

# Engaging China's Affluent Consumers

By Javier Calvar



Through conversations with some of our clients in the luxury industry we have identified five questions that are high on their strategic agendas for the Chinese market.

This paper aims to provide some forward-looking insights into these important topics.

1. How important will affluent Chinese consumers be in the future?
2. How do these consumers differ from their international counterparts?
3. How to engage them when they travel abroad?
4. What is needed for a luxury brand to maintain a sense of exclusivity?
5. What role will brick-and-mortar boutiques likely play in the future?

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## The significance of China's affluent consumers for the luxury industry

While affluent Chinese consumers have been a major driving force shaping the luxury industry over the past 8-10 years, the influence of this consumer constituency will become even greater going forward, particularly as more Chinese citizens will venture beyond their national borders, and account for an even larger portion of spending in stores outside of China.

While, currently, only about 5% of Chinese citizens hold a passport, this proportion will likely more than double over the next ten years, when 12% of Chinese citizens are expected to have a passport and contribute more than 100 million new outbound travellers<sup>1</sup>. China's economic growth will continue to fuel the expansion of the country's middle and upper-middle classes, so many of these new travellers will likely buy luxury products and services during their overseas trips. According to McKinsey, Chinese consumers are expected to account for 44% of total spend on luxury by 2025 (US\$150 billion annually out of the projected US\$400 billion global figure)<sup>2</sup>.

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**Chinese millennials and Gen Z will drive luxury consumption in the next 10 years - nearly 50% of mainland China's luxury shoppers are aged under 30.**

**91% of affluent Chinese are eager to explore the latest trends when they travel abroad.**



## What is different about Chinese affluent consumers

While it is often tempting to look at Chinese consumers as a homogeneous group, it is important to bear in mind the differences across regions, city tiers and age groups. Here are some traits that differentiate Chinese luxury consumers from their international counterparts.

### Attitudinal shift

In the recent past we have seen a clear evolution from status-seeking through ownership of highly visible and recognizable brands to self-realisation through experiences and knowledge about luxury brands. This poses opportunities but also challenges because luxury brands must engage these two consumer types without alienating either.

### Girl power

In China, affluent women now account for more than half of the luxury goods market. They are more ambitious and therefore buy more 'high powered' products or those with high visibility and status value than their Western counterparts. Gender-oriented communication is expanding, with brands organizing more and more VIP events exclusively for women, for example.

### Younger folk

Chinese millennials and Gen Z are set to become the dominant driver of luxury consumption over the next decade. Nearly 50% of mainland China's luxury

shoppers are aged under 30<sup>3</sup>. The average age of the online luxury shopper in China is now 25, which is between 15 and 20 years younger than the average European or US luxury consumer. Brands that appeal to this young audience are doing very well in China, Gucci being a good example.

### Connected

Ipsos research shows affluent Chinese consumers are nearly twice as likely as their international counterparts to have downloaded an app offered by a luxury brand: 70% in China vs. an average of 43% across Hong Kong, Russia, Brazil and South Korea<sup>4</sup>. Similarly, the 2018 edition of our World Luxury Study shows that Chinese luxury consumers are avid online shoppers with 62% purchasing online vs. an average of 37% across Hong Kong, South Korea, Japan and Russia<sup>5</sup>. Luxury brands that do not engage Chinese consumers with relevant content and product assortment across touchpoints may do so at their own peril.

### More demanding

More than their peers in other markets, Chinese consumers want luxury brands to launch creative and bold products (89% in China vs. 75% across Hong Kong, Russia, Brazil and South Korea), expect a degree of personalisation (90% in China vs. 79% across the other four markets), and look forward to memorable experiences when buying luxury brands (90% vs. 76%)<sup>4</sup>. It is clear that what may work for other consumer groups may not necessarily work for affluent Chinese consumers.

#### Consumers that have downloaded an app offered by a luxury brand



Source: Ipsos World of Luxury, 2018

#### Consumers who shop online



Source: Ipsos World Luxury Tracking, 2018

## How to engage these consumers when they travel

Engaging these consumers in a meaningful manner will be key for luxury brands to benefit from these trends. This requires planning and action in multiple areas.

### Investing in key channels

Currently, duty-free channels – whether downtown duty-free stores or airport duty-free boutiques – account for two-thirds of Chinese consumers' luxury purchases when travelling overseas. A further one-quarter of the purchases are made in department stores and free-standing boutiques<sup>2</sup>. Luxury brands will do well to strengthen their presence in those channels while simultaneously trying to shift purchases to their own branded boutiques. Over the past few years, the LVMG, Kering and Richemont groups have increased the share of revenue from their directly-operated stores<sup>6</sup>.

