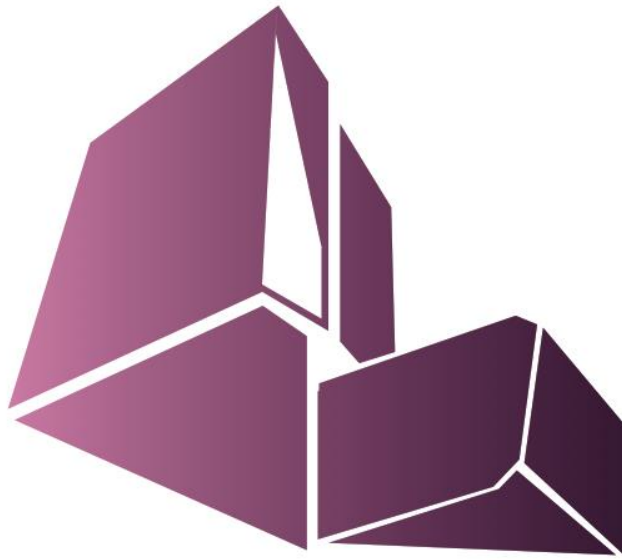


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WRITTEN by NOOR Saleha



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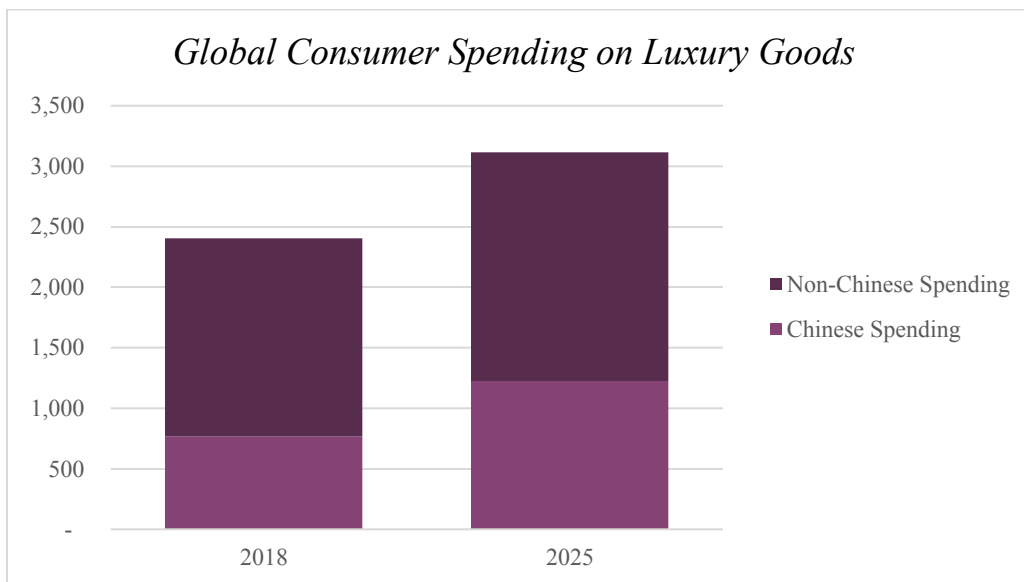
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The Future of the Luxury Industry

Understanding and Adapting to the Chinese Millennial

The luxury goods market continues to show a positive outlook despite reports of a slowing global economy, and according to experts at Boston Consulting Group, has an estimated worth of GBP 795 billion with an annual growth rate of 4% to 5% till 2025. Considering that in 2018 the luxury market in Mainland China saw a 20% growth rate for the second year in a row, it can safely be concluded that much of the global growth in luxury spending is fueled by Chinese money. At present, Chinese consumers account for almost a third of the global spending on these products, and according to the 2019 McKinsey China Luxury Report, more than half of the global growth in luxury spending between 2012-18 was delivered by China. What is even more astonishing is the fact that by 2025 Chinese households will represent approximately RMB 1 trillion in global luxury sales, around 40% and equivalent to the size of the French, Italian, Japanese, UK, and US markets combined in 2016.

