized content to users who do not subscribe to their content. Soon after its launch, a dozen major lifestyle and luxury brands were on board with this new feature, early adopters including Cartier, Gucci, Tiffany, Louis Vuitton, Longchamp, Michael Kors, Swarovski, Montblanc and Lancôme.

Embracing the new normal

We can see three important insights emerging:

1. **Innovation** – in its broadest sense – is critical for a lifestyle or luxury brand to stand out in China's increasingly cluttered space.
2. **Digital and e-commerce** must be an integral part of the brand's value proposition to complement brick-and-mortar boutiques
3. **Compelling offline and online experiences** must complement distinctive product ranges to engage consumers and move from transactions to sustainable, long-lasting relationships.

Not all lifestyle and luxury brands will be able to accomplish all these things on their own and therefore they must learn to partner with other brands, in perhaps different categories to deliver greater value to their target consumers. But, what is certain is that Chinese affluent consumers will reward those brave enough to embrace the new normal.

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GAME CHANGERS



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