### Delivering local uniqueness

Chinese travelers value unique experiences that they can share with pride on social media. Ipsos research shows that 91% of affluent Chinese are eager to explore the latest trends when they travel abroad<sup>5</sup>. Boutiques provide a great stage to fulfil this desire and luxury brands must do what they can to ensure that the affluent Chinese visit their store when they travel. This means creating experiences for these highly-demanding consumers. For example, investing in locally-themed, unique store designs, launching products available only in certain locations, and hosting local events that may attract foreign visitors.

### Being part of their travel plans

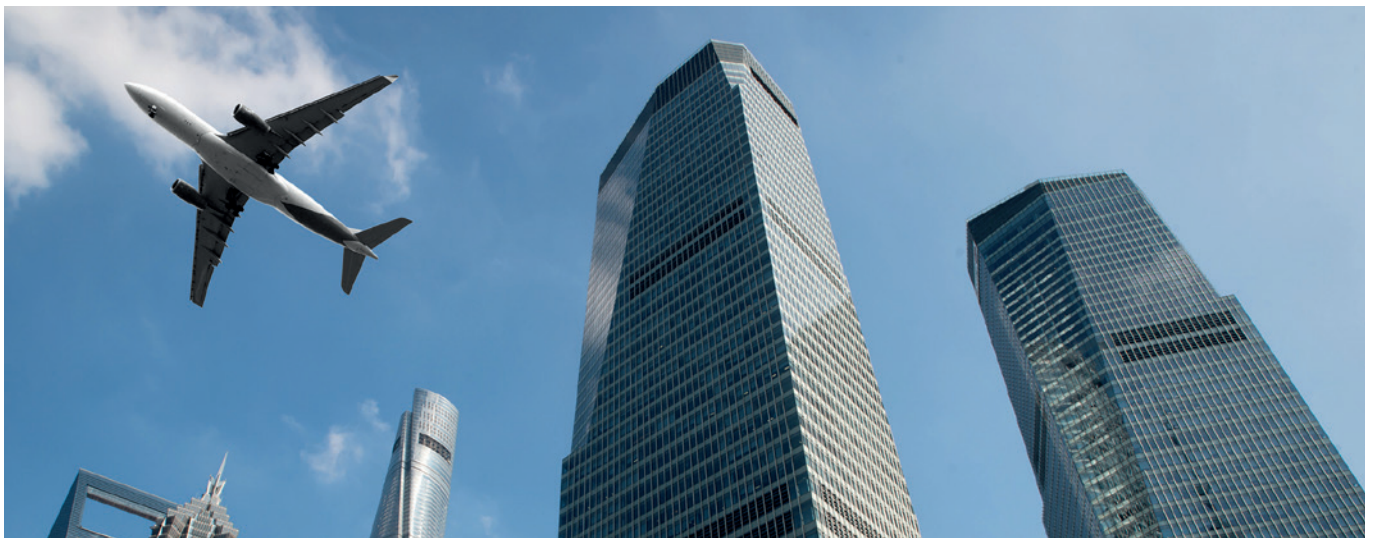
Of course, a brand's efforts to engage clientele are more likely to pay off if they make it onto the travel itinerary of their prospective consumers before they leave China. To do this, brands can help consumers organize their trip before they leave, for example helping them locate a store near the hotel they will be staying at or even recommending galleries or exhibitions that reflect what the brand is about. Travel plans are heavily influenced by travel apps such as Ctrip, Dao Dao (TripAdvisor's Chinese website), Qunar or Mafengwo as well as content generated within WeChat and Weibo. Luxury brands need to think about being present on these platforms.

### Making it easy for them

Once Chinese travelers engage with the brand locally, it is the responsibility of the brand to provide them with a seamless experience. This involves ensuring Chinese-speaking staff are available, WeChat Pay or Alipay are accepted, and providing QR codes so that travelers can follow the brand on social media and continue shopping on the brand's e-store in China or Tmall's Luxury Pavilion.

### Connecting across borders

A Chinese consumer may first discover a particular product at home, take a second look at a boutique in Paris and eventually complete the purchase in London. How can the brand ensure it engages personally and consistently with the consumer across these touchpoints? This will require greater integration of customer databases across the business (while still abiding by local data protection regulations such as GDPR). Importantly, it will also require an overhaul of incentive systems, shifting the emphasis from on-the-spot transactions to long-term transnational relationships.



## Retaining exclusivity

As digital technologies make luxury more accessible, concerns have been raised about the need to strike a balance between luxury brands' participation in this movement and the need to remain exclusive. Speaking at LVMH's annual meeting in 2018, Bernard Arnault, LVMH CEO, commented: *"All we would need to do is produce more in order to double revenues. But it would involve opening distribution, which in the long term would have serious consequences on the perception of the brand, its status, its image and its desirability. What interests me about Vuitton is not its size. It's that Vuitton remains the world's most desirable brand in 10 years' time"*.