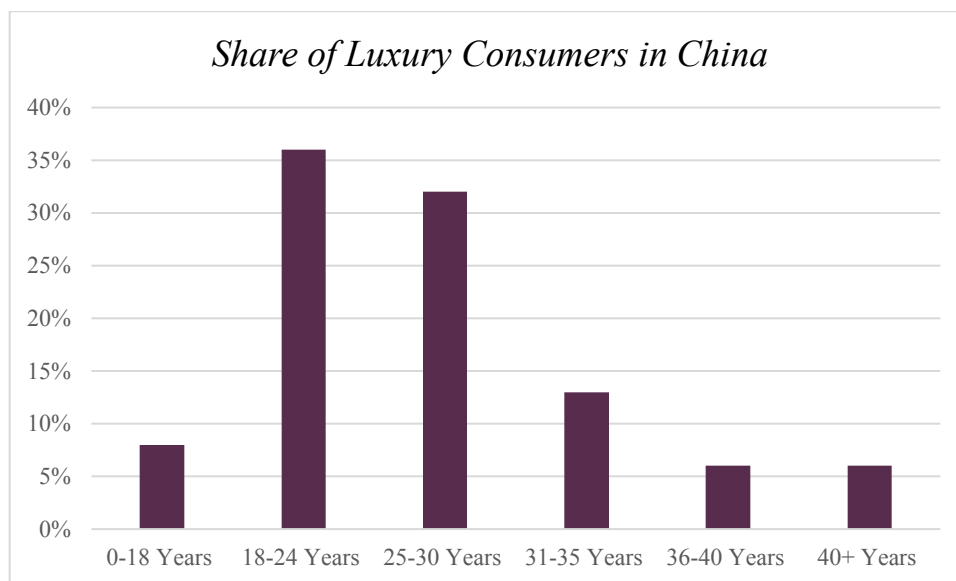


Source: McKinsey and Co. Luxury Report 2019

With such positive figures in mind, it is no surprise to see luxury brands shifting their focus towards the Chinese market. Many have commented that the recent bid for Tiffany and Co. by LVMH is inspired mostly by a desire to chase Chinese money. In such an environment, it is necessary for companies to understand the profile of these Chinese buyers and adapt accordingly, or they run the risk of fading in comparison to their competitors. A report by Bruno Lannes of Bain and Co. in 2019 found out that for every brand that grew by more than 25% in 2018, there were two brands that grew by less than 10%. This difference in performance can easily be accredited to how well a brand understands the unique features and demands of the Chinese luxury consumer.

While the affluent post 1980s generation accounts for a majority of Chinese luxury spending, it is the post 1990s generation – or the millennials – that are likely to fuel future growth. The Chinese millennial is different from their counterparts elsewhere in the world due to the rapid economic growth of China during their lifetime and the one child policy implemented in 1980. This particular generation is imbued with the confidence and desire to spend as they have seen their family incomes rise drastically and have reported that their luxury spending is supported by a household capable of giving immense economic support to their single child. The economic capabilities of the Chinese millennial can be judged by the fact that 70% of China's millennials own their own home, which is twice the rate of US millennials, according to HSBC's Beyond the Bricks study. Considering that the average Chinese

luxury buyer is much younger and has only recently been given the financial capabilities for luxury spending, brands are presented with a unique set of consumer requirements.



Source: Statista.com

Instead of following the traditional luxury formula of relying on reputations established over hundreds of years and notions of brand loyalty, these consumers are more concerned with what is happening right now and the unique image and quality of a product instead of the brand itself. The constant exposure to media images and social influencers has cultivated a high consumption-based consumer who desires the latest styles, but this has also contributed to this generation being better informed than previous ones. This sophistication in choice is what has led to the declining importance of brand names when buying products, as consumers focus more on design, fabrics and what is considered cool by Key Opinion Leaders (KOL), such as celebrities or fashion bloggers. This is supported by the fact that social media influencers were identified to be the number one drivers of luxury purchases in China.

The desire for luxury good in these young consumers is also sparked by the need for social differentiation, which makes them more susceptible to experimentation and innovative trends. One such example is the convergence of high fashion and sportswear leading to the success of brands such as Balenciaga or the 2017 limited edition collaboration between Supreme and Louis Vuitton that sold out within three days in Beijing. Another unique feature of the Chinese consumers is their intense national and cultural pride, combined with this generation's high level of presence online, which gives them significant control over the public image of a brand and a tendency to heavily criticize even the smallest mistake. This was seen recently when Versace was forced to destroy shirts that sparked outrage in the Mainland by implying that Hong Kong, Macau and Taiwan were independent of China. Another similar example was the massive boycott of Dolce & Gabbana after the brand released a racist and culturally insensitive advertisement. The Chinese millennial might be an eager driver of luxury market growth, but they are also increasingly demanding, and brands need to remain on their toes and adapt if they want to capture and retain this market.

Perhaps the most important thing for a luxury brand to do right now is learn from the example of those that have succeeded or failed within this market. Keeping in mind what happened with Versace and Dolce & Gabbana, brands need to be aware of cultural sensitivities and, ideally, collaborate with local teams when working on localized products or marketing, or else they run the risk of a negative reputation that will be hard to shake off. The Versace incident has another important lesson – the influence of KOLs in China. The local standing of the brand was only seriously hurt when high-profile Chinese ambassadors Liu Wen, Yang Mi and Jackson Yee cut ties with the brands.

Influencer marketing has great potential for success in the Chinese market as millennial consumers are more likely to purchase luxury products sponsored by or seen on influencers that often have a much greater online following than brand owned channels. An ideal example of this would be how Louis Vuitton partnered up with the fashion blogger Gogoboi, who ran the brand's Weibo account during the 2017 LV Fashion Week, to help introduce products to the widest possible audience.

The importance of influencers also reflects how important digital marketing is when it comes to millennials. Since 2015, top 40 Chinese luxury brands have almost doubled their digital marketing budget with a targeted focus on WeChat more than any other platform. Prominent examples of brands using WeChat include Estée Lauder allowing consumers to book facial treatments, and Coach providing an option to access coupons and manage membership cards online. While online platforms are ideal for marketing and spreading information, nine out of ten Chinese consumers favor in person experiences with sales staff in brand stores requiring brands to integrate online and offline channels. One way of doing this could be the "Silk Mix" event by Hermès in Beijing, an innovative combination of a pop-up store with a WeChat mini program that increased traffic to the Hermès official account and attracted thousands of guests to the event. The offline adaptation to the millennial consumer does not stop there, these buyers also demand greater personalized services which means sales staff need to be highly trained and capable of informing consumer choice along with building valued relationships.

This analysis of the Chinese millennial consumer along with the adaptation routes brands have followed has made it apparent that although the luxury industry stands to gain much from the growing business in China, individual brands need to be careful while navigating this market, as it requires great levels of personalization and digitization. This, along with a hands-on approach centered around a rapid cycle of new product launches, and influencers campaigns that are in line with the notions of exclusivity and newness that this consumer desires, will guarantee a successful formula for brands looking to tap into the Chinese luxury market.

For readers interested in learning more about the luxury market, you can access CURIC's upcoming Equity report on the topic on December 6th on our website.

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