Understanding the Chinese luxury market
A research into China’s luxury fashion consumerism

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13 June 2016

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INTRODUCTION

China's president Xi Jinping is talking about the “new normal”; a new phase where China’s economy will be rebalanced. After an average growth of ten percent from 1978 till 2011 of the GDP, it has now set its target on a rate of about seven percent (Angang, 2015). With rising incomes, the number of China’s middle class households is growing. This growing group proposes opportunities for luxury brands to grab.

Since consumerism in China started in the 90’s (Holmes, 2011), Chinese consumers have increasingly started to buy luxury goods. At the same time however, we are seeing messages of Chinese citizens condemning scenes they deem too lavish (The Economist, 2013). What are Chinese consumers’ thoughts about buying and showing off luxury fashion products? Is it an accepted way of showing opulence?

At the moment the biggest market for luxury fashion, just looking at the nationality, is China (The Economist, 2013). However, this does not mean that most luxury fashion products are bought in China. Chinese luxury consumers are making trips far and wide to splurge on designer goods.

While China’s government is taking steps to reel in these sales, circumstances in the market are changing for luxury fashion brands.

Which prospects does the Chinese market hold for luxury fashion companies that are considering expanding their presence in China?

This research report will function as an insight into this impressive market. It will serve as a basis to a market research report analysing different regions of China on luxury retail feasibility. This research report can be used by any luxury fashion brand that is considering moving into China.

To make it clear which market is researched, this research report starts off with defining what luxury is. Different theories will be considered to come to a definition.

Secondly this research will explore the size of the Chinese luxury fashion market. An overview of the developments of the Chinese economy will be given, something that resulted in the fact that China now has the means to have become the biggest luxury market in the world. The demographic of the Chinese luxury consumers will also be explored, to better understand the target group. Next to that, the amount of money that is generated in this market will be researched, to visualise the magnitude of this business. To
explore these parts statistical data will be used, next to financial news and reports from different organisations.

This report will go further in-depth by looking over the different channels that Chinese consumers use to access luxury fashion products. A rationalisation of the choices for each channel is build up, to better understand the consumer. To research this, reports from different organisations and financial news will be utilised, next to primary research in the form of a survey.

Lastly, this report delves into the minds of the Chinese luxury consumers. It describes the rationale of why Chinese consumers buy luxury fashion products from of the basis of Confucianism, on which traditional Chinese culture is founded. Different marketing journals are accessed to study this, next to primary research in the form of a survey.

Through quantitative and qualitative research this report strives to give a conclusive insight into the Chinese luxury fashion market. Following, this will be used in a market research report on where a luxury brand should position itself when it decides to set up a luxury retail location in China.
ABSTRACT

What makes products and services luxurious is the fact that they supply the consumers with similar symbolic and experiential reward. This is also how a luxury brand can be differentiated from other brands; by the fact that they express specific features that are perceived by their customers as luxurious. The standards that differentiate these brands are becoming more unclear as a result of the middle class consumers having an increasing amount of disposable income and luxury brands combining their high reputation with more accessible prices. The term that is used to describe this phenomenon is the “democratisation of luxury”.

With a different cultural background, the Chinese are consuming luxury products for different reasons than in the West. The Chinese are focussed on buying possessions that they can show off to the people around them. This is a result of tough social hierarchies and the dominance of the interdependent self in China.

The demography of luxury fashion consumers in China also shows differences compared to the West; Its demographic of luxury fashion consumers is divided over mature consumers and immature consumers with different demands. One group of these consumers in that is expected to play a rapidly growing role in the Chinese consumption market is the middle class.

China’s economy is the second largest economy on earth. It has been undergoing a “catch-up growth” model and now China is at the start of a new phase of progress; the “new normal”. Because of it in real terms, luxury sales are decreasing in China. Most of these sales are bought in physical stores because Chinese consumers prefer this over e-commerce. Luxury brands however, are uncertain about the future of opening or keeping a store in China. It is expected that the e-commerce market will grow further in the coming years.

Apart from the Chinese consumers buying their luxury goods in China, most luxury products bought by the Chinese are actually bought abroad. This is the result of price differences and counterfeit products. As a reaction to this, the trade of daigou emerged on the Chinese market.
1 WHEN IS SOMETHING CONSIDERED A LUXURY FASHION PRODUCT?

1.1 LUXURY

Perceptions of luxury

In Beijing 1985, people would stare when someone would walk his dog; owning a pet was unimaginably luxurious (Doland, 2015). China was during this time just opening up to a global economy, a time where a luxurious suit would still come from a state-owned factory (Economist, 2011).

In present day, more than 30 years later, mentalities have changed and people have a different conception of luxury.

Luxury

The word luxury is derived from the word “luxus“, which by the Oxford Latin Dictionary (1992) is defined as “extravagant living“. Brun et al. (2008) and Dubois & Gilles (1994) describe luxury goods as items that are expensive, exclusive and show power, something that is nonessential and provides satisfaction.

1.2 LUXURY BRANDS

Luxury Brands

A luxury brand is perceived to supply products and services that are high-priced, of excellent quality and non-essential. The products and services it offers are next to being genuine, limited and distinguished also offer symbolic and emotional value (Tynan et al., 2009). The products and services may not have the same functional uses, but what they have in common is that they supply the consumers with similar symbolic and experiential rewards that are mostly provided by the non-physical qualities of a brand (Kapferer and Bastien, 2009, Keller, 2009).

Each luxury brand embodies its own distinctive sociocultural interpretation to its customer (Seo and Buchanan-Oliver, 2015). These brands represent their own lifestyle and culture, providing more than just a product; they “provide reference of good taste” (Kapferer, 1997). The fact that these brands have this in common is the reason why academics and professionals consider them to be an industry on their own (Okonkwo, 2009).

Luxury brands can be differentiated from other brands by the fact that they express specific features that are perceived by their customers as luxurious (Vigneron and Johnson, 2004), and in this way signify luxury in the products and services that they offer (Okonkwo, 2009).

The concept of “luxury brands” is a fairly new concept (Chevalier and
Mazzalovo, 2008).

During the late 1990’s the luxury products market changed from a number of small, craftsman family-owned companies to an economic sector on its own led by dominant luxury groups. While the smaller, family-owned businesses focussed on the quality and the artistic value of their products, the big conglomerates were brand-driven (Jackson, 2002).

To create and sustain the allure of its luxury brands, these conglomerates put considerable amounts of money into strategies for marketing and retail and the design of the products (Okonkwo, 2009). Three different tactics were notable in these corporations:

A. Advance into new international markets, to become accessible by a larger customer base (Chadha and Husband, 2006).

B. For its most wealthy customers, heritage and excellent merchandise were stressed (Kapferer, 2006).

C. To speak to middle-class consumers, the high reputation of the brand was mixed with more accessible prices (Truong et al., 2009).

These strategies have made sure that the luxury industry has seriously grown in market size, the scope of its products and most notably, consumer variety (Jackson, 2002, Okonkwo, 2009).

1.3 DEMOCRATISATION OF LUXURY

Democratisation of Luxury

The customer base of the luxury market is expanding at a high pace because middle class consumers have an increasing amount of disposable income and the trend that luxury brands are mixing their high reputation with more accessible prices (Truong et al., 2009, Seo and Buchanan-Oliver, 2015). The term that is used to describe this phenomenon is the “democratisation of luxury” (Evrard and Roux, 2005). This new group of customers buy luxury with a different rationale than its conventional elite customers; they are either buying these products to imitate the affluent lifestyle, for the better craftsmanship of the goods, or because they would like to reward themselves (Silverstein and Fiske, 2003, Truong et al., 2009).

Other words that are used to describe this democratisation of luxury are ‘new luxury’ and ‘masstige,’ i.e. mass prestige (Cornell, 2002, Wood, 2005, Granot et al., 2013b). The products and services in this masstige market can be divided into the following segments:
A. Accessible superpremium: These goods and services are the most expensive in their product group but can still be bought by middle class consumers since prices are relatively small, e.g. a coffee from Starbucks.

B. Old luxury brand extensions: These goods and services are from brands that are normally very expensive. They design a separate range of lower-priced offerings next to the superior wares.

C. Masstige brands: These brands are specifically targeting the niche market between the luxury and the mass-market. More expensive than comparable products in the mass-market, but cheaper than the luxury market (Granot et al., 2013b).
Granot et al. (2013b) propose a different term to describe masstige: Populence (i.e. popular opulence). They predict the evolution of this trend in Figure 1. The first stage, conspicuous consumption, is about showing financial supremacy. The luxury products in the second stage are used to add to their social standing next to showing financial superiority. In stage three the reasons for consuming these goods and services are more hedonistic. In this stage, populence has become a mass-market phenomenon; it is not longer exclusive. The fourth stage has yet to happen, Granot et al. (2013b) predict a new phase with a different definition of luxury and a clear contrast between products and services.

1.4 CONCLUSION

Following the words of Vigneron and Johnson (2004), it is by the perception of the customer that the image of a brand is build up to become a luxury brand. Luxury products provide the consumers with similar symbolic and experiential benefits. Luxury is a psychological construct build up by people in their own context, changing and intangible. The concept of luxury is something personal, therefore a concrete definition for what is luxury can not be given.
2 WHAT IS THE RATIONALE BEHIND THE CONSUMERISM OF CHINESE LUXURY FASHION CONSUMERS?

2.1 DIFFERENT CULTURE

Confucianism

The traditional Chinese culture is based on Confucianism, it is different from the cultures found in the West. As a result, the Chinese consider luxury goods and the consumption of them in a different way (Chadha and Husband, 2006, Zhang and Kim, 2013, Seo and Buchanan-Oliver, 2015). Four aspects of Confucian culture have a sizeable impact on this (Wong and Ahuvia, 1998):
1 interdependent self-concepts
2 the balance between individual and group needs
3 hierarchy
4 humility

Interdependent self

Markus and Kitayama (1991) explain the culture contrast with the West as a difference of how a person acknowledges him- or herself. While in the West the independent self is dominant, in China the interdependent self is more dominant. People in the West have a bigger tendency to find their self value in being their own person, acting on their own values, beliefs and preferences. In Chinese culture it is more common to think about yourself in a group, to do what is best for your relationships with the people around you (Wong and Ahuvia, 1998, Zhang and Kim, 2013).

An individual in the West will mainly value its social class by his or her income, something that shows what you have achieved. A Chinese does not only look at what he or she has achieved, but will also look at the status of his or her family (Hsu, 1981).

This does not mean that all Chinese citizens are completely focused on their interdependent self and do not recognise their independent self. Instead it should be considered that they are on opposite parts of a continuum. Each individual finds their own spot on this continuum, with one of the self-concepts to be more dominant (Triandis, 1989, 1994).

2.2 SOCIAL PRESSURE

Social hierarchy

In China are tough social hierarchies (Markus and Kitayama, 1991). To minimise envy, modesty and humility is encouraged (Douglas and Isherwood, 1996). A more luxurious consumption is allowed however, but only when it is fitting to a person’s social standing (Yang, 1963). Already in 1963 did Max Weber (1963) state that the aspect of humility in the Confucian tradition will be too conventional to give way to modern capitalism. Nowadays we see that wealth as a display of achievement has mostly replaced the aspect of modesty and humility in Chinese culture (Wong and Ahuvia, 1998). But signs of
Functions of products

Products can be seen as having three different functions: instrumental, symbolic and hedonistic. Instrumental as in the way that you can use the product for something, symbolic if it is used to convey a certain message and hedonistic if it gives a pleasurable experience. While Western consumers put more significance on the hedonistic, private value of a product, Chinese consumers place more value in symbolic, public meanings of a product (Wong and Ahuvia, 1998).

Conformity

Conformity is something that is stressed in Chinese society. There are certain expectations that people are expected to live up to. The affluent, upper class of China is showing off a lot signs of wealth. People in this class are expected to partake in these displays of ostentatiousness to be considered a part of the group (Wong and Ahuvia, 1998, Gao et al., 2009, Wang et al., 2011, Zhang and Kim, 2013), and to even be taken seriously (The Economist, 2011). It is considered to be mature and strong if you are able to disregard your own wishes in order to suit to what is expected of you (Wong and Ahuvia, 1998).

This conformity also translates into how of a luxury product is assessed. While a Western consumer would pay more attention to an individual product to assess quality, a Chinese consumer attaches more importance to the brand, the maker or the country the product was produced in order to appraise the value (Wong and Ahuvia, 1998). It is the brand that conveys achievement, wealth and status and signals the membership to the upperclass (Gao et al., 2009, Zhang and Kim, 2013). The fact that a product is from an internationally well-known brand has become one of the key drivers to buy it in China (Atsmon et al., 2011b).

A lot of upper- and middle-class Western consumers have already gotten used to having wealth and have found different ways to express themselves (Abramson and Inglehart, 1995). For most Chinese however, it is something new. This explains why for the Chinese, it is a dominant way to show a desired level on the socioeconomic hierarchy (Wong and Ahuvia, 1998).

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2.3 INTERACTION

Interdependency

The act of giving luxury products as gifts is largely seen in China. It is used to build and nourish social connections. It does not only convey that the gift receiver is worthy to receive a high quality product, but also puts the gift giver in a positive light by showing that this person can afford it (Belk and Coon, 1993, Wong and Ahuvia, 1998, Gao et al., 2009). A decline of this practice is currently apparent, with people increasingly buying luxury goods for themselves (The Economist, 2013).

When a luxury consumer in China would show off luxurious products this person is not considered as an egocentric materialist, but instead shows that he or she has the means to provide for his or her family (Li and Su, 2007). This person is fulfilling the the expectations from society (Yang, 1963, Bond, 1991).

Parents that have been through the cultural revolution and other turbulent times in China when they were younger and acquired their wealth after experiencing this, now feel like they want to provide their children with a better life. They see the giving of money to their children as a way of showing love. The consuming of luxury goods in China should therefore not be seen as merely a hedonistic, materialist lifestyle, instead it is mostly shaped by interdependency. (Gao et al., 2009, Zhang and Kim, 2013).
3 WHAT IS THE SIZE OF THE CHINESE LUXURY FASHION CONSUMERS’ MARKET?

3.1 ECONOMY

2011 and before

In 2009 China’s economy became the second largest economy on earth after the United States (US). In the last 35 years China’s system has changed from being centrally planned to becoming more market-oriented in the global marketplace (Central Intelligent Agency, 2016). China has been undergoing a “catch-up growth” model; swiftly growing after trailing behind in the past (Angang, 2015).

According to the Central Intelligent Agency (2016) the GDP of China, considering purchasing power parity, became the highest in the world in 2015. However, when this is divided over the population you find China on place 112 on the world ranking, below the world average.

Between 1978 and 2011 China’s GDP has grown with an average of almost ten percent each year (Angang, 2015). China became the biggest exporter of the world in 2010 (Central Intelligent Agency, 2016).

![Figure 2: GDP per capita of China](image-url)
Figure 2 shows the GDP per capita growth of China over time. In 2009 China’s GDP per capita surpassed the $4,000 mark (The World Bank, 2016). Looking back in history, after this level is passed, the middle class begins to dominate consumption and increasingly buy “quality-of-life” products (Holmes, 2011).

**New Normal**

China is at the start of a new phase of progress, the “new normal”. Xi Jinping is working towards a more diversified economy, with a more maintainable growth rate. Xi also intends for benefits to be shared more equal among China’s citizens. They can expect to start earning more money in the future. On an international scale, other countries can count on China to become a more prominent player in the global market (Angang, 2015).

David Aikman, of the World Economic Forum’s China Office, states: “From a long-term perspective, China’s consumption trends are positive and are projected to continue to grow” (Young, 2016).

Every five years China presents a new plan to achieve. In 2011 it started with its 12th five-year plan that ended in 2015. Numerous goals to nourish the economy and better the quality of life of Chinese citizens were achieved. One goal that was set was to raise the GDP per capita by at least two times the level of 2010 in ten years time, China is still working on achieving this goal (Angang, 2015).

The 13th five-year plan, which will start in 2016, will further improve China’s economy. It focuses on decreasing the dependency of the economy on fixed investments and production and will stimulate innovation and domestic consumption. Xi Jinping states that he is working towards the country’s economic health in the long run (Central Intelligent Agency, 2016).

Xi will have to overcome a number of economic challenges though, among which (Central Intelligent Agency, 2016):
A. A small domestic consumption and a tall domestic savings rate.

B. Creating jobs for the people in the middle class that want to work their way up.

C. An ageing population as a result of the one-child policy.

Economic Inequality

Currently the average income in metropolitan areas is more than double the amount as in areas on the countryside. According to Anyang (2015) this difference is anticipated to lessen in the future and will increase domestic consumption and further stimulate GDP growth.

This disparity in the division of funds could cause social imbalance in the country according to an annual report of China Family Panel Studies. This report details that the richest people in China that represent 1% of the total population own about 33% of the money, while the poorest people in China that represent 25% of the population are in possession of about 1% of the money in the country. The report also states that that the gap between incomes is expanding even more and this will endanger the social balance if it is not handled. (YANG, 2016).

Future

China’s holds four times more citizens than the US, which becomes closest to the size of its economy. However, because of the size of China’s population, it will possibly not even reach 50 percent of the GDP per capita of the US until approximately 2030. Currently China is the country that contributes the most to the growth of the world’s economy, and if it carries on with a growing rate of approximately seven percent it will probably, in terms

3.2 DEMOGRAPHIC

Differences

The demography of luxury fashion consumers in China shows particular differences compared to the West. In July 2015, there were around 1.21 million millionaires (in US dollar terms) living in China (YANG, 2016). They represent about 0.01 percent of the population. In China the average millionaire is just 39 years old (The Economist, 2011), while CNBC reports that the average age of a millionaire in the US is 62 years old (Frank, 2015). In most countries the luxury market is characterised by mostly being consumed by women, while in China this division is almost equal between men and women. Men are buying luxury goods for themselves, as well as gifts for other men (The Economist, 2011).

Middle class

One demographic in that is expected to play a rapidly growing role in the Chinese consumption market is the middle class. Chen and Sethi (2007) describe the middle class of China as a household with a yearly salary between 54,600 to 455,000 RMB.

This middle class is expected to grow to double the size it is today by 2025, according to David Aikman of the World Economic Forum’s China Office (Young, 2016). Most of the luxury consumption in China will still be purchased by the affluent citizens, a growing percentage of the middle class of China will start to make up of the national luxury consumption (Atsmon et al., 2011b). The Chinese middle class is anticipated to become the group that will be driving the consumption of luxury goods in the future (Chen and Sethi, 2007).
China’s upper middle class currently accounts for about 12 percent of the luxury-goods market, but that share is expected to grow to 22 percent by 2015.

**Share of luxury-goods consumption in China by household income, %**

<table>
<thead>
<tr>
<th>Annual income, 2010 real renminbi</th>
<th>2010</th>
<th>Projected 2015</th>
<th>Compound annual growth rate (CAGR), 2010-15, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very wealthy (&gt;10 million in income or assets)</td>
<td>26</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td>Wealthy (300 thousand - 10 million)</td>
<td>45</td>
<td>37</td>
<td>13</td>
</tr>
<tr>
<td>Mass affluent (200 thousand - 300 thousand)</td>
<td>5</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Upper middle class (100 thousand - 200 thousand)</td>
<td>12</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>Lower middle class (55 thousand - 100 thousand)</td>
<td>11</td>
<td>3</td>
<td>-8</td>
</tr>
<tr>
<td>Aspirants (&lt;55 thousand)</td>
<td>1</td>
<td>&lt;1</td>
<td>-8</td>
</tr>
</tbody>
</table>

Figure 3: The share of luxury-goods consumption in China per household income in percentages (Atsmon et al., 2011a)
Figure 3 (Atsmon et al., 2011a) shows the share of luxury-goods consumption in China per household income in percentages in 2010 and the predicted development of these shares. The upper middle class was expected to grow with an estimated growth of 32 percent annually and will start to account for a bigger share of luxury goods in China.

This upper middle class is, with a lower rate than the wealthy citizen, benefiting from the economic growth in China. They might not have the same means to spend as the upperclass, the way their demands progress is similar. The contrast that can be found is that they consume less and their luxury buys are less frequent (Solca, 2016).

Brooking Institution predicts that by 2030, two-thirds of the middle class in the world will be in Asia (Doland, 2015). China will have the largest middle class; it provides a big opportunity for luxury brands to market to now and in the future. Currently most luxury goods can not accessed by this class because of the price differences with Europe. Luca Solca of Exane BNP Paribas states that luxury companies will have to change this, these price gaps can not be upheld (Young, 2016).

Mature vs. immature consumers

There are distinctions to be found in Chinese luxury consumers who are living in the coastal cities, as in Beijing and Shanghai, and the consumers that are living more inland. Consumers from cities inland are still looking for flashy goods (The Economist, 2013). Luxury consumers in the coastal cities have matured a great deal as luxury consumers, resulting from the trips they have made in the past. They are more demanding, and instead of just buying the most expensive thing in the store, they move from building their closet to maintaining it. In time, they will decreasingly buy luxury goods and will instead spend their money on services and experiences (Solca, 2016).

While the coastal cities are seen struggling because of decreasing exports, it is in the inland areas that the incomes of the middle class citizens are still rising (The Economist, 2013). This does not mean that people in the coastal cities earn less though; on the contrary, the average income in coastal cities is more than twice as big as further inland. This difference is expected to decrease in the future though, which will help increase domestic consumption and the GDP (Angang, 2015).

An increasing amount of factories move further inland since the coastal cities start to focus more on the production of higher-value goods and services. Smaller cities that are situated inland are growing to a size that it becomes justifiable for luxury brands to open a store there (Atsmon et al., 2011b, Liu, 2015).

One-child policy

Two target groups in China that are currently rapidly increasing are the young children and the elderly. As a result of the one-child policy, implemented in 1979, the country is dealing with an ageing population. Starting last year, China is now allowing parents to have two children, in order to battle a decreasing workforce that will have to provide for a growing amount of elders (BBC, 2015, Young, 2016).
3.2 DEMOGRAPHIC

Revenue

Figure 4: Global personal luxury goods market from 1994 to 2015 (D’Arpizio et al., 2015b)

Figure 5: Share of spending on luxury goods globally per nationality (D’Arpizio et al., 2015a)
Figure 4 (D’Arpizio et al., 2015b) shows how much money was spent on personal luxury goods globally from 1994 to 2015. In 2014, 224 billion euros in revenue was generated in the global luxury goods market. Figure 5 (D’Arpizio et al., 2015a) shows that about 28 percent of this 224 billion were accounted for by Chinese citizens. What is remarkable is that even though 28 percent of these sales are purchased by the Chinese, only 7 percent of the luxury goods sold in 2014 were actually bought in China (Young, 2016).

In 2015, when 253 billion euros in revenue was generated, the Chinese were responsible for an even bigger share of this: 31 percent. The share of luxury goods purchased in China remained only 7 percent though (Young, 2016). In 2015, the spending on luxury goods in a foreign country increased by 10 percent by Chinese citizens (Lannes, 2016). It is calculated that about 80 percent of all the luxury goods bought by the Chinese is done in a foreign country (Young, 2016).

Figure 6 (D’Arpizio et al., 2015c) shows that in 2015 in China the amount spent on luxury goods grew from 15.3 billion euros to 17.9 billion euros. However, because of exchange rates, the luxury goods market actually shrank in real terms with two percent (Young, 2016). It is difficult for luxury brands to define exactly how much the brand is growing in China. Exchange rates are constantly changing, next to China devaluing the renminbi against the American dollar in August 2015 and January 2016 (Young, 2016). People outside of China argue that the renminbi is overvalued against the American dollar. Something that can become very harmful to its domestic market. China is reaching into its reserves in order to become more competitive in the market (Rosenfeld, 2016).
Figure 6: Luxury goods market of China from 2007 to 2015 (D’Arpizio et al., 2015c)
4 THROUGH WHICH CHANNELS DO CHINESE LUXURY FASHION CONSUMERS ACQUIRE THEIR PRODUCTS?

4.1 RETAIL

According to Ben Cavender, a senior analyst at China Market Research Group, Chinese consumers would rather buy their luxury products in a physical store. They prefer this because in the stores they are educated on the products, they can touch them and subsequently show them off when they leave the store. Consumers are also afraid that there is a bigger chance for an item to be counterfeit when they would buy it online (Burkitt and Mattioli, 2012).

Luxury brands are uncertain about the future of opening or keeping a store in China. Retail sales in China are disappointing and brands, like Louis Vuitton, Burberry and Armani, are looking for ways to reduce their presence in the country (Garrahan, 2015, Young, 2016). Other brands, like Hermès and Georg Jensen, are opening more stores in China. Claudia D’Arpizio, a partner at Bain & Co, argues that it is important to have a presence in the country. She advises brands with a lot of stores in China, to cut back on the ones that are not profitable, because they might have been set up too early or in the wrong location, but not to move out completely (Garrahan, 2015, Young, 2016).

According to Robb Young (2016) a store will need to be highly flexible in order to accustom to the current luxury market of China. The demand of Chinese luxury consumers is changing rapidly, so a store will need to be able to change its product assortment in a pace that holds the consumers attention.

Justin Peng, chief executive officer of Dong Liang, a multi-brand store featuring Chinese designers says that the Chinese consumer is turning to brands that are more independent because big luxury have lost their exclusivity due to implementing product collections with a lower price and too aggressive expansion strategies (Young, 2016).

4.2 E-TAIL

In China are 668 million internet users and 594 million mobile users, presenting a large e-tail market (Doland, 2015, Young, 2016). China is now the biggest e-commerce market in the world (Doland, 2015) and it is expected to grow 25 percent each year in the coming years (Root et al., 2015, Young, 2016). Consumers are no longer going online to just click and buy, they are looking for high quality products from brands that they know and they want a positive shopping experience as well. Today 55 percent of all online purchases in China are done on a mobile phone, a number calculated to grow to 70 percent by 2020 (Ding et al., 2015c).
Figure 7 (Ding et al., 2015b) shows that in 2014 more than 2.9 trillion RMB passed through the online retail market of China. Excluding consumer-to-consumer sales and grocery sales the size of the online retail market in 2014 of China was about 1 trillion RMB. This represents 12.4 percent of the retail sales in China (Bain & Company, 2015). According to the calculations by Ding et al. (2015b) the total online retail market is expected to further develop to the size of 9.4 trillion RMB by 2020.

A trend that is also noticeable is the fact that an increasing amount of sales are done on foreign websites. Chinese fashion consumers are buying their goods on US-based websites. These kind of international sales are calculated to increase yearly by 30 percent to 1 trillion RMB by 2020 (Ding et al., 2015c).
Figure 8 (Ding et al., 2015a) shows that the e-tail apparel market in 2014 had a market penetration about 25 percent, this number is expected to grow to 35 percent by 2020.

4.3 BUYING OVERSEAS

The Chinese are currently the biggest luxury market, but this does not mean most luxury products are bought in China (The Economist, 2013). In 2014 about 100 million journeys by Chinese citizens were made out of China (Doland, 2015). It is calculated that about 80 percent of all the luxury goods sold by the Chinese is done in a foreign country (Young, 2016).
Figure 9 (D’Arpizio et al., 2015d) shows an overview of the spending on personal luxury goods by different nationalities. In 2015, the Chinese spent about 80 billion euros on personal luxury goods. Mature markets like the United States and Europe mostly buy their products in their home country, while China buys the biggest portion in Europe, followed by other countries in Asia and the United States. There are two main reasons for this phenomenon (The Economist, 2011, Young, 2016):

A. Price difference: It is estimated that the price of a luxury product can be 20 to 30 percent more expensive when it is bought in China (Chitrakorn, 2016).

B. Counterfeit products: The Chinese citizen believe that there is a bigger chance for a product to be genuine when it is bought outside of China.

Although the e-tail market is rapidly expanding in China, experts believe that the Chinese will continue to spend an increasing amount on luxury products abroad (Young, 2016).
4.4 PRICE DIFFERENCES: DAIGOU

The price differences of luxury goods between the West and China have resulted in the emergence of the trade “daigou”. Daigou are agents that will buy a luxury products in the West and then sell it for a cheaper price than the local price, while still making profit, in China by evading import duties (Chitrakorn, 2016).

To battle this illegal trade and secure these missed taxes, the government of China has lately started to make custom controls stricter and it has decreased the import tariffs. Import tariffs are however not the only taxes that China puts on luxury goods that are brought in from abroad.

Next to this, it also charges value-added tax (VAT) and consumption tax. So far, the Chinese government has not made any plans to decrease these (Chitrakorn, 2016). Next to the government, also other players in the market, like brands as Chanel, Gucci and Cartier, have started taking actions against the daigou trade. Firstly by battling the price differences, that are justifying this trade to exist, by increasing prices in Europe and decreasing them in China (Lannes, 2016, Chitrakorn, 2016). Next to this, some of the brands started keeping a closer eye on their customers. LVMH has put restrictions on the quantities that can be bought in the stores. A lot of the Chinese customers in Western stores are actually reselling the products.

Some Western brands might actually not be so willing to take actions against daigou. A substantial amount of their revenue and marketing is generated by daigou (Chitrakorn, 2016). In 2014 the daigou market grew to a size of between 55 to 75 billion RMB according to Bain & Company. However, in 2015 it shrank back to 43 billion (Lannes, 2016, Chitrakorn, 2016). Lannes (2016) predicts that the daigou trade will further decrease as a result of a more global pricing strategy of big luxury brands and the actions of the Chinese government to bring back sales to its domestic market.
China is growing in numerous areas that are proposing increased opportunities for luxury brands to take advantage of. New cities in China are starting to catch up to cities like Beijing and Shanghai, that have been among the first to enjoy the rapid developments happening in the country. As a result of this growth, the demand for luxury products is increasing in China.

This demand results from a culture that is more focussed on interdependency than the individual. The Chinese are encouraged by society to consume luxury products. These goods are used to nourish social relationships and to confirm social standing. China’s expanding middle class wants to display that their quality of life is going up and will require an increasing amount of luxury products.

Even though the Chinese still prefer to buy their goods in a physical store because of the sales experience and increased chance of a genuine product, the channels used to obtain the products are changing. The percentage of sales done abroad are expected to decrease with more sales done on the mainland and an increased trust in the e-tail market will boost the online market.

It is clear that each major city in China is in a different state of developments and will each offer a specific set of opportunities to luxury brands. In order to take full advantage of the opportunities that China offers and choose the city that fits a brand in the best way, a market research will be a logical, next step. Why not take full advantage of such an interesting and exciting market?
GOODS WORLDWIDE MARKET STUDY (ed.). Bain & Company.
Definition of Luxury Does Not Reflect the Changes Taking Place in the Luxury Market Today, New York, PR Newswire Association LLC.