Keeping a luxury brand desirable involves a difficult balancing act between accessibility and exclusivity. As the scope of luxury broadens to include experiences, health and wellness, and so on, brands need to understand that, while they need to be inclusive, all consumers are 'not created equal'. This means that brands need to become 'inclusively exclusive' through relevant product assortment and partnerships, appropriately targeted to the relevant consumer cohorts.

Product assortment that allows consumers to own 'a bit' of the brand without eroding the brand's exclusive image is not new to luxury brands but not many have done this well. Chanel presents an excellent example: many Chinese women can afford a US\$35 Chanel lipstick but not so many can own a US\$2,500 Chanel Classic Double Flat handbag.



## Brands need to become 'inclusively exclusive' through relevant product assortment and partnerships

Since a single brand cannot deliver on all facets of luxury, partnerships will be needed. Partnerships enable luxury brands to expand their presence into new realms by leveraging other brands' strengths while maintain a sense of exclusivity and desirability. For example, in China, Maserati has teamed up with Giorgio Armani cosmetics and Italian lingerie brand La Perla to host private cocktail parties for prospective female buyers. Today, affluent Chinese women account for 40% of Maserati owners in China.



## The future of brick-and-mortar boutiques

Given how consumers engage with brands, questions abound as to the role of brick-and-mortar boutiques in the future. Our research shows that affluent Chinese consumers are avid online shoppers, but they also expect a web-to-store service (88% vs. 76% in Hong Kong, South Korea, Japan and Russia). They would also like to have technology tools in-store that they can use to interact with the brand in novel ways (86% for China vs. 67% for the other four markets)<sup>1</sup>. A recent report by Boston Consulting Group and Tencent, a Chinese tech giant, shows that nearly 60% of Chinese luxury consumers still prefer brick-and-mortar stores, a proportion that rises to 80% among consumers living in tier-3 and lower-tier cities<sup>2</sup>.

We believe boutiques will play a key role in the delivery of a luxury brand's promise. However, as luxury increasingly goes beyond material possessions to include experiences, learning, and a sense of belonging, the role of boutiques will have to evolve accordingly.

**Nearly 60% of Chinese luxury consumers still prefer brick-and-mortar stores, rising to 80% in some city tiers.**

Consequently, boutiques will become places where consumers gather to meet like-minded people and learn more about the brand and its creations; through exhibitions, masterclasses and so on. These events will have to be tailored to specific consumer groups and positioned accordingly. In this sense, boutiques will be less about selling and more about immersing consumers in the brand's world, history and heritage, and create a sense of belonging to an exclusive community. Sales advisers will have to become brand ambassadors and cultural guides while incentive systems will have to be tailored to these new roles.



## Boutiques will become less about selling and more about immersing consumers in the brand's world

There has been some debate about whether rental and second-hand luxury might erode luxury brands' businesses in China in the future. Renting luxury is not yet part of Chinese consumers' consideration set but this may well be changing among millennials, for whom rentals may provide access to products they might not be able to afford otherwise. Players already exist in this field, for example Dou Bao Bao, Y-Closet and Ms. Paris, but the approach they take must be appropriately targeted to the younger cohort.

However, the second-hand luxury business-model is unlikely to succeed for the time being. Compared to consumers elsewhere, the Chinese are still relatively new to the luxury market and are still learning about luxury and luxury brands. As part of that learning, they still prefer brand-new products. Importantly, Chinese are particularly concerned about counterfeits, so new products provide greater reassurance and peace of mind than second-hand alternatives.

### Consumers who shop online, but also expect a web-to-store service



Source: *The Luxury Conversation: 'How to Capture the Attention of the Chinese Millennial'*, 2017

## Concluding thoughts

In *Who Are China's Affluent Consumers?* we highlighted the importance of innovation, the need to integrate digital and e-commerce in the brand's business strategy, and also the need to deliver compelling experiences, perhaps in partnership with other brands.

This briefing provides further evidence that luxury and lifestyle brands must have clear plans in these areas if they are to succeed in China's increasingly competitive luxury landscape. Success will require looking not just at the immediate competition but also at what players in other industries are doing and learn from them. It will also require revisiting the various elements of the brand's value proposition (sales staff, product portfolio, communications) to ensure they work together in the intended manner locally while remaining consistent with the brand's global positioning.

Change may not seem easy for an industry that prides itself in heritage and tradition, but the rewards will make the effort worthwhile.

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## References

- <sup>1</sup> The Luxury Conversation: 'How to Capture the Attention of the Chinese Millennial', 2017
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- <sup>6</sup> Quartz: 'Luxury labels are going direct-to-consumer', October 10th, 2018

January 2019

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