

China's luxury industry

White Paper
August 2022



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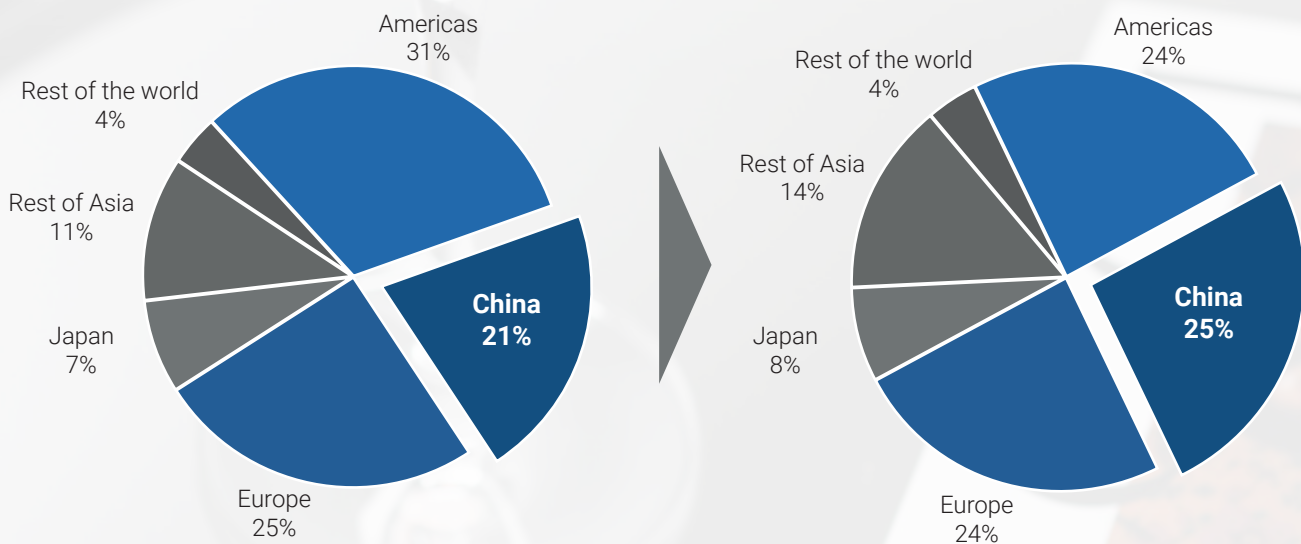
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Introduction

China's luxury market is expected to surpass that of the Americas and Europe and impose itself as **the world's largest luxury goods market by 2025**¹. However, as of 2021, Chinese spending on luxury goods has not returned to its pre-pandemic levels yet due to sporadic Covid-19 outbreaks. Meanwhile, the local luxury market is continuously evolving: the shift in Chinese luxury consumer demographics, the rise of local luxury brands, the launch of Hainan Free Trade Zone, and the demand for more digital, sustainable, and customized services are all reshaping China's luxury industry. The survival of international luxury brands in China will depend on their ability to surf new trends and adopt strategies aimed at preserving their products' appeal to the new generation of Chinese consumers.

Personal luxury goods market by region
2021 vs 2025



Data source: Altagamma - Bain (2021)

Sources:

1. Altagamma - Bain Luxury Market Monitor 2021
<https://altagamma.it/media/source/Altagamma - Bain Luxury Market Monitor 2021.pdf>

Section I: Trends shaping China's luxury industry

Six major trends can be observed in China's luxury industry that can help us have a glimpse of where the market is going. These following trends are the key to reaching the Chinese luxury consumers of tomorrow.



Trend #1 Male consumers, lower-tier cities, children, and seniors in the spotlight

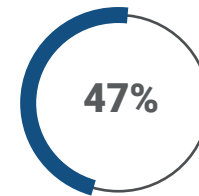
China's luxury market is a major source of revenue for many global brands. However, global brands have to keep up with the changing demographics of Chinese luxury consumers. While it remains obvious for luxury brands to primarily target Tier-1 cities, there is much **opportunity for growth and expansion in lower-tier cities**. In fact, consumers from Tier-2 and Tier-3 cities were already **responsible for 47% of the overall Chinese luxury goods consumption** in 2020².

What to expect when luxury embarks to lower-tier cities

Chinese men under 30 are responsible proportionally more for the online luxury goods consumption in lower-tier cities than in high-tier cities, correlating with comparatively higher spending on men's clothing, men's shoes, beauty, and skincare³. Hence, these product categories will be crucial for capturing Tier-2 and -3 luxury consumers.

Aside from different luxury preferences, **Tier-2 and -3 luxury consumers also have different motivations** driving their purchases compared to their Tier-1 city counterparts. While Tier-1 city consumers in general purchase luxury goods to distinguish themselves, those in lower-tiers favor functional products. Product performance and quality are key factors for lower-tier purchasing decisions as Tier-2 and Tier-3 luxury consumers tend to favor luxury goods which demonstrate higher quality in material and craftsmanship. They also gravitate to products of good durability and reliability.

In 2020,
**Chinese consumers in Tier-2
and Tier-3 cities**
were responsible for

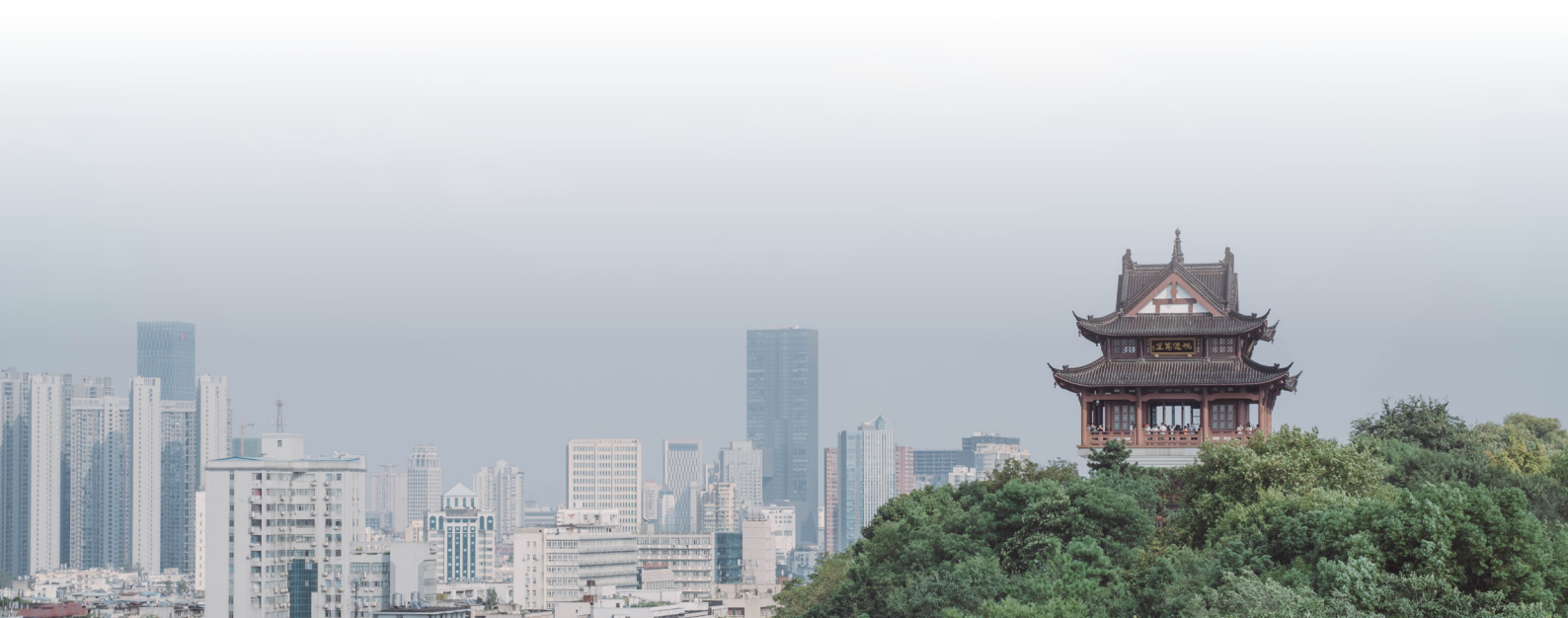


of the overall luxury sales.

Sources:

2. 2020 BCG x Tencent Digital Luxury Report,
<https://xueqiu.com/9508834377/162544483>

3. Deloitte launches Deloitte-SECOO CIIE Blue Paper 2019
<https://www2.deloitte.com/cn/en/pages/about-deloitte/articles/pr-deloitte-sekoo-ciie-blue-paper.html>



The rise of male luxury consumers: men's fashion trends in China

Chinese male consumers are increasingly keen to splurge on fashion. China's men's fashion market reached 594.9 billion RMB in 2019, recording a year-on-year increase of 4.1%⁴. Although the pandemic has led to a 14.3% drop in 2020, **China's menswear market is estimated to reach 1.3 trillion RMB by 2023.**

Three major trends can be observed in men's fashion in China that can help us have a glimpse of the direction of the market and how to reach male fashion consumers.

Chinese men's fashion brands are going digital

The outbreak of Covid-19 has disrupted the fashion industry and forced brands to **experiment on new ways to connect with their Chinese audience.** Participants of Paris and Milan Fashion Weeks had to rely heavily on new media to present their Spring-Summer 2022 Men's collections to Chinese customers.

For instance, Louis Vuitton hosted a live stream show on the Chinese video platform Kuaishou, reaching around 40 million viewers⁵. Before the event, the French Maison collaborated with five Chinese male celebrities to release some promotional teasers on all the most popular Chinese social network platforms.

Breaking the boundaries between male and female

Despite the government's efforts against the feminization of Chinese men, genderless clothing is becoming the new normal for men's fashion especially, thanks to male idols such as Wang Yibo and Cai Xukun. **A softer and more fluid concept of manliness is gaining ground** at the expense of the warrior masculinity embodied by the famous Chinese kung fu stars of the past.

It is not surprising that some rising Chinese designer brands such as Private Policy and Pronounce blur or remove gender boundaries, providing their male customers new ways of expressing themselves, more in line with the ancient concept of Wen 文, or "soft masculinity". Chinese Millennials and Gen-Z consumers are the engine of China's streetwear boom. In 2021, **"street style" ranked among Douyin's top 10 buzzwords** and streetwear-related short videos on Douyin received over 500 million views, recording an 85.4% increase year-on-year⁶. Beyond being fashionable and cool, the hip-hop fashion is a way for younger generations to better express themselves. Surfing such streetwear fever in China, luxury brands decided to add urban features to their collections.

That is the case of Givenchy and Louis Vuitton, who on occasion of the Spring-Summer 2023 Men's Fashion Week mingled their distinctive styles with high street elements, such as baggy denim shorts and sneakers.

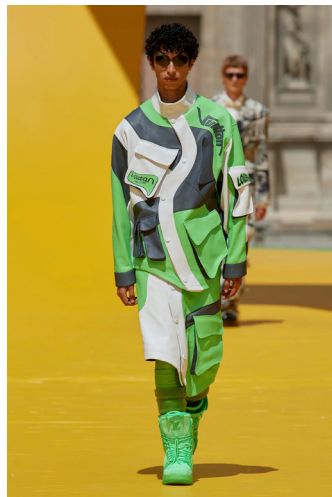


Image: VOGUE, LV (left) and Givenchy (right) for Spring-Summer 2023 Men's Fashion Week

Sources:

4. 2022 China men's fashion market development trend analysis

<https://www.qianzhan.com/analyst/detail/220/211012-745b3919.html>

5. Louis Vuitton live streams its latest menswear show, why is it landing on Kuaishou for the first time?

<https://luxo.co/post/157694>

6. Top 10 lifestyle trends report on Douyin e-commerce in 2022

<https://www.cbndata.com/report/2899/detail?isReading=report&page=38&readway=stand>

Little emperors: A glimpse into China's luxury childrenswear market

Baby apparel is emerging as an industry full of opportunities for fashion brands: the size of China's children's clothing market boasted a 21.3% rise between 2015 and 2020, and is predicted to generate more than 400 billion RMB by 2025, according to Euromonitor⁷. Moreover, compared to other countries, such as the US, France, Germany, the UK and Japan, **China's childrenswear market concentration is still relatively low**, providing fashion companies room for improving their position within the market.

Millennials living in Tier-1 and Tier-2 cities are the core consumers of high-end products in general and the same goes for luxury childrenswear in China.

How luxury brands appeal to luxury-oriented parents

Cartier and Hermès decided to include baby accessories in the gift section of their Chinese official webpage, while many others opted for having children's clothing categories on their sites. Gucci and Versace even added a page solely dedicated to **Mini-me outfits for parents and children, a trend among Millennial and Gen-Z parents**.

One of the most notable pioneers in luxury childrenswear is Burberry. It was one of the first high-end brands to launch a baby clothing's line and rapidly became one of the biggest players in the market. According to its 2022 report, Burberry Kids yielded 144.8 million British pounds (slightly over 1.1 billion RMB) in 2021 and recorded a 14% growth in 2022, jumping to 177 million British pounds (about 1.5 billion RMB) of revenues⁸. Considering these figures, it is not surprising that the famous British brand not only offers a large luxury childrenswear collection on its Chinese website, but it also provides users with a baby apparel filter on its WeChat Mini-program and on its Tmall and JD.com official stores.

The great success of the Mini Me fashion

As digital-friendly Chinese Millennials settle down and start families, children spotlight on social media. Especially significant is the success of the Mini me culture in China. Chinese Tier-1 and Tier-2 Millennial and Gen-Z mothers love seeing that their daughters look like them.

This phenomenon involves high-end clothing as well. Hundreds of people devour the pictures showing @ 是我COCU and her children wearing matching luxury clothes on Xiaohongshu and the same goes for @Akiiko, whose most successful post exhibits her daughter dressed up with the Mini me version of her elegant Fendi outfit.



Image: Xiaohongshu, @ 是我 COCU and her little emperors wearing Burberry clothes.

Sources:

7. Children's clothing market will reach 400 billion yuan

<https://www.cbndata.com/information/235387>

8. Burberry Annual Report 2022

<https://www.burberryplc.com/en/investors/results-reports.category1.year2022.html>

Section I: New trends shaping China's luxury industry

Trend #1 Male consumers, lower-tier cities, children, and seniors in the spotlight

Chinese consumers are getting older

According to the Brookings Institute, **China will host the largest silver economy after the US by 2030** and the elderly are emerging as major players in the national economy, motivated by an increasingly hedonistic and individualistic socio-economic structure. The **silver economy in China** is expected to reach 2.1 trillion US dollars (14 trillion RMB) in 2030, thereby **surpassing Japan** where old shoppers' spending stabilized at 900 billion US dollars (6 trillion RMB)⁹. In addition, internet penetration is growing among those aged 60 and above in China, fostering their online spending and leading to the emergence of the first "silver-haired" KOLs.

Seniors in China are a blue ocean for luxury brands

Although such consumer group is growing fast, **so far luxury brands have mostly ignored the Chinese elderly** and mainly focused their marketing efforts on attracting Millennials and Gen-Z. In fact, people who were born after the 80s in China accounted for 39% of the luxury personal goods market in 2019 and BCG-Altgamma report estimates that Millennials and Gen-Z will hold between 55 and 65% of market by 2025¹⁰. Therefore, it is not surprising that Chinese young consumers are considered as the main drivers of luxury sales and as the main target group for international brands. Nevertheless, Chinese seniors are more and more willing to spend their money on themselves and engage in online shopping.

Chinese elderly are tech-savvy and eager to shop online

Against all odds, the elderly play an active role in the internet boom and especially in Chinese e-commerce. In the first three quarters of 2021, Chinese elderly's online sales on JD increased by about 4.8 times year-on-year, with clothing purchases recording an astonishing 50% growth¹¹. The **internet penetration rate of people aged 60 and above** reached 43.2% as of December 2021, and **is expected to further grow in the future**.

Furthermore, **elderly influencers** have started mushrooming on Douyin, attracting the attention of both Chinese young and old consumers. That is the case of Grandma Wang, boasting over 14 million fans on Chinese Tiktok and Fashion Grandmas, a group of four elderly women flaunting their elegant outfits in their short videos. Hiring **silver-haired KOLs can be a powerful tool for surprising Chinese novelty-loving Gen-Z** while mitigating risks stemming from "traffic stars". Nonetheless, a wrong move could send the message that your brand is outdated and stuck in the past.



Image: Weibo, Grandma Wang is one of the most popular silver influencers in China

Sources:

9. *The silver economy is coming of age: A look at the growing spending power of seniors*

<https://www.brookings.edu/blog/future-development/2021/01/14/the-silver-economy-is-coming-of-age-a-look-at-the-growing-spending-power-of-seniors/>

10. *True-Luxury Global Consumer Insights*

<https://on.bcg.com/3S011Zx>

11. *Jingdong released its Senior Consumer Insights*

<https://new.qq.com/rain/a/20211021a072vm00>

“

To be a leader in the field of Chinese luxury, one needs to have a comprehensive skill-set combining good vision, insight, networking, absorptive capacity, creativity and operational abilities.

- Jiang Qiong Er
CEO of Shang Xia

”



Trend #2 The rise of Chinese luxury brands

Survey on Chinese consumers' perceptions of local luxury brands

The wave of **growing nationalism and cultural confidence**, along with a shift in the perception of the Made in China label, created a conducive ground for the rise of Chinese luxury brands. That is why we surveyed **1,000 Chinese consumers** to know more about their thoughts around Chinese luxury brands and we investigated **5 hypotheses on the emergence of local luxury players**. It is still to be seen whether growing discontent for the Zero-Covid policy is going to weaken widespread national confidence.

From our survey, it is evident that Chinese consumers' perceptions of Made-in-China brands have evolved. A majority of respondents claimed to be strongly attracted to and willing to purchase local luxury goods. Nevertheless, intentions do not always convert into sales, emphasizing the importance of branding in influencing purchasing decisions in China.

However, such buying behavior could not persist once Chinese luxury brands acquire the same authority and prestige.

Section I: New trends shaping China's luxury industry

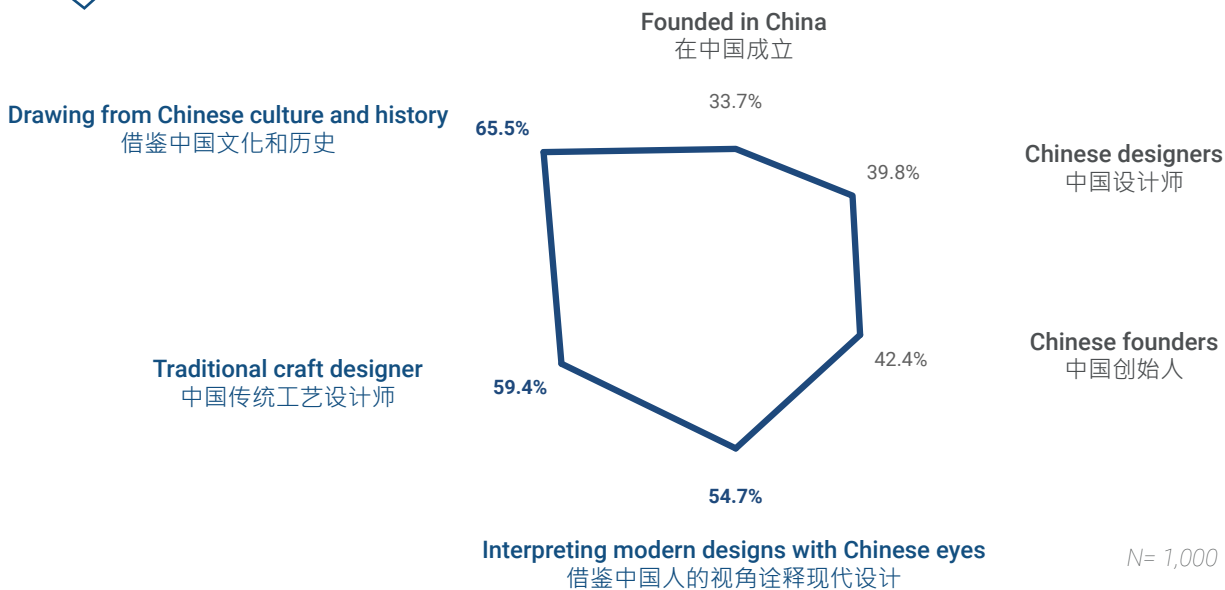
Trend #2 The rise of Chinese luxury brands

According to surveyed Chinese consumers, **what makes luxury brands "Chinese"** resides in their essence rather than in their form: **drawing from Chinese culture and history**, employing **local traditional craftsmanship** and interpreting **modern design with Chinese eyes** are essential elements in defining Chinese luxury brands.

Less than half of respondents mentioned traditional features defining the country of origin of a brand (such as having Chinese founders and designers) as the main factors contributing to make a luxury brand "Chinese".



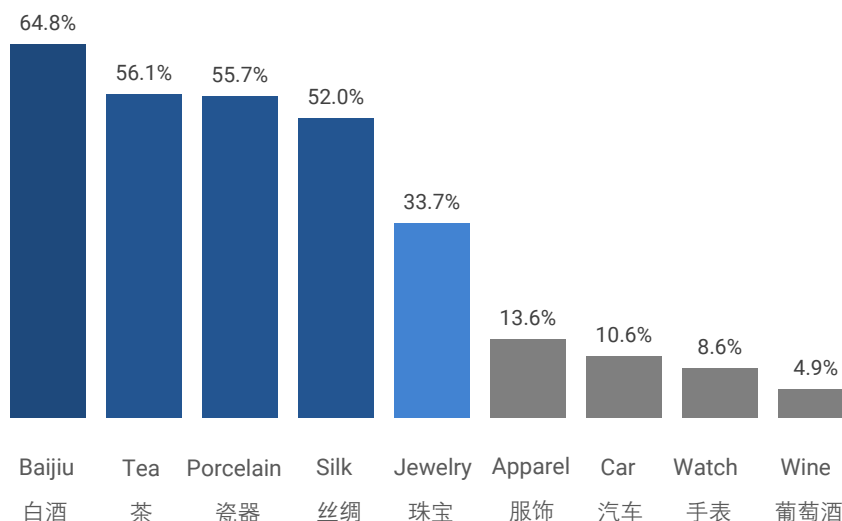
What does a luxury brand need to be labeled as "Chinese"?



Industries deeply rooted into Chinese traditions such as **baijiu, tea, porcelain, and silk** are perceived as the most popular Chinese luxury goods, while wine and watches tend not to be considered high-end Made-in-China products.



When you think about Chinese luxury brands, what industry comes to your mind?



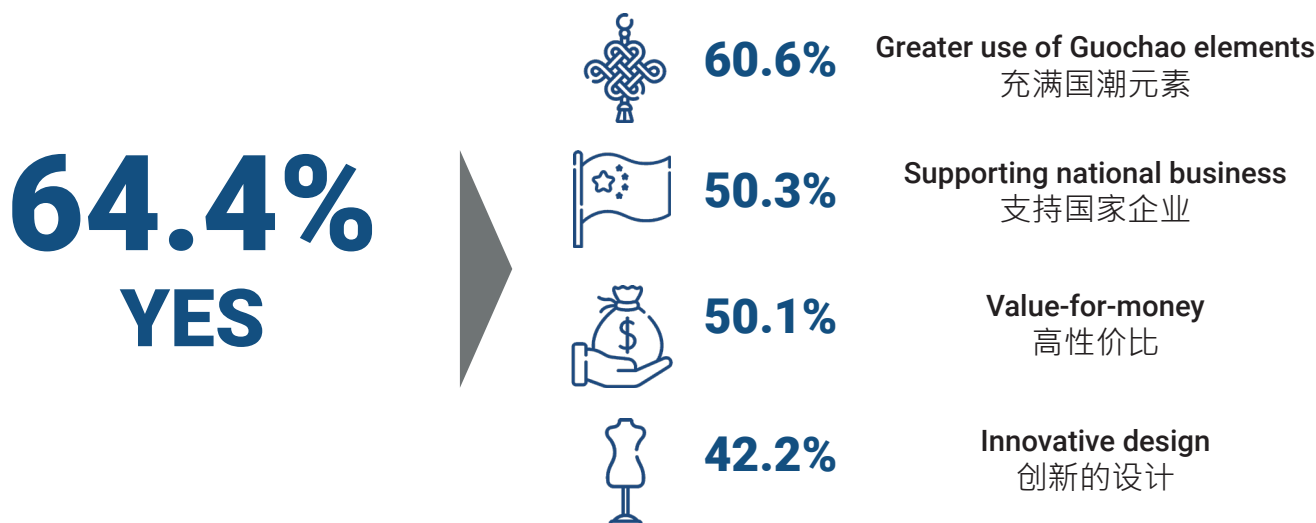
N= 1,000

Section I: New trends shaping China's luxury industry

Trend #2 The rise of Chinese luxury brands

Most of interviewed people claimed having purchased Chinese luxury goods before and **90% of those who have never bought any Chinese luxury product** declared being willing to do so in the future, illustrating the changed perception of Chinese consumers towards local goods. **Guochao was a stronger purchasing driver than quality.**

Have you ever purchased a Made-in-China luxury brand?
If yes, what of the following factors induced you to take such decision?

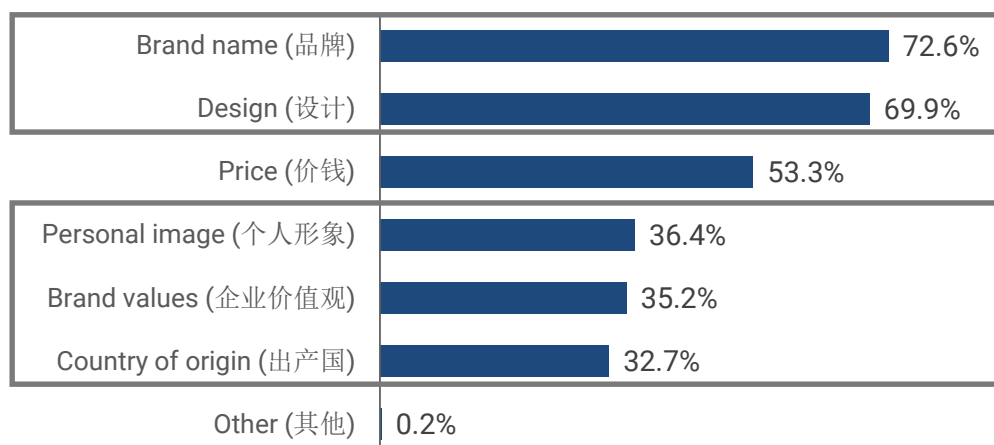


N= 1,000

Although designs have become increasingly important in driving sales, the **brand name is still the deciding factor** as many Chinese luxury shoppers are first-time consumers and prefer purchasing well-established international luxury brands.

Such behavior shows that Chinese consumers do not currently equate local luxury brands with the same prestige, authority, and perceived quality as foreign ones.

Which of the following factors matters the most for you when it comes to purchasing a luxury brand?

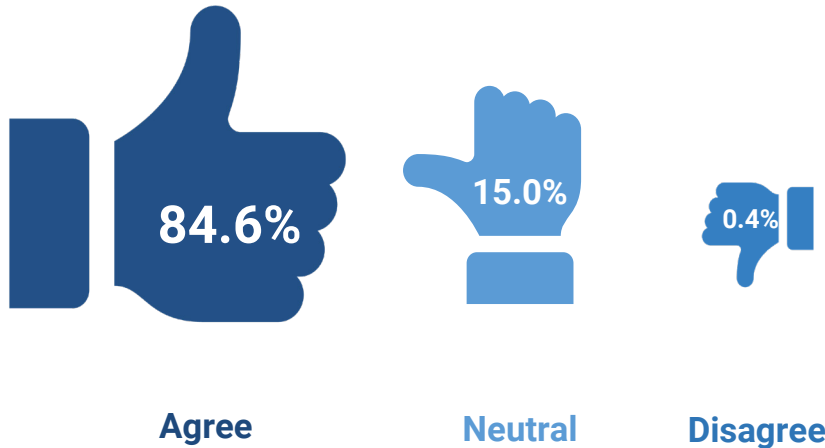


N= 1,000

Section I: New trends shaping China's luxury industry

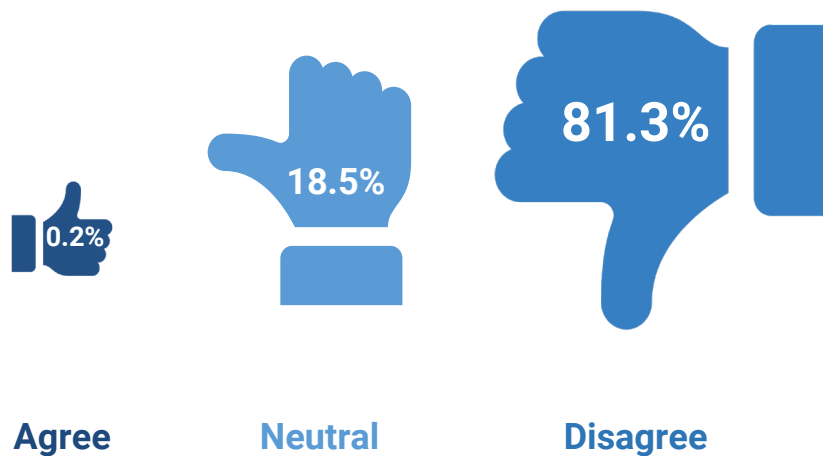
Trend #2 The rise of Chinese luxury brands

Q I would choose to buy Chinese luxury goods if the quality and price were equal to foreign ones.



N= 1,000

Q If the quality of Chinese and foreign luxury goods were the same, I would buy foreign goods even if it costs more.

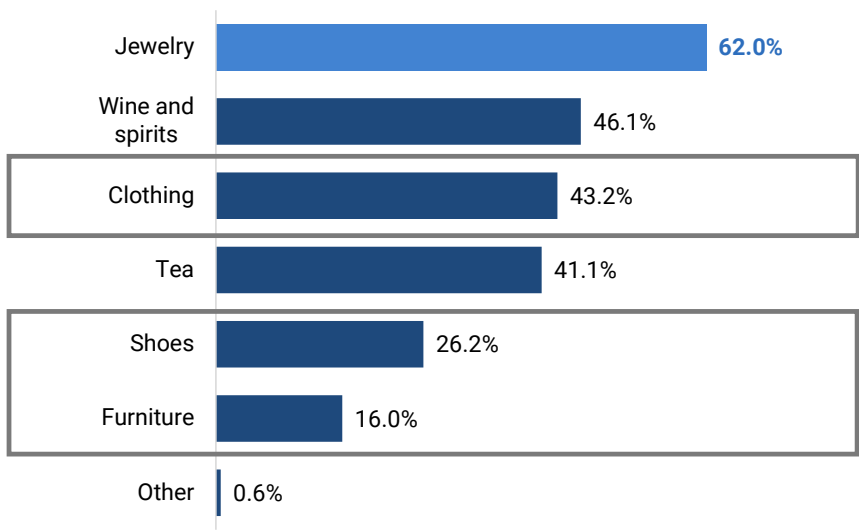


N= 1,000



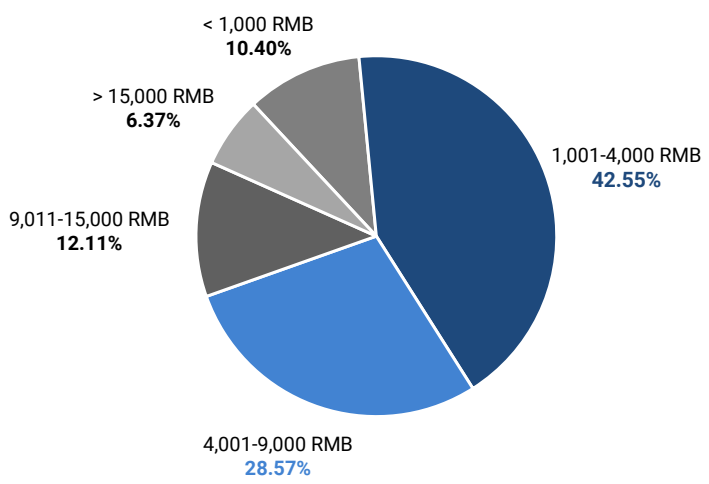
However, consumers are willing to purchase Chinese luxury brands in luxury categories dominated by foreign brands when perceived quality and price of Chinese goods get closer to those of their foreign counterpart, opening future opportunities for Chinese brands in the accessible luxury segment.

Q What kind of Made-in-China product have you purchased?



N= 644

Q How much did you pay for it?



N= 644

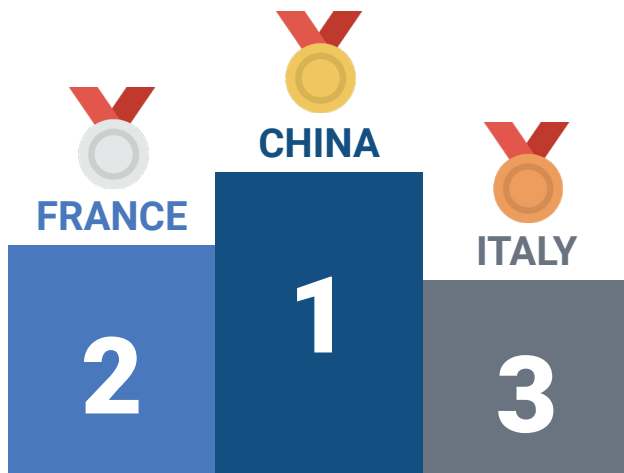
An evolving definition of luxury in China

When the country opened up, the first generation of Chinese luxury consumers utilized luxury goods to flaunt their wealth and show other people that they were able to climb the social ladder. Nevertheless, as society changes and per capita income grows, a new definition of luxury emerges in China.

Nowadays, **luxury goods in China are** meant as **a way to reward and express oneself** in a more elevated way, and this is especially true for young Chinese consumers. As luxury converts into a method of self-actualization and self-expression, the key elements of China's new concept of luxury have become experience, innovation, customization, and cultural sensitivity.



I am attracted to luxury brands from...



N= 1,000

Made in China: from copycat to innovation

Before the so-called "Century of Humiliation", China was considered a luxury superpower. Nonetheless, after decades marked by semi-colonialism, civil wars, invasions, and revolutions, China's industrial capital was eroded. Following the launch of the economic reforms, China quickly became the "factory of the world", while "Made in China" turned into a synonym for copy-cat and low-quality.

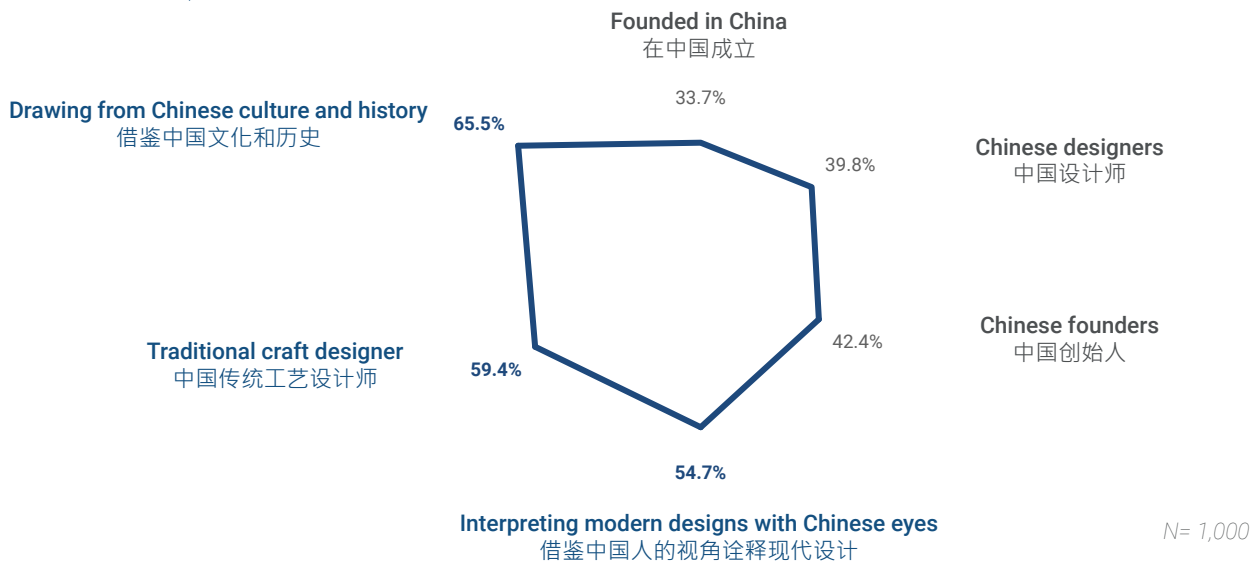
However, as the country gradually moves up the value chain, **Chinese consumers have started changing their perceptions of local goods**, associating them more and more often with **"innovation" and "high-quality"**. **Branding is still a deciding factor** as many Chinese luxury shoppers are first-time consumers and prefer purchasing well-established international luxury brands. However, it does not mean that such buying behavior will persist once Chinese luxury brands acquire the **same authority and prestige**.

The Guochao wave is accelerating the rise of Chinese luxury brands

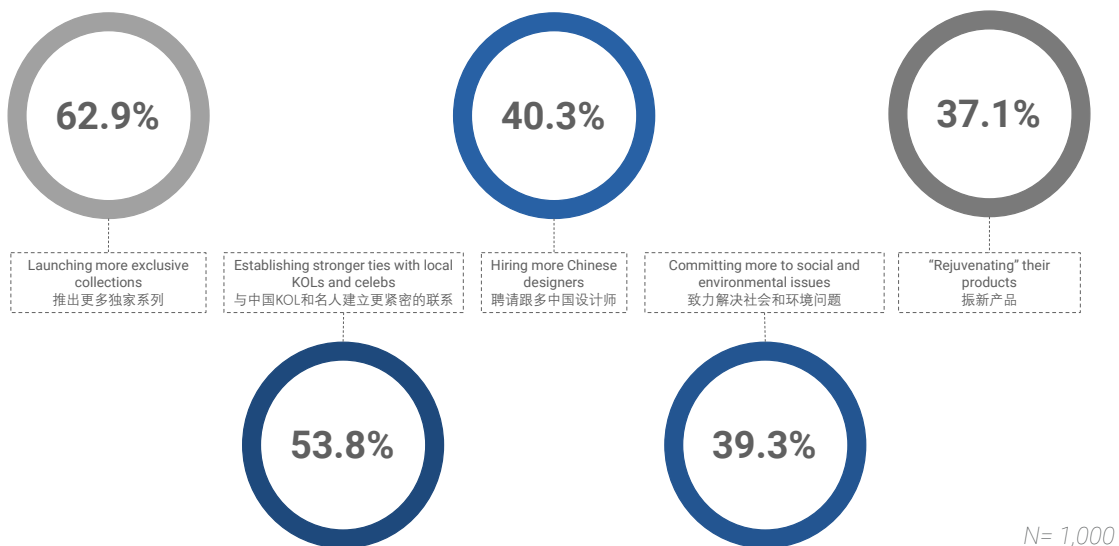
Stemming from a growing sentiment of nationalism and cultural confidence in consumption, **Guochao played a major role in changing Chinese consumers' perception of local brands.**

The luxury industry was not left untouched by Chinese consumers' desire to eliminate the patina of Western orientalism, which has for long filtered the way Chinese style was projected in the fashion industry. According to our survey respondents, **Guochao includes both functional and emotional features:** Chinese consumers do not purchase Chinese luxury goods solely due to the greater presence of Chinese cultural elements and for supporting national businesses, but also because Chinese brands are automatically associated with a **higher value-for-money, more attentive customer care, and a greater variety of customized services.** Such functional elements are especially important to Gen-Z consumers, who tend to be more convenience and service-oriented than the overall consumer base.

What does a luxury brand need to be labeled as "Chinese"?



What do you think Chinese luxury brands do better than foreign ones?



5 hypotheses on the future of Chinese luxury brands

Although foreign brands dominate China's luxury industry, local luxury brands have been gaining momentum over the past few years. If foreign brands do not want to be outpaced, they should not overlook the gradual rise of local brands and their effective strategies. To better understand the future of Chinese luxury, we formulated five hypotheses for the emergence of local luxury players.

1. Chinese luxury brands will come from products rooted in Chinese culture and traditions

Instead of competing head-to-head with foreign brands in segments dominated by Western names, local companies can leverage their deeper understanding of the Chinese culture to cater to Chinese consumers. Indeed, in industries such as baijiu, tea, porcelain, and silk, the quality and prestige of Chinese brands is unquestionable.

However, other segments local brands are also drawing from Chinese culture to dominate the luxury market in China. That is the case of furniture design brand **PUSU**, whose items provide a good example of Chinese minimalism. Since its market entry in 1998, IKEA introduced Chinese consumers to the Northern European minimal style (hence, the minimalist aesthetic is termed 北欧风格 "Northern European Style" in Chinese), while offering an alternative to the pompous furnishing style which was popular in China by the end of the 90s and early 2000s. PUSU's designer, Chen Hanfei, did not just emulate European or Japanese minimalism, but he drew from Taoism principles and Ming dynasty interior design to introduce a new concept of **minimalist décor "with Chinese characteristics."** The mission of the brand is creating a Chinese contemporary literati lifestyle by connecting the present with the past. For this purpose, PUSU makes extensive use of Chinese traditional crafts, such as the mortise and tenon joint techniques, and of rare Asian materials such as Burma Padauk wood to manufacture its products.



Image: PUSU's WeChat account, Beyond furniture, PUSU provides fine tea and fancy tea sweets



Image: China Design Center, PUSU Ming-style minimalist furniture

Section I: New trends shaping China's luxury industry

Trend #2 The rise of Chinese luxury brands

2. Chinese luxury brands will leverage Traditional Chinese Medicine (TCM) in cosmetics and fragrances

Traditional Chinese Medicine is a healing approach that originated in China thousands of years ago. In China today, traditional Chinese herbal medicine is used alongside conventional pharmaceutical treatments, but many **brands have started incorporating TCM elements in their makeup and perfumes** as well.

Chinese consumers increasingly prefer TCM cosmetics especially after the outbreak of Covid-19 as they are influenced by ancient Chinese beauty practices. TCM cosmetics are generally considered as **natural and safe**, and are perceived as **more skin-friendly**. Among local consumers, the post-90s generation is likely to be the main driver of the TCM-based cosmetic sales due to their greater attention to the presence of natural ingredients in makeup.

Local high-end cosmetics brands such as MAYSU are already taking advantage of such opportunity and producing TCM-based skincare products. MAYSU features various product lines with TCM, such as those containing ginseng seeds or plum flower embryos from the Yellow Mountain. MAYSU continuously strives to improve the effectiveness of its products without sacrificing the "Chinese characteristics".

The French luxury conglomerate LVMH decided to dive into the world of TCM-based cosmetics as well by launching the brand Cha Ling, whose beauty products contain detoxifying and regenerating Pu'er tea.



Image: Air Paris Agency, Maysu TCM-based regeneration booster

4 popular TCM beauty herbs



Ginseng root

Ginseng vaunts a strong anti-ageing, rejuvenating and anti-inflammatory effect.



Chinese rose petals

Chinese rose petals enhance blood circulation, protect the skin and reduce the signs of aging.



Licorice root

Considered as a strong anti-inflammatory ingredient, licorice root prevents skin irritation and protects against the biggest stress factors.



Chinese angelica root

Beyond improving circulation and reducing inflammation, Chinese angelica root brightens and moistures skin.

3. Chinese luxury brands will leverage Chinese traditional craftsmanship to stand out

The Guochao trend and government's promotion of "craftsmanship spirit" have brought about promising opportunities for Chinese artists.

Chow Tai Fook, a long-established luxury jewelry brand, is combining modern aesthetics and designs with century-old gold working techniques to ensure its gold jewelry pieces can be passed down through generations. Its jewelry products incorporate Chinese culture and cater to both its female and male consumers. For instance, the Hong Kong jewelry house vaunts a series of transferrable beads engraved with the four greats gods of ancient times. Moreover, Chow Tai Fook has collaborated with art museums as well as the Shaanxi Institute for Preservation of Cultural Heritage in order to reconstruct ancient gold craftsmanship techniques.

China's most renowned couturier **Guo Pei** has converted Chinese handmade embroidery into the signature of her brand. The Chinese designer **mingles Chinese craftsmanship with Western style** to produce gorgeous clothing inspired to fairy tales, legends, and military history. Guo Pei rose to international prominence when Rihanna wore her Yellow Empress gown during the 2015 Met Gala: it took Guo Pei two years to create that astonishing long cape and 50,000 hours of embroidery.



Image: Vanity Fair, Rihanna wearing Guo Pei for Met Gala in 2015

4 Chinese traditional crafts



Wood carving



Joinery



Jingdezhen porcelain



Miao embroidery

4. The lack of a robust craftsmanship ecosystem hinders the emergence of Chinese luxury brands

Without a **sound craftsmanship framework in China**, local luxury brands struggle to start or expand their craftsmanship ecosystem. Nevertheless, Chinese luxury brands are investing time and resources in incubating their own ecosystem if necessary. DUANMU and Shang Xia are examples of local brands engaged in building their own network of craftsmen from scratch.



Image: Weibo, Duanmu Liangjin's handcrafted wooden handbags

In order to produce its handbags, **DUANMU's** founder, Qi Tian, taught himself the Tang-dynasty ancient fine wood inlay technique since he could not find a suitable workshop for his wooden bag designs and craftsmen were reluctant to work with him as it meant adapting to their craftsmanship.

It took **Shang Xia** three years to scout for and collaborate with Chinese artisans still possessing traditional craftsmanship skills. Although scaling up quickly is not part of the brand's objective since it wants to ensure the quality and exclusivity of its items, a low supply of artisanal craftsmen could become a serious issue in the future. Currently the brand relies on a network of just 50 artisans scattered between China, Nepal, and Vietnam.



Image: Pinterest, Shang Xia's tea ceremony sets combine craftsmanship such as wood carving, bamboo weaving and porcelain tea set making

“Everything sold by Shang Xia is produced by artisans using traditional Chinese techniques, and is the result of months, and sometimes years of research by an expert committee including professionals from national museums and universities.

- Jiang Qiong Er
CEO of Shang Xia

5. The emergence of Chinese luxury brands will go hand in hand with the implementation of state policies in terms of heritage protection

Since the formulation of the Plan on Revitalizing China's Traditional Crafts in 2017, **greater attention** has been put **into protecting the heritage and traditional craftsmanship**. Also creating a clear set of certifications setting formal standards regulating and defending the production of high-end local products such as tea, silk, and porcelain would help build a sounder ground for luxury brands to rise. Indeed, **some industries have plenty of local luxury products but lack luxury brands for the time being**.

In an attempt to safeguard invaluable traditional arts and crafts, in 2011, China promulgated the Intangible Cultural Heritage (ICH) Law of the People's Republic of China¹². Nonetheless, its applicability is quite limited since it provides inadequate legal shield in terms of copyright, trademark, and geographical protection due to the deficiencies in the current IPR regime in ensuring an effective holistic protection for ICH.



Image: Gafencu, Workers mix grains with yeast

***Moutai**, China's top liquor brand, follows a process dating back to the Han dynasty and draws its ingredients from Moutai Town, whose unique geological location and micro-climate give a special and multidimensional taste to the distilled spirit. Moutai's ancient production process requires baijiu to ferment for at least 3 years in terracotta jars before being bottled, making such liquor both exclusive and rare.*

In the last decade, Zunyi City Intermediate Court carried out research on the trademark protection mechanism for Moutai, thereby clarifying the applicability of copyright and trademark regulations involving disputes over ICH properties as well as enabling Guizhou businesses to secure both judicial and non-governmental protection.



Image: Quartz, Moutai fermenting in terracotta jars before being bottled

Sources:

12. On Protection of Intangible Cultural Heritage in China from the Intellectual Property Rights Perspective
<https://doi.org/10.3390/su10124369>

What foreign brands should know

As national confidence spreads and local luxury brands rise, foreign brands cannot afford to sit idly. Even if some watchers consider it as mere nationalism, **Guochao is a much more complex cultural phenomenon** that does not necessarily exclude foreign brands. In fact, Chinese consumers are eager to reward those brands capable of **incorporating Chinese elements and perspective in their designs**, as well as praise those players who show a **strong commitment to the Chinese market** by establishing sounder ties with local Key Opinion Leaders (KOLs) and designers.

Moreover, in order to avoid losing ground, foreign brands toned to meet Chinese consumers' demand with a **more attentive customer care and a wider range of customized services**.

Chinese consumers get nostalgic

The Guochao overlaps with Chinese consumers' growing attachment to their childhood. Escaping from an increasingly atomistic and competitive society, Chinese Millennials and Gen-Zs seek relief in revoking emotions of the past.

Brands meet this psychological need through **nostalgia marketing strategies** meant to enhance consumers' engagement through building up communities of kindred individuals. In fact, despite the fact that some of them entered the Chinese market not long ago, Western brands are capitalizing on Millennials and Gen-Zs' nostalgia as well. For instance, Dior collaborated with Chinese American actor Chen Feiyu to relaunch its retro-style saddlebag for its Fall 2020 Men's Collection.

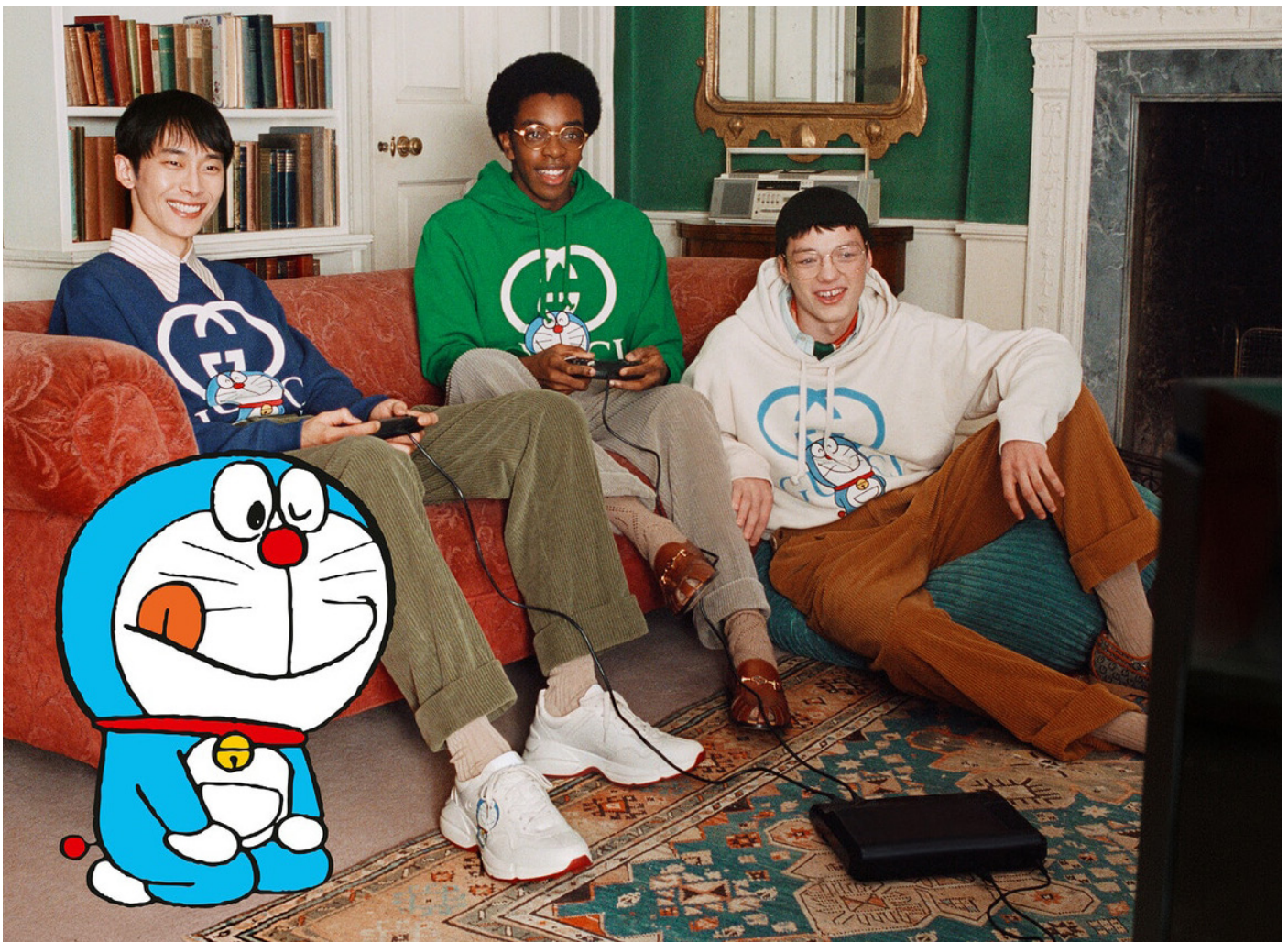


Image: Gucci, Gucci x Doraemon for Chinese New Year 2021

Trend #3 China's duty-free economy is booming

Since the beginning of 2020, in order to help retail, tourism, and education, the Chinese Ministry of Finance (MOF), along with the State Taxation Administration and some local governments, have announced tax reliefs and measures meant to support both enterprises and citizens. This led to a 48% year-on-year increase in terms of domestic personal luxury goods sales in China in 2020¹³.

Understanding China's VAT tax incentives

In February 2020, the MOF adopted VAT incentives to support businesses affected by the Covid-19 pandemic. In July, a new offshore **duty-free policy in Hainan Island** was released to promote the development of the **Hainan Free Trade Port** and the construction of **Hainan Tourism Island** aimed at stimulating domestic tourism. **The annual duty-free shopping allowance was increased** to 100,000 RMB per person for travelers in Hainan. Moreover, the categories of available duty-free goods rose from 38 to 45¹⁴. Lastly, as the demand was very high, the Chinese government raised the **purchasing limit on cosmetic products from 12 items to 30 items**. As a result, Hainan doubled its duty-free revenues from 2019 to 2020. However, **aggressive pricing** is still the most important factor of the success in Hainan as unit prices are up to 30-55% lower than brands' official listed prices¹⁵.

Offline channels offer premium experience to customers

Due to travel restrictions, Chinese consumers were not able to shop from other countries, such as Japan and Korea, thus inducing foreign brands to sell through Chinese duty-free channels to make up for losses. Therefore, brands are focusing both on online and offline channels in order to catch Chinese travelers' attention. In general, brick-and-mortar channels provide a means for brands to stand out in a market increasingly saturated with online options. **Chinese consumers are shifting to value experience**, and not just product ownership: they are more likely to make a purchase if personalization services are offered.

One emerging trend is brick-and-mortar stores **creating memorable experiences** a become tourist destinations. For example, in 2019, fashion brand IGFD opened its first self-owned department store, Le Templar on The Bund, in Shanghai. Thereby, IGFD turned its retail stores into 'insta-worthy' photo points that are almost themselves tourist attractions.

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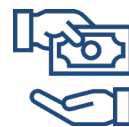
14. Policy Interpretation of the Announcement on the Duty-free Shopping Policy for Hainan's Outlying Island Visitors

https://www.ndrc.gov.cn/xwdt/ztlz/hnqmsghgkf/ghzc/202009/t20200930_1239947.html?code=&state=123

15. Beauty Dominates Hainan's High-Growth Duty-Free Market – But There's A Downside

<https://beautymatter.com/articles/beauty-dominates-hainans-high-growth-duty-free-market-but-theres-a-downside>

What makes Hainan duty-free policy special



Annual duty-free shopping allowance of **100,000 RMB per person**



45 categories of available duty-free goods



Max purchasing cap of **30 cosmetic products**



30-55% cheaper than brands' official listed prices

Pop-up shops are attractions to Gen-Z and Millennials

Due to travel restrictions, Chinese consumers were not able to shop in other countries, such as Japan and Korea, thus inducing foreign brands to sell through Chinese duty-free channels to make up for the losses.

Pop-up stores have become one of the main forms of new retail in China since they are a common tool of hunger marketing, offering exclusive items in picture-worthy settings. By allowing users to interact with elements of décor through their smartphones, pop-up stores create immersive experiences for consumers.

Daigous, a travel retail disrupter

Daigou (代购) is a form of surrogate shopping in China utilized to get hold of luxury goods from duty-free shops and foreign countries at a bargain price. Along with the growth in tourism, luxury market, and increased disposable income, the Daigou market in China has developed rapidly over the past ten years. However, this phenomenon is destined to scale down as travel restrictions, new e-commerce regulations, and the booming duty-free economy hampers Daigous' activities.

The impact of COVID-19 for Chinese Daigou industry is huge but is waning

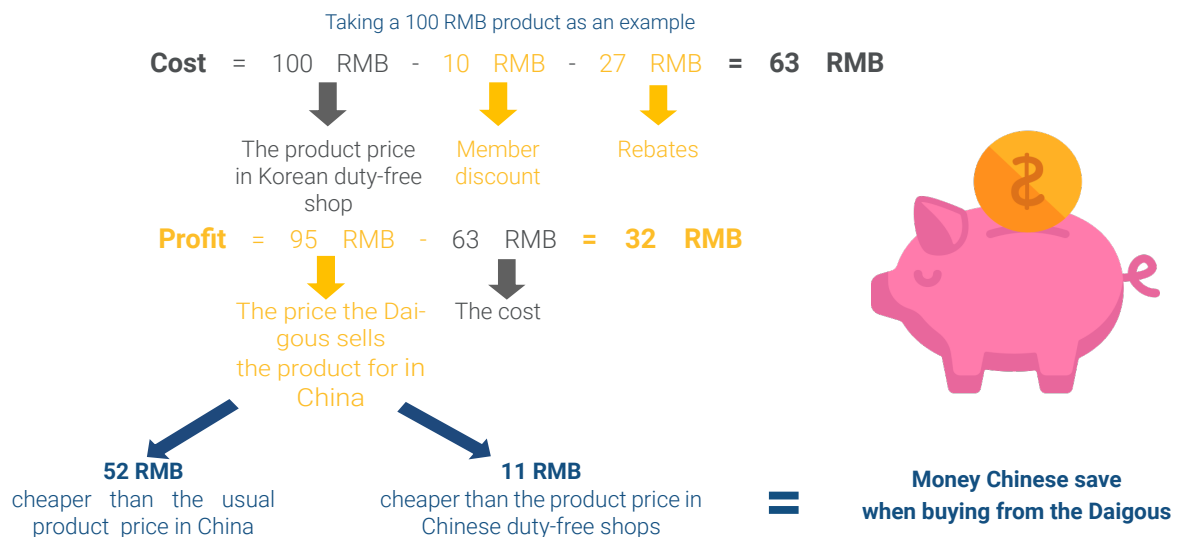
Covid-19 has brought great damage to the Daigou industry due to travel restrictions, shipping delays, and lower consumer confidence. According to CLA's survey on the **Daigou** industry, over half of respondents said that their **business decreased by at least 15% since the Covid-19 outbreak**¹⁶. However, as the Chinese economy started recovering from the pandemic, demand for Daigou services bounced back, even though **the Daigou economy is not as important as it used to be in the past**¹⁷.

Incentives to buy luxury goods from Chinese Daigous

Cosmetics from top international brands account for more than half of luxury goods purchased via Daigous, followed by bags, watches, and jewelry. Daigous are able to provide a much cheaper price for luxury goods by bypassing China's luxury good tax rate, which is the highest in the world. Between January 2020 and 2021, the price of the same basket of **luxury goods in Mainland China was about 60-75% higher than in Europe**, while its median price in the US was just 10% higher than the European average¹⁸.

Secondly, Daigous have access to special limited editions. Therefore, consumers are willing to pay double or even triple the price to purchase their exclusive products.

The cost and profit of Daigous



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<https://www.voguebusiness.com/consumers/china-daigou-not-going-away>

18. Price Gaps between luxury goods in China

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Daigous need to pay taxes now

Since the implementation of the **Chinese e-Commerce Law in 2019**, as e-commerce operators, Daigous must register and pay taxes in accordance with relevant regulations. Some Daigous say that with the **reduction of profit margins**, the prospects of engaging in this industry in the future are not optimistic.

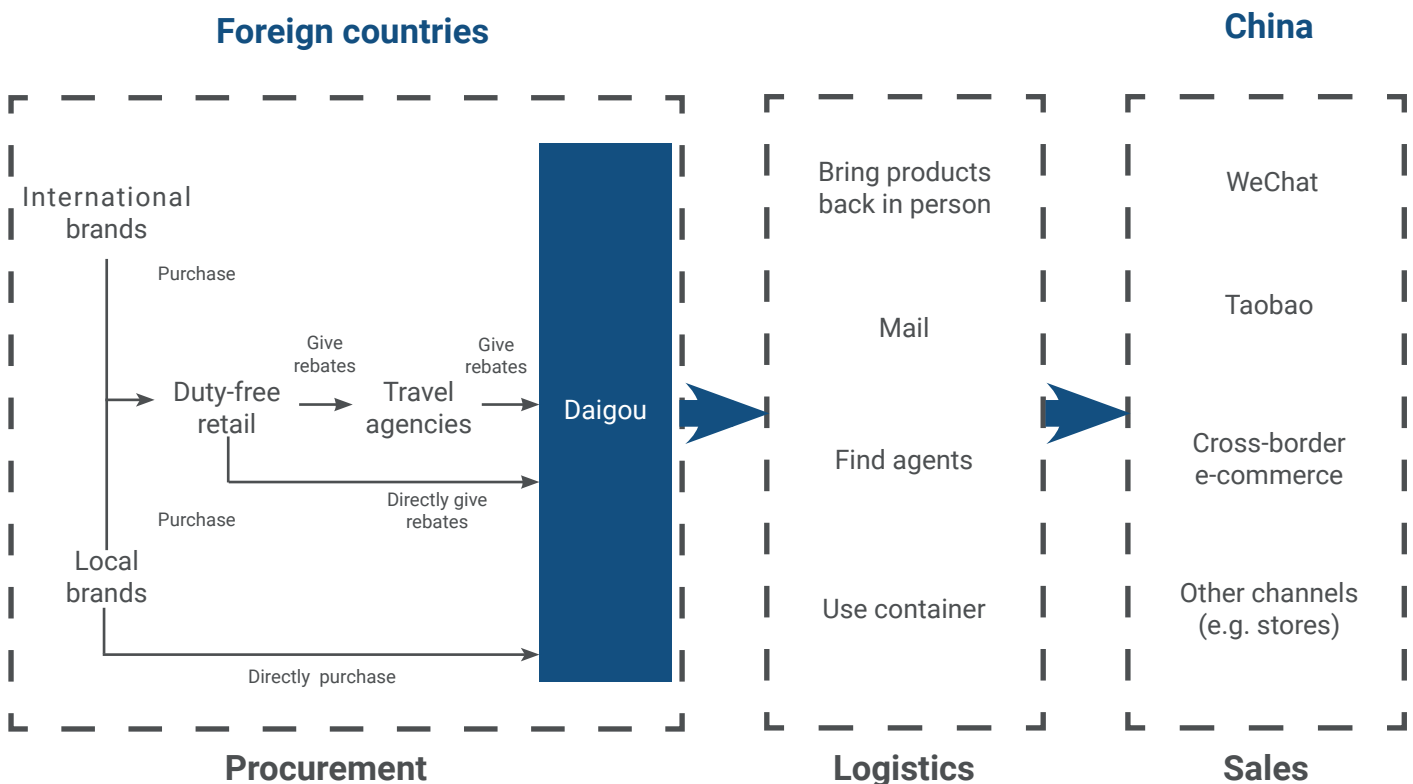
Cross-border e-commerce is eroding Daigous' market share

Cross-border e-commerce platforms offer timely and thoughtful customer service and invest a lot in marketing to increase customer awareness. Moreover, the availability of more convenient cross-border payment tools like **Alipay and Union pay** increased accessibility of cross-border e-commerce and encouraged purchasing via this channel. Hence, Chinese consumers are gaining more trust in cross-border platforms, and this puts pressure on Daigous, leaving them with less customers and profit opportunities.

Is the explosive growth of Chinese duty-free retail the end of Daigous?

Beauty products in Hainan are 20 to 30% cheaper than in typical domestic shops¹⁹. Despite all the discounts, the prices of some beauty products are still not as favorable as overseas duty-free retail channels such as Lotte Duty-Free Shops in South Korea. Yet they still attract those who cannot travel abroad due to travel restrictions. Shopping in Hainan's duty-free area is becoming the preferred channel for Chinese consumers, since they no longer need to wait for Daigous to return to the country, and do not have to risk paying for counterfeit products. Furthermore, Hainan's tropical scenery makes it a perfect substitute of international destinations such as Thailand as long as travel restrictions remain in force.

Chinese Daigou industrial chain



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Trend #4 It's time to digitize, or be left behind

Before the outbreak of Covid-19, online sales channels were not expected to grow that much since luxury consumers preferred seeing and feeling products in person before buying. However, the pandemic fueled online shopping at the expense of brick-and-mortar stores, and **e-commerce is now estimated to become the leading channel for luxury purchases by 2025**²⁰. Indeed, young Chinese tech-savvy consumers are eager to share their luxury purchases online and ask for a seamless experience.

China's digital marketing ecosystem in 2022

Covid-19 did not change the trajectory of Chinese e-commerce, but rather **accelerated the rise of the country's digital consumption**. The growing importance of live e-commerce, the spread of virtual KOLs and metahumans in mitigating risk stemming from celeb endorsement in China, as well as the emergence of the metaverse and NFT technology are just some of the current trends destined to revolutionize the relationship between luxury brands and their Chinese customers.

Digital integration allows a smoother customer experience in China

Chinese luxury consumers prefer to use technology when shopping: they are **mobile-only, online first, and extremely digital-savvy**²¹. New technologies can help brands maximize consumer experience while granting customers a smoother and more entertaining journey. Several brands and luxury e-tailers have utilized **VR and AI-powered digital tools** to bring some freshness into the purchasing process. This is the case of **Tmall Luxury Pavilion**, which allows its customers to virtually try on clothing, view 3D jewelry renderings, and receive one-on-one consultations from their living rooms, thereby creating a virtual experience for brands to reach Chinese consumers along all touchpoints²².

Tmall Luxury Pavilion: A key partner in China's luxury market

Of the various e-commerce platforms offered, **Tmall Luxury Pavilion** remains a strong choice for big international names. Currently, **over 200 luxury brands** run their flagship store on Tmall Luxury Pavilion, including the world's 5 major luxury groups **LVMH, Kering, Chanel, Hermès** and **Richemont**.

Brands on Tmall can benefit from Alibaba's impressive consumer base: according to Daniel Zhang, Alibaba's Chairman and CEO, Taobao and Tmall reached **1 billion annual active consumers** during the fiscal year 2021²³. Moreover, Alibaba's "**88VIP members**" (premium loyalty program customers who boast a higher propensity to spend and are more likely to purchase luxury goods) achieved 25 million by 2022 H1 and vaunted **an annual average spending of more than 57,000 RMB per member**.

Over **67% of consumers** on Tmall Luxury Pavilion were **born between 1980 and 1995**, while Gen-Z account for 17% of the overall shoppers²⁴.

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88VIP

As of June 2022,
Alibaba's 88VIP members
annually spent on average over
57,000 RMB each



Roughly 7 out of 10
consumers on
Tmall Luxury Pavilion are Millennials

Luxury brands join the live streaming frenzy

The recent wave of lockdowns induced luxury brands to search for **new ways to reach and engage with their Chinese customers**. As a result, more and more international fashion names decided to bet on live e-commerce to capture tech-savvy young Chinese consumers. **Taobao Live and Douyin** are the most used channels for luxury live streaming, while WeChat private traffic pools are utilized to gain immediate viewers and increase the conversion rate.

However, more and more brands are testing the waters on **Kuaishou**. Such platform is especially suitable for reaching consumers in lower-tier cities, who boast an increasingly stronger growth in spending and purchasing power²⁵. Considering recent lockdowns in 2022 mainly disrupted Tier-1 cities, brands' expansion into **lower-tier cities** is bound to accelerate in the years to come.

Meanwhile, in March 2022 **Tmall Luxury Pavilion** launched its own **1:1 live streaming feature** allowing brands to provide their customers with tailormade live streaming, while customers can virtually try on their favorite items. Cartier and Burberry were among the first international names to use the new service.²⁶

Pros and cons of luxury live shopping

Live shopping is bound to experience a significant growth in the years to come, especially because lockdowns resulted in accumulated demand that is going to explode as people reclaim the consumption they missed out on, thereby fueling **revenge shopping**. As live shopping is already a norm in China, brands are better off developing their own streaming capabilities.

Building up an in-house live streaming team can bring about many advantages: brands have a stronger control over content and pricing, they can gather useful data, receive direct feedback from consumers, build stronger ties with their customers, avoid fraudulent streamers and, considering that they boast a deeper knowledge of the products, they can better highlight all their features and potentials. Moreover, there is a **high risk of professional live streamers getting canceled**. For instance, Viya and Li Jiaqi, two top tier professional streamers in China, disappeared from social media after getting involved into tax evasion and political scandals.

Nevertheless, live streaming is not something to be taken lightly. Brands need to spend a lot of time and resources training their staff to do live streams in an effective way. Moreover, luxury is not just about purchasing products, but also about enjoying a memorable experience. Therefore, **brands should find a way to grant customers an unforgettable luxury experience while selling via live stream**. Otherwise, they risk damaging their brand image.



Image: Alibaba Group, Burberry's live streaming on Tmall

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More and more brands are exploring live shopping

Luxury brands do not want to miss this tremendous opportunity and more and more labels will surf the live e-commerce wave. Tmall Luxury Pavilion has already launched a 1:1 live streaming feature, allowing sales associates to directly interact with customers vis-à-vis, while in 2020 the Shanghai Fashion Week (which went completely digital due to the pandemic) partnered with Tmall, attracting over 2.5 million viewers just on the first day²⁷ and generating more than 500 million RMB in sales at the end of the event²⁸.

It is also worth mentioning the example of **Louis Vuitton**. In 2021, the French Maison broadcasted its Spring/Summer menswear 2022 during Paris Fashion show **on Kuaishou**, which became the first ever luxury label to live stream a runway on the platform, thereby attracting the attention of competitors. LV's event was broadcasted on different social media at the same time, but Kuaishou accounted for about 1/3 of the total views²⁹. As people residing in lower-tier cities dominate the consumer base of the Beijing-based platform, LV's initiative can be interpreted as an attempt to connect with potential customers outside of Tier-1 cities. In addition, the French brand started arranging 1:1 live streaming sessions with selected customers in order to offer a bespoke online shopping experience.



Image: Porsche, Chinese celebrity and former K-pop group EXO member Kris Wu got arrested on suspicion of rape in 2021

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<http://fashion.people.com.cn/n1/2020/0407/c1014-31663358.html>

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http://www.xinhuanet.com/2020-10/20/c_1126631585.htm

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<https://bit.ly/3OMB1xl>

Risk mitigation in the idol economy

Despite the recent scandals involving C-pop idols, such as **Kris Wu's arrest** on suspicion of sexual assault and **Zhang Zhehan's fall** after taking a selfie in a sensitive location, **celebrity endorsements in China remain a key tool** to create buzz and engage with the public. Indeed, C-pop ambassadors can undoubtedly give a great boost to luxury brands' growth and help them catch young Chinese consumers' attention.

The risks of hiring "traffic stars"

Over-relying on celebrity endorsements in China can have many **drawbacks**. Chinese idol economy tends to generate temporary hype: fans' loyalty does not last forever, since interest in C-pop celebrities can be very fleeting and fans could move to the next idol very soon. Moreover, the symbiotic relationship among celebrities and their fanbase implies that idols risk to become a target for the excesses of their own fandom. Nevertheless, crazed fandoms are not the only potential threat coming from celebrity endorsements in China: the idols themselves can damage promoted brands by adopting questionable attitudes.

How brands can minimize risk in celebrity endorsements in China

Considering recent events, brands are opting for prevention strategies aimed at **minimizing the risks inherent in celebrity endorsements in China**. Hiring or creating **metahumans** may be an effective way to avoid scandals that could damage brand reputation. Virtual KOLs are cheaper, more versatile, and reliable than their flesh-and-blood counterparts. Avoiding putting all their eggs in one basket and **diversifying their celebrity portfolio** is another method luxury houses could embrace to cut over-reliance on "traffic stars" and spread the risk brought about by celebrity scandals and fan controversies. Being more selective in choosing brand ambassadors and paying greater attention to indemnity agreements when signing their partnership contracts are also useful to curb risks and contain potential damages coming from idol endorsements in China.

AYAYI: The first metahuman in China

The first metahuman **AYAYI** made her first appearance on Xiaohongshu on May 20th, 2021, on Chinese Valentine's Day, catching the attention of thousands of users. AYAYI's great popularity did not go unnoticed by top luxury brands, and French cosmetics brand **Guerlain** invited her to join its limited-time summer event in Shanghai between June 15th and 16th. Her pictures soon became the main attraction of the event, prompting several KOLs to imitate her gestures and poses, and take pictures in the same shooting locations.

Since then, more and more brands have decided to leverage metahumans, and some have even created their own virtual KOL. This was the case of **Dior** who introduced a virtual version of the Chinese singer and actress Angelababy, called **Angelababy 3.0** at the Shanghai Fashion Week 2021. The French beauty group, **L'Oréal**, launched a manga-style idol named **Mr. Ou**. Described as a Chinese French entrepreneur passionate for sustainability issues, Mr. Ou is a reflection of China's growing ingredient-based and clean beauty market.

Virtual influencers need to be handled with care

Beyond mitigating risk stemming from the idol economy, **virtual KOLs are very versatile**: they can be used both for holding live streaming sessions and managing private traffic. Furthermore, metahumans do not sleep, eat, or take breaks, and they can even be at multiple locations at once. However, as the line between "fiction" and "lie" is very thin, their presence may raise ethical questions: where do you draw the line between reality and fiction? What actions could be harmful or receive backlash? Brands deciding to make use of virtual influencers cannot ignore all this.



Image: Vogue, Ayayi is probably the most famous virtual influencer in China

Luxury brands diving into the metaverse and NFTs to win over China

The emergence of new technologies, such as the **metaverse and NFTs**, is untapping a plethora of new opportunities, and luxury brands are willing to utilize such new tools to connect with Chinese tech-savvy young consumers.

As the physical world intertwines with the virtual reality, the term "metaverse" has never appeared in the public eye with such high frequency. Broadly speaking, metaverse is a network of 3D virtual worlds where users can socialize, play, and work. According to JP Morgan, the metaverse will expand to be 1 trillion USD in the near future³⁰.

Blockchain technology may provide the backbone of the metaverse, with interoperable NFT assets that can be used across different metaverse platforms. An NFT, short for Non-Fungible Token, is a unit of data stored and secured on blockchain to represent digital assets such as music, art, collectibles, or in-game items, which can be sold and traded.

What opportunities does the metaverse and NFTs hold for luxury brands?

The convergence of the physical and digital worlds through metaverse platforms is quickly becoming a meaningful opportunity for luxury brands. To satisfy luxury consumers' expectations, a luxury brand must ensure its online experience is superior. In addition, consumers are used to obtaining the physical ownership of their luxury goods through purchase. The emergence of **NFTs allowed to secure the scarcity of luxury items in the virtual world** by certifying the ownership of an asset to its holder and writing it on an open source blockchain registry.

RTFKT fascinates Chinese consumers with its virtual sneakers

Acquired by Nike in 2021, RTFKT focuses on creating viral sneaker designs, memes, and collectible exclusives. It makes use of "the latest in-game engines, NFT, blockchain authentication, and AR, combined with manufacturing expertise to create one-of-a-kind sneakers and digital artifacts"³¹. **RTFKT is the first luxury brand operating in the NFT space**. During the Lunar Chinese New Year holiday in January 2021, the brand designed a pair of unique, pure gold virtual sneakers, sold at auction for 15.75 Ethereum (equaling to over **183,000 RMB** at the time of the auction) on the Chinese digital marketplace Treasureland³².



Image: Rtfkt, Rtfkt Golden Ox shoes for Chinese New Year 2021

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<https://twitter.com/treasurelandnft/status/1370004697931673602>

Louis Vuitton launched its NFT game “Louis the Game”

While most luxury brands have gradually entered the metaverse by presenting their virtual spokespersons and NFT products, Louis Vuitton entered the metaverse in a more engaging way: through a videogame.

Louis Vuitton released an adventure-based game to celebrate its 200th birthday. Users play as the in-game protagonist Vivienne, through six different worlds, where she needs to collect 200 candles to commemorate LV's birthday. However, the game isn't like most of fashion games – it is sophisticated and addictive. Crucially, unlike existing video games, the metaverse enables users to transfer their virtual possessions between different platforms— with NFTs marking the ownership of these items.

How did luxury brands apply metaverse and NFTs in the Chinese market?

Following the popularity of mobile devices and the Internet, Chinese Gen-Z and Millennials are comfortable with the virtual world and regularly consume through digital channels in multiple ways. Even more important for luxury brands is that Millennials and Gen-Z together are expected to represent over 40% of the overall luxury market by 2025³³.

The NFT market in China is still at its infancy but has great growth potential as more and more Chinese players are showing interest in NFTs. In spite of **banning cryptocurrency trading** in late September 2021 and **vetoing the financial use of NFTs**, the Chinese government is not hostile to NFTs and is **promoting other uses of the blockchain technology** which could not be used to engage in illegal activities³⁴. Collaborations can be a way to mitigate the risk of jumping on the still relatively mysterious NFT train during these early days.

Tmall created the first-ever “Double 11 Virtual Art Exhibition” which introduced a brand-new shopping experience on its Tmall/Taobao mobile app. Welcomed by virtual idol AYAYI, the exhibition featured several luxury brands including Burberry, Coach, Longines, and offered 8 limited NFTs collections only available during Double 11. Furthermore, on the occasion of the 618 Festival, luxury brands released over 2,000 limited-edition digital collectibles on Tmall Luxury Pavilion, including 100 NFT watches by the **Swiss luxury watchmaker Breitling SA**³⁵.

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Image: Twitter, LV's NFT game

Main features of Louis the Game:

1. It offers an **immersive experience**;
2. It embodies a powerful tool for communicating **LV's heritage, craftsmanship, and creativity** to audiences that might not be too familiar with the company or might otherwise not be listening;
3. It caters to Chinese consumers' **appetite for customization**;
4. It rewards players with **30 collectible non-tradable NFT artworks**;
5. It is a way for LV to target the young gaming audience, involving them in a virtual adventure without forcing them to purchase anything, thereby delivering the brand message and **introducing the LV universe to new consumers**.

Trend #5 A more sustainable luxury

The **global demand for fashion sustainability and social responsibility** continues to grow and China is no exception. Although **72% of Chinese consumers** claim to **purchase from companies committed to protect the environment** compared to a global average of 54%, sustainability awareness tends to be lower among Chinese consumers³⁶. In addition, Chinese sustainability priorities are different from Western ones. Issues such as water and air pollution and toxic materials are all matters which are more deeply felt in China than other environmental problems such as deforestation.

The growth of green consumerism in China

Younger Chinese consumers living in **larger cities** and those boasting **higher income and educational backgrounds** are more inclined to adjust their purchasing behavior over sustainability³⁷. Overall, Chinese people demonstrate a high level of awareness of climate change but **their willingness to pay premium for environmental and climate-friendly products remains low**. In fact, the concern over health outweighs concerns for the environment, thus green consumerism in China is stronger in the F&B and beauty industries than in the fashion industry. Furthermore, as government propaganda plays a key role in raising public awareness towards sustainability, brands could benefit from aligning their sustainability efforts with public campaigns.



Most Chinese consumers are **willing to pay between 5-20% extra** for sustainable products

In 2020, **Burberry** introduced a new environmentally friendly series "ReBurberry Edit": 26 styles selected from the 2020 Spring-Summer collection made from recycled nylon ECONYL®, fishing nets, fabric scraps, and industrial plastics.

Top luxury clothing brand **Loro Piana** partnered with the Peruvian government and local farmers to establish the first vicuña nature reserve to help safeguard the precious species of alpaca-like animal, whose wool is considered to be a better fabric than Cashmere. When it comes to the Chinese market, **Kering**, in partnership with Rare and South Pole, conducted a carbon insetting feasibility study to scale climate-smart agriculture practices for cotton farmers and develop sustainable cotton in China.

Luxury brands go sustainable

An increasing number of luxury brands are using **sustainable fabrics and materials** in their creations. Since **Prada** first launched the Re-Nylon project in 2019, the collection has gradually expanded to include sports-inspired ready-to-wear, footwear, and accessories.

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Tangy Collection: an accredited Chinese sustainable luxury brand

China vaunts some **emerging homegrown sustainable fashion brands**. For instance, thanks to the green brand image that **TANGY** has built, the brand has now achieved a solid reputation and a broad consumer support. The business grew quickly and by 2009, TANGY already boasted over 400 stores in more than 160 cities across China. For its creations, the brand makes use of **Gambiered Silk**, a fabric hand-dyed with the juice of *dioscorea cirrhosa*, an endemic plant growing in Southern China. Such silk-making technique dates back to the Ming Dynasty. In 2019, TANGY Collection was selected as one of the sustainable luxury brands joining the 1.618 Sustainable Luxury Fair during the Paris Fashion Week.

Unpacking the challenges of the second-hand clothing market in China

Chinese consumers' reluctance to purchase pre-owned luxury clothing is gradually vanishing. According to PWC's 2021 China Second-hand Luxury Industry Overview, **China's second-hand luxury market jumped from roughly 5.9 billion RMB to 17.3 billion RMB between 2016 and 2020³⁸**. However, although the amount of luxury goods accumulated in the Chinese market in the last decade is now worth about 4 trillion RMB, sales of **pre-owned luxury products account for less than 5% of the overall luxury market**, compared to around 30% in the US and Japan.

Who are the main consumers of second-hand clothing in China

With more than 50% of second-hand luxury consumers under the age of 30, Chinese Gen-Y and -Z impose themselves as the largest consumer base for the second-hand luxury market³⁹. To them, pre-owned goods are a synonym for environmental sustainability, personal expression, and cost-effectiveness.

Distributors of high-end second-hand clothing market in China

In 2021, the rise of second-hand luxury market in China has led to million-dollar investments in second-hand luxury e-commerce platforms such as **Erluxe, Feiyu, and Explosive Luxury**. **Explosive Luxury**, for instance, aims at providing an innovative customer experience by making use of AI technology. Even Alibaba, the biggest online e-commerce company in China, launched its own platform known as **Idle Fish** in 2014. Idle Fish has remained popular among Chinese consumers due to its easy usage and rating in a country where the ubiquitous presence of counterfeit goods and unmet delivery promises fuel users' mistrusts against resale apps. Other popular Chinese second-hand goods platforms include **Plum, Ponhu, Xianyu, and Dewu**.

Sources:

38. 2021 China Second-hand luxury Industry Overview
<http://qccdata.qichacha.com/ReportData/PDF/78f688e5ba6cd7fe488a1cacbe6da0aa.pdf>

39. 2021 China Second-hand luxury Industry Overview
<http://qccdata.qichacha.com/ReportData/PDF/78f688e5ba6cd7fe488a1cacbe6da0aa.pdf>

Shares of pre-owned luxury items out of 2019 overall luxury sales

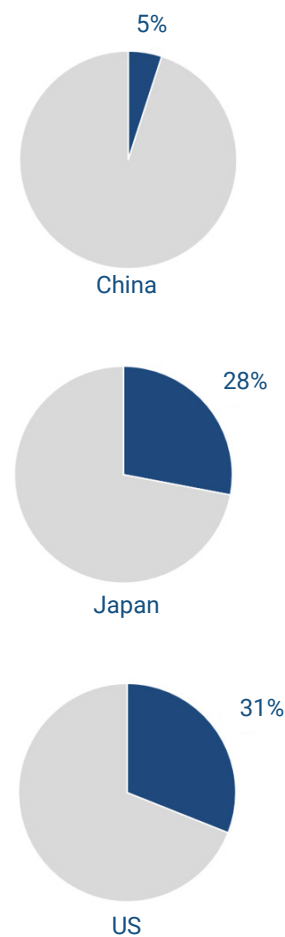


Image: LeadLeo, 2021 China Second-hand industry overview

Tackling challenges within the second-hand luxury market in China

Despite recent popularity in second-hand goods, the second-hand luxury market in China is hindered by the **limited supply of goods, consumers' lack of trust** due to the spread of counterfeit goods, as well as the **lack of after-sales services**.

The prospects of the second-hand luxury market in China in the near future remain dim as **Secoo**, one of the first luxury resale platforms to operate in the country, has been experiencing store closures.

Secoo's B2C business model created an information gap between the platform and its users as customers could not know anything about the origin, authenticity, and quality of displayed goods. Their decline was mainly due to its poor customer feedback, bankruptcy suspicions, debts with suppliers, and opaque transactions which led to freeze their stock shares. Over the five years since its listing, Secoo has experienced a fall by more than 90% of its high stock price. Since September 2021, it has been in a state of non-delivery and non-refund which sparked dissatisfaction and triggered over 6,000 complaints among consumers.

After the establishment of Secoo, a wave of second-hand luxury platforms emerged such as Fifth Avenue, Zhengpin, Shangpin, but they all shut down due to harsh competition and limited selection of brands. Above all, most of these platforms could not prove the source of their goods and did little to detect forged items.

Checking the health of online clothing rental services in China

Beyond second-hand luxury marketplaces, such as Secoo, Plum and Dewu, the rising demand for accessible luxury goods led to the emergence of online clothing rental services in China during the mid-2010s.

The rise of online clothing rental services in China

The high demand for more affordable and sustainable ways to get hold on luxury clothing led to the rise of a constellation of **online apparel rental apps**. Among the main factors behind the hype for fashion rental platforms in China, it is worth mentioning that young Chinese's appetite for a varied wardrobe. There are hurdles in purchasing clothes in China, such as high prices, counterfeit goods, low-quality clothing, and difficulties in figuring out the right sizing; getting hold of luxury clothing at bargain prices.

Sources:

40. *The New Key Opinion Leader is Here*

<https://www.highsnobiety.com/p/influencers-china-white-paper-kol-col/>

Dewu (Poizon)
The anti-counterfeiting resale app where you can buy a Ferrari



Dewu is a marketplace renowned for its **strict authenticity-checking measures** for product listings, trading mechanism and unified delivery. An interesting fact is that in addition to clothing brands, this app has a wide variety of assortments. Even luxury automakers such as **Porsche, Maserati, Ferrari and Audi use this platform as their sale channel**. Moreover, the app allows shoppers to share pictures and impressions on their purchases, and vaunts a strong community of **sneaker lovers**, mostly composed by **Gen-Z male consumers**. According to TD Reply, this resale platform vaunted a year-on-year growth of 96% in Gen-Z members during 2021 Q1 and 59% of its user base is younger than 30⁴⁰.

Section I: New trends shaping China's luxury industry

Trend #5 A more sustainable luxury

Change or perish: online clothing rental services in China at a crossroads

The golden age of China's online wardrobe rental platforms was between 2014 and 2017, when they managed to get over 130 million US dollars (866.75 million RMB approximately) from e-commerce giants and venture capital funds, such as Alibaba Group, Softbank China Capital, China Growth Capital, and many others⁴¹. After the investment frenzy, the Covid-19 pandemic revealed all the problems inherent to this kind of business and **most major players in this field went bankrupt** as Chinese consumers still show a relatively cold attitude towards second-hand clothing.

YCloset was a pioneer of fashion rental platforms in China, in 2017 it had six rounds of financing from prestigious investors like Alibaba, SoftBank, IDG Capital, and Sequoia Capital and became the industry's unicorn⁴². By paying a monthly subscription plan of 499 RMB, users could rent an unlimited amount of apparel and accessories, delivery, and cleaning fees included. Furthermore, users could even purchase their favorite outfits at reasonable prices instead of continuing to rent them. When the platform changed its renting rules in an endeavor to make its business more sustainable by increasing its subscription fees and reducing the rental period, it sparked outrage among users, thus worsening its situation. In July 2021, the company announced its imminent shutdown.

The pitfalls of the online clothing rental services in China

The Covid-19 pandemic and the consequent market crunch revealed the **weaknesses of the online fashion rental programs**. First, this business model is **capital-intensive**, which poses a challenge by itself, since it involves a wide range of costly operations such as supply, storage, logistics, after-sales, cleaning, inventory renewal, etc. Second, an underestimation of related costs, along with price competition among main players, led companies to set **unprofitable membership fees**. Third, in order to persuade consumers to rent clothes, subscription plans should have been perceived as cost-effective. In fact, most of such **platforms lacked top items** which could have convinced customers that the service was worth the price. Customers complained that they could easily purchase those pieces of clothing at a similar price as the platform subscription fee. Fourth, platforms were not making enough revenue from the original business model and planned to diversify their revenue sources, but by the time they began, it was too little too late.

At the same time, online wardrobe rental companies suffered the competition from **counterfeit goods, affordable luxury, and second-hand luxury platforms**.

Sources:

41. Has the online clothing rental services market stabilized?

http://m.xinhuanet.com/tech/2019-09/27/c_1125045988.htm

42. YCloset has shut down

<https://baijiahao.baidu.com/s?id=1705271730837897140&wfr=spider&for=pc>



Trend #6 Chinese consumers crave a memorable experience

As the Chinese market becomes the most critical market for many luxury brands, improving service quality is essential to sustain growth. Nowadays, **young luxury consumers take high quality and fine materials for granted**, therefore, **they expect a memorable and impressive experience** when visiting a physical store. The growing appetite for customization and low-key luxury is a sign of the ongoing evolution of what "luxury" means in China. In order to capture or retain their Chinese customers, international brands had better explore unique ways to offer them unique luxury experiences.

Today in China, luxury means self-expression, self-actualization, and community-building

Younger Millennials and Gen-Z are changing the definition of luxury in China, making luxury goods shift from being signals of social status to becoming instruments of **self-actualization, self-expression, and community-building**. While the elder generations used to consider luxury as mainly a symbol of high social status and opulence, young Chinese consumers instead regard luxury as a means to reward and express themselves in a more elevated and upscale way⁴³. **Gen-Z are more eager to share and talk about their luxury experience**, thereby building a community of kindred spirits.

Luxury becomes experience

Growing wealth and broad economic wellbeing during the latest decades led to a certain level of democratization of luxury in China. However, as increasingly more people can afford purchasing luxury goods, experience converts into a powerful tool for capturing customers' heart and standing out from the competitors. According to BCG-Altgamma, after shrinking by 50% in 2020 as a consequence of the pandemic, experiential luxury is bound to grow between 5 to 10% in 2023⁴⁴. The continuous waves of lockdowns, as well as the change in consumers' habits and preferences, have put a strain on main players in the **experiential luxury segment**, but Chinese netizens show clear intent on revenge shopping and travel post-lockdown, giving hopes for a quick recovery⁴⁵.

Sources:

43. *China Chic: The Emergence of Chinese Luxury Brands*
<https://daxueconsulting.com/chinese-luxury-brands-report/>

44. *True-Luxury Global Consumer Insights*
https://altgamma.it/media/source/PRESS_True%20Luxury%20Global%20Consumer%20Insight.pdf

45. *The Zero-Covid lockdown's long-term impact on Chinese consumption*
<https://daxueconsulting.com/zero-covid-lockdowns-impact-on-chinese-consumption/>



Owning vs enjoying luxury: two sides of the same coin?

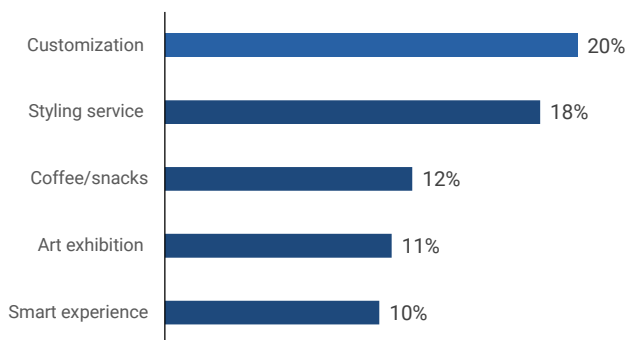
Building up unforgettable moments of pleasure is not just a cornerstone of the experiential luxury segment, including furniture, food and wine, fine dining & hotel, and exclusive vacations. Instead, **owning and experiencing** have always been **two inseparable aspects of the personal luxury goods market** as well -and today more than ever. As brand loyalty decreases and Chinese luxury brands emerge, high quality, fine craftsmanship, and premium materials are minimum requirements by luxury consumers⁴⁶. Nowadays, **luxury shoppers expect brands to surprise them** through providing a memorable, shareable, and unique experience.

Some big luxury names have already started offering their customers visits to ateliers, workshops, wine-tastings, and art exhibitions. The challenge will be to offer a superior service in a very distinctive and different way from any other brand, in line with both brand values and customers' expectations.



Image: Louis Vuitton Official website, Louis Vuitton allows its customers to personalize lining, front view and back view of their "MY LV WORLD TOUR" bags.

What additional service would you like to have in physical stores?



Data Source: Luxe.co x Peacebird, N= 3,000

For Millennial and Gen-Z consumers, customization is not just a nice option, but a must-have, since customization allows them to express cultural identity. Therefore, it is an important driver of purchase.

Millennials drive frenzy for customized items

Personalization and customization have been a global trend since the early 2000s. According to Luxe's survey in 2018, **personalization and customization** have become one of the most sought-after services among Chinese Millennials as well. As the awareness of the importance of the Chinese market increases, international brands are now more willing to invest resources in introducing additional services to target their Chinese customers⁴⁷.

Customization services help brands engage with customers

Most well-known luxury brands, such as Louis Vuitton, Burberry, and Gucci, offer customization services in China. Through customization, their high-value customers can enjoy a **strong sense of belonging to an exclusive club** within an already-exclusive group of luxury consumers.

Louis Vuitton, for example, provides a wide range of customization options. Customers can stamp their own initials on the luggage tag of their bags, choose from a wide range of patches to place on their items, or change the lining colors of the MY LV WORLD TOUR Collection directly from the French maison's official website. By granting creative freedom to its customers, LV builds a more intimate connection with them.

Sources:

46. A New Generation of Chinese consumers Reshaping the Luxury Market
https://bbx-pic.gtmimg.com/bbx/pictures/2021/211_20211101144757_037960.pdf

47. Seven key points and 27 charts to see through the new generation of Chinese fashion consumers
<https://luxe.co/post/88957>

Xiaohongshu users create buzz around customization

Brands popular on **Xiaohongshu** can significantly benefit from offering customization services in China due to the innate peculiarities of this app. Its user base includes those customers who are more likely to purchase customized products and share their experience online to create hype within their community.

WeChat: the perfect platform for customization services in China

WeChat Mini-programs offer a lot of advantages when talking about bespoke services in China. Customers can personalize their products directly or book an appointment through the relevant Mini-program and pay for it without ever leaving the WeChat app. Furthermore, brands can aggregate customization demands, thereby avoiding deploying the necessary equipment across their stores.

The French brand **Longchamp** was a pioneer in providing customization services on WeChat. Thanks to its Mini-program launched in 2017, customers could easily give its classic "Le Pliage" bag some personal touch by choosing the colors of each part of the bag or adding hot stamp patterns and initials.

Many other brands use Mini-programs for special campaigns because WeChat helps brands reach customers rapidly. During the 2018 Qixi festival, also known as Chinese Valentine's Day, the American designer brand, **Calvin Klein**, introduced a Mini-program allowing customers to choose among different patterns to print on their underwear.

Chinese consumers' customization needs have not been met yet

Despite foreign brands' endeavors to enhance their customization services, Chinese consumers perceive their current offer as too limited, and some netizens even expressed negative feedback about international luxury brands' personalization services on social media platforms. In addition, Chinese consumers believe that local brands have a deeper understanding of their taste and, therefore, would be able to provide more satisfactory bespoke services.

Discreet luxury goods are in high demand

China's luxury market is suffering from brand saturation, thus pushing many **young luxury consumers in higher tier cities** to **seek for subtle, refined, unique, and exclusive products that are free from any logo**. The absence of a big logo is regarded as a perk by these Chinese consumers who are a part of a luxury connoisseur community which does not need flamboyant logos to recognize high-quality products. China's Common Prosperity campaign, along with the rising inequalities resulting from the impact of the pandemic, further boosts the growing appetite for inconspicuousness, benefiting brands known for their sober designs like **Celine** and **Hermès**⁴⁸.

In addition to more quiet designs for luxury goods, secret luxury experiences and digital concierge apps are also becoming popular. Such **desire for more privacy and discretion** when it comes to doing luxury purchases may give a boost to online sales: throughout 2021, the super-rich in China spent online like never before⁴⁹.



Image: Fashionphile, Hermès Halzan 25 is particularly beloved by Xiaohongshu users, especially due to the absence of any logos

Sources:

48. The Zero-Covid lockdown's long-term impact on Chinese consumption
<https://daxueconsulting.com/zero-covid-lockdowns-impact-on-chinese-consumption/>

49. China's woke Gen-Z want sustainability, mindfulness and 'invisible luxury'
<https://www.scmp.com/magazines/style/luxury/article/3135546/chinas-woke-gen-z-want-sustainability-mindfulness-and>

如何实现共同富裕



China's Common Prosperity Campaign and its effects on luxury

China's Common Prosperity Campaign is aimed at promoting a fairer and more balanced economic development after decades of unchecked growth that resulted in rising inequalities and unfair practices. Chinese President Xi Jinping introduced this concept for the first time during the 10th meeting of the Central Committee for Financial and Economic Affairs in August 2021, implying that the time of letting "some people get rich first" was over⁵⁰. The initiative is in line with the Communist Party's objective to turn China into a "prosperous, strong, democratic, culturally advanced, harmonious, and beautiful country" by 2049⁵¹.

However, the **Common Prosperity Campaign is not necessarily going to hinder the growth of China's luxury market**. In fact, by expanding the Chinese middle class, the initiative is expected to **favor accessible luxury brands** and stimulate the demand for entry-level luxury goods. Moreover, cracking down on companies adopting the "996 working hour system" (from 9am to 9pm, 6 days per week) could free up more time and resources, thereby boosting consumption.

During Common Prosperity, **philanthropic efforts** are bound to become a great PR tool to both redistribute wealth and surf growing national confidence⁵².

Chinese luxury brands can benefit from changing consumer tastes

Homegrown luxury brands not only boast a competitive edge in providing bespoke services because they are perceived as more aware of local consumers' tastes, but also **well-positioned in capturing the growing appetite for quiet luxury among the Chinese wealthy**. Chinese luxury brands are mostly designer brands with lower consumer awareness than international brands. Additionally, they do not boast the same production capability as their Western counterpart. Thus, they usually do not adopt status-centered branding and rather opt for building a discreet luxury image. In times of inconspicuous luxury, Chinese brands can communicate wealth and privilege by drawing from tradition, leveraging local traditional craftsmanship, and incorporating Guochao elements.

Sources:

50. Xi stresses promoting common prosperity amid high-quality development, forestalling major financial risks
http://www.xinhuanet.com/english/2021-08/18/c_1310133051.htm

51. Leading CPC to strive for a better world
http://www.xinhuanet.com/english/2021-07/01/c_1310036749.htm

52. Prada Group's Help to the Red Cross Society of China Zhengzhou Branch
<https://www.pradagroup.com/en/news-media/news-section/prada-group-red-cross-society-china-zhengzhou-branch.html>

Section II: Case studies

Making a wrong move in China could have serious and lasting repercussions on brands, hence the importance of carrying out detailed and thoughtful research on the market, culture, and consumers. By analyzing successes and failures from some leading international luxury brands in China, it is possible to draw conclusions about dos and don'ts when attempting to win the Chinese luxury market.



What has Gucci done right to win China over?

Known for its extravagant, rebellious, and opulent characteristics, **Gucci in China** mainly targets the wealthy Gen-Z customers who have extra money to splurge and enjoy flaunting their social status.

Today Gucci has 90 retail stores in China⁵³, has established a strong presence on social media, secured a wide customer base, and **ranked among China's most popular luxury brands**, next to Chanel, Dior, and Hermes⁵⁴. Gucci obtained and maintained its star status through its **non-stop release of new products, multi-channel marketing, a close monitor on the rapidly changing China market, and constant adoption of innovative advertising strategies**. Gucci's three most essential strategies consist in **leveraging WeChat Mini-programs, conveying cultural inclusiveness, and partnering with local KOLs**.

Aside from establishing online stores, Gucci also launched two interactive WeChat Mini-programs, 'Gucci Beauty Self-expression' and 'Gift Card', to provide users with a unique experience and allow them to engage with Gucci staff on a one-to-one basis. This method proved especially effective to help capture more potential customers and enhance brand loyalty.

In Gucci's 2018 official cruise campaign 'Roman Rhapsody', the Florence-based brand selected an eclectic mix of residents in Rome's neighborhood as models. Among such people, the Italian Chinese model, Sonia Zhou, has caught the attention of Chinese netizens' as it is less common for foreign high fashion brands to employ an average Chinese woman as a model. Such conduct conveyed a strong sense of affinity, **cultural inclusiveness**, and progressiveness which resulted in an explosive boost in Gucci's sales and pushed the Italian fashion house among the hot topics on Weibo.

Nowadays, **collaborating with KOLs** is fundamental for luxury brands operating in the Chinese market. On October 26th, 2021, Gucci officially named Xiao Zhan as its new brand ambassador in order to catch the attention of Chinese young consumers. Xiao is a member of the Chinese boy band X Nine and boasts a group of loyal fans.

Sources:

53. Gucci store locator
<https://www.gucci.com/int/en/store>

54. Chanel and Dior Top China Luxury Brands Ranking
<https://shorturl.at/drvU7>



Image: Gucci Official Website, Sonia Hang for Gucci's Roman Rhapsody

Prada's market strategy in China: digitalization and localization

The Italian luxury brand **Prada** entered the Chinese luxury fashion market in 2011 but it wasn't until the first half of 2020, while the Covid-19 pandemic was roaring in Europe, that China became an important driver of sales for the brand.

One of the reasons for Prada's strong success in China was its **digitalization efforts**. Initially, Prada was cautious with its online strategy: it joined the e-commerce platforms much later than other luxury brands such as Burberry, Dior, and Louis Vuitton. However, it saw great potential in Chinese e-commerce platforms and doubled-down on them when the pandemic hit. In 2019, the company decided to join two Chinese e-commerce platforms: Secoo and JD.com, to establishing its flagship stores. A new product was released on the first Thursday of each month and was exclusively available on Prada's online store for 24 hours. In June 2019, Prada's official website and online boutiques in China were also redesigned to offer a seamless experience.

Furthermore, considering the great potential of China's bags and accessories market, Prada decided to launch its sub-line brand **MiuMiu**, targeting Chinese young consumers and focusing on leather accessories and bags.

Another important part of Prada's localization strategy was Chinese traditional festival campaigns. For instance, Prada's New Year ads usually targeted young consumers through using famous fashion models and actresses, launching special collections, and making use of AR technology in its campaigns.

In addition to the expansion and optimization of online channels and localized ads, Prada also worked hard to close the distance with young Chinese consumers through **collaborating with KOLs**. In 2021, more than 20 Chinese celebrities participated in the ad of a Cleo bag, leading to more than 80 million views on Weibo in just one day.

Creating a classy atmosphere in physical stores was another technique Prada employed to enhance customer experience and capture the heart of Chinese consumers. With the support of the Prada Foundation, the Italian maison began to renovate "Rong Zhai" garden house in Shanghai aiming at making it one of Shanghai's cultural landmarks as well as further increasing the brand's influence in the Chinese market. Moreover, Prada heavily relied on **pop-up stores** to engage with Chinese novelty-loving consumers.



Three years later, D&G is still struggling to regain popularity in China



Image: Dazed, D&G 2018 promotional video "Eating with Chopsticks"

In November 2018, **Dolce & Gabbana** released the promotional movie "Eating with Chopsticks", which was considered **a major miss in representing Chinese culture**, leaving many viewers feeling disrespected and mocked. The video was about a Chinese girl awkwardly using chopsticks to eat Italian dishes. After being questioned, Stefano Gabbana, one of the founders of the brand, called the Chinese "arrogant" and "stupid" in his personal conversation on Instagram. This promotional video and the racist statements by Mr. Gabbana heavily damaged the reputation of the brand in China: the promotional video was followed by uproar on Chinese social media. After several months of preparation, the fashion show that was supposed to be held in Shanghai was cancelled, and more than a dozen celebrities announced their termination of the contract.

Tmall, JD.com and other e-commerce platforms collectively removed Dolce & Gabbana products. In just one day, Dolce & Gabbana's online sales in China collapsed. In addition, the Italian maison had to close some offline stores.

After the scandal and the following backlash, **Dolce & Gabbana attempted to regain ground in the Chinese market.** One month after the provocative video, the Milan-based fashion brand released an advertisement with strong Chinese elements and during their 2018 Autumn-Winter fashion show in Milan, they tried to express their friendliness to the Chinese consumers by incorporating elements of the Chinese culture. Again, in early 2019, Dolce & Gabbana launched a series of T-shirts for the Year of the Pig in order to show their commitment to the Chinese market. **However, it wasn't successful**, as people kept discussing about Stefano Gabbana's words against Chinese people.

On August 7th, 2019, Dolce & Gabbana's official WeChat account posted a Qixi festival promotion after 9 months of silence. The brand posted an animated picture wishing "Happy Qixi Festival" in various languages, receiving less than 20,000 views. Moreover, Dolce & Gabbana launched two female virtual idols Liz and Sam to advertise the brand's Qixi capsule collection. Beyond the increasing popularity of virtual KOLs in China, one key reason behind Dolce & Gabbana's choice to use metahumans is that since the 2018 incident, **the brand has struggled to find a Chinese celebrity who is willing to endorse them.**



DOLCE & GABBANA
夏日七夕系列

Image: CBBC focus, D&G virtual idols for Qixi 2020

7 steps to future-proofing for luxury brands in China

By carefully observing current trends in China's luxury industry, it is possible to infer seven different approaches that could help luxury brands in China to future-proof their products, image, and designs.



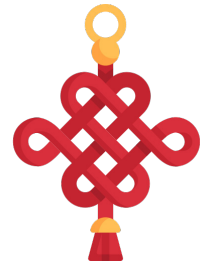
1. Expand into new markets and segments



While the market in Tier-1 and New Tier-1 cities continues to saturate, **lower-tier cities are blooming**. Changing demographic trends, increasing incomes, faster urbanization, enhanced connectivity, and low product-penetration rates are unveiling the great market potential of such urban centers. Meanwhile, their dwellers' **consumer habits are becoming more sophisticated**, sparking a lively interest in high-end products and unique experiences. Lower-tier cities are a luxury blue ocean where brands can engage with a rising consumer class boasting an increasingly higher propensity to consume. Putting eggs in more baskets will also imply **moving into other segments, such as luxury childrenswear and the silver economy**.

2. Dive deep into culture and context

The emergence of Chinese luxury brands is a wakeup call for big international names signaling that their dominant position in the market could be challenged in the years to come. **Building up a responsive and agile framework** is the most powerful tool luxury companies can have to cope with the ever-changing market. **Hiring and collaborating with locals** is an effective method to match Chinese consumers' expectations. Above all, luxury brands are called to **show their commitment to the Chinese market** by abandoning their Eurocentric point of view, fostering cultural inclusivity, and taking local social issues to heart.



3. Travel restrictions untapped new opportunities



Even when travel restrictions are lifted, a proportion of Chinese people will still prefer travelling domestