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How to solve China’s luxury puzzle

CULTURE

ALEX ZHANG, STRATEGIST, MEDIACOM SHANGHAI 04 APR 2017

The rise of China as an economic power has been a boon for luxury brands. From LVMH to Burberry to Prada, countless high-profile fashion houses and premium labels now look to China for a key part of their sales. Cultural factors explain this demand.

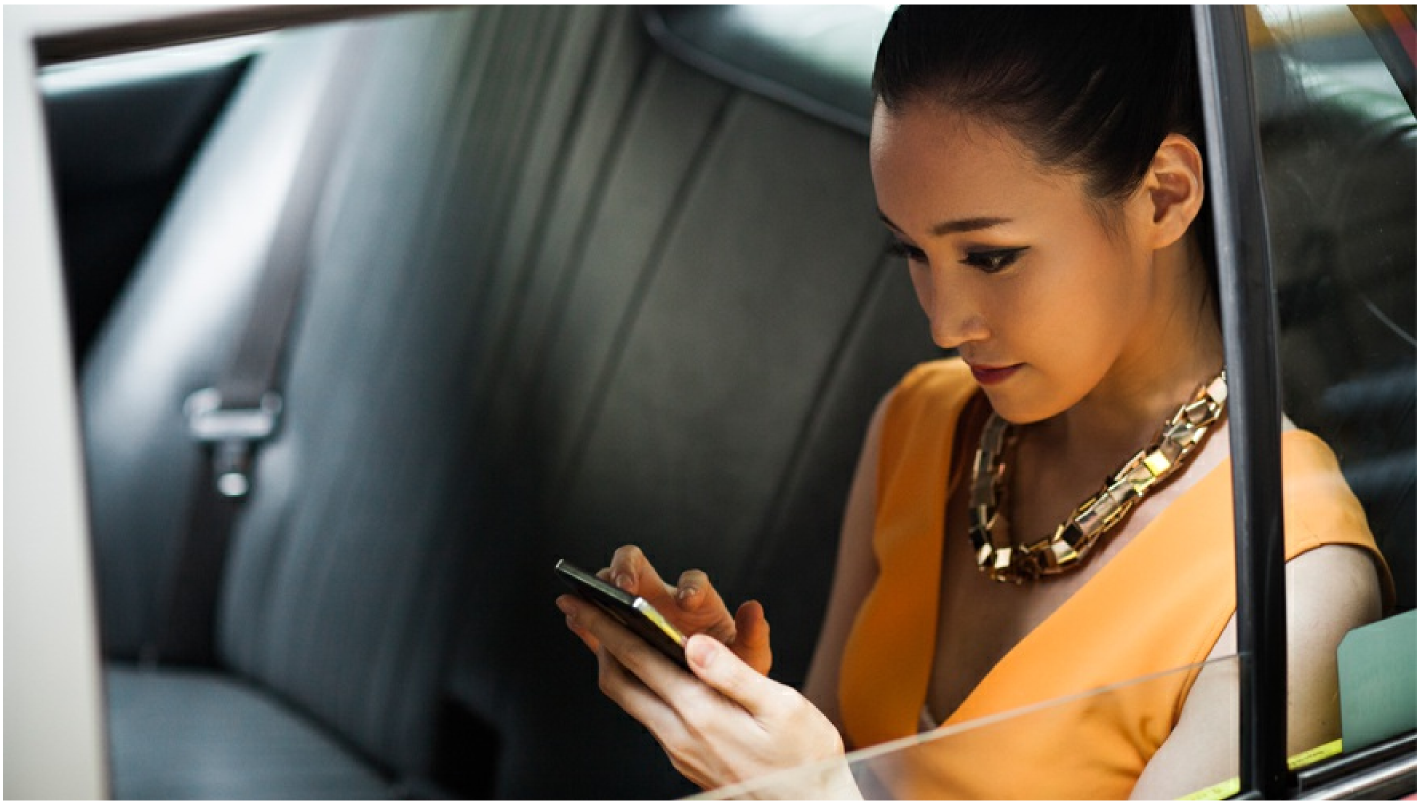
It is no secret that China has an enormous appetite for luxury goods. In fact, Bain & Company data marks it as the third-largest luxury market in the world — well behind the US, but creeping up on Japan at #2 in euro currency terms. In 2015, more than €17.9 billion was spent on luxury items in China, an increase of 17% in Euro terms on 2014, helping it overtake Italy and France.

And a growing economy means consumption of luxury products is likely to continue to grow as more and more households rise up the socio-economic ladder. According to McKinsey & Company, nearly 54% of urban households will be upper middle class — with earnings of 60,000-106,000 RMB a year — by 2022, up from 14% in 2012.

These millions of consumers are going to continue to want to wear wonderful clothes, to sport beautiful watches, and to fill their homes with the smartest, most refined items.

But the rise of luxury in China is not simply an economic story, it's also a cultural one. That's because both the social background to luxury consumption and the purchase journey in China is very different. In fact, as much as 80% of Chinese luxury consumption occurs outside Mainland China. The truth is that China is a far bigger luxury market than the data indicates.

Understanding off-shore consumption is key. Brands that fail to grasp that are not just missing up to 50% of their top customers annually (according to Epsilon Research and the Luxury Institute), but they are also missing the opportunity to communicate with and create a personalised experience for them.



A demographic puzzle

According to Forbes in 2015, the average age of the Chinese luxury shopper was in their mid-30s, already younger than the global average. But by the end of 2016, the World Luxury Association predicted this will fall closer to the mid-20s.

China's millennials amount to more than the working population of both the US and Western Europe combined. Goldman Sachs predict their aggregate income will grow by $3 trillion in the next 10 years. They are not just a super segment in China, but a cornerstone for global luxury consumption.

The average Chinese luxury shopper is likely to live in a first-tier city, such as Beijing or Shanghai. Many are products of the One-Child Policy, ensuring they have the full attention of both parents, and often grandparents from both sides of the family. This intense doting creates a more individualistic outlook, as well as a lot more 'pocket money' than their international peers.

China's millenials amount to more than the working population of both the US and Western Europe combined

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So while their income appears lower than their Western counterparts, Hylink Digital Solutions reports that 96% rely on their family for support, which includes everything from money to housing. Many of these luxury consumers are best defined by attitudinal and behavioural indicators rather than income level.

In response, some luxury brands are increasing their digital presence and improving mobile touchpoint experiences. They are also recruiting young idols as spokespeople, in order to entrench their positions among this consumer base. During Shanghai Fashion Week, for example, youth brand Me & City partnered with Tencent to bring fashion to the streets.

The goal was to bring the fashion show direct to the target audience of young consumers. Using Tencent's Maps app, the brand shot panorama images of the models, taking the catwalk to the streets of Shanghai. Users were able to view the products in real-world settings and purchase from a linked e-commerce function.

The cultural angle

MediaCom's Cultural Connections study reveals why offshoring is such a strong trend. The cultural drivers for this behaviour are can be explained by the fact that Chinese consumers have the world's highest scores on the marketing dimension of Badge Appeal, and an extremely high score for Vanity.

Badge Appeal measures the extent to which consumers are susceptible to the glamour or allure of — often high-end — products. Vanity measures how much consumers are likely to buy certain products to feel good about themselves. Markets that score highly on this cultural dimension tend to prefer premium products. Think of it as a kind of 'snob value'.

Chinese consumers have an extremely high Cultural Connections score for Vanity

In China, these factors combine with a high Ambition score, to create a cultural framework in which there are compelling reasons to buy luxury goods and for consumers to showcase what they have bought, as well as where they have bought it.

Brands need to be careful, however, not to become too common. Big names such as Louis Vuitton were the epitome of high badge value. These items were so desired that white-collared workers starved themselves for a month just to afford one.

But everybody and their aunt came to have a Louis Vuitton bag — which then became labelled as the 'secretaries' bag'. Counterfeits also became ubiquitous. As a consequence, young luxury shoppers are now turning more to niche luxury brands and minimalistic branding to showcase their individuality and taste.

Ways to take advantage

The story of Chinese luxury is one of economic success combined with cultural values. Brands that want to take advantage need to celebrate these behaviours to encourage more travelling consumers to seek them out.

They might find that their messages are better targeted at the journey abroad, for example, where they can capture consumers when they are most likely to be looking for spending opportunities. Airport advertising then might be better focused on international terminals rather than domestic gates.

One of the few brands that have sought to target travelling Chinese shoppers is Cartier. Its WeChat account allows the user to book an appointment at any Cartier boutique in the world, and has a geolocation function that shows nearby Cartier boutiques. Being not Google or Baidu dependent is especially handy for Chinese consumers overseas.

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Traditional luxury brands are also seeking to regain their badge value. In 2015, 11 luxury fashion brands closed a total of 34 stores, all outside the first tier cities, in a bid to regain their exclusivity. Other strategies include partnering with elite celebrities, improving brand experiences, tightening control on distribution, cracking down on the gray market, extending personalisation options and introducing sub-brands.

Dior, for example, has sought to make the digital purchase experience more personal and special. A recent campaign during the Qixi festival was targeted at men in relationships, offering them limited edition Dior handbags. Buyers were able to interact with brand reps over WeChat one-to-one, enabling them to feel comfortable with their big money purchases. The bag models on offer were sold out within a day.

It’s early days for such digital strategies and it’s not yet clear if any are striking a chord with younger generations. But as luxury brands are scrambling to play catch-up in China, they must create tailored strategies that communicate effectively with their primary consumer.

This is both a unique and historical challenge as luxury brands are forced to appeal to a much younger target audience, not just in their home market but right around the world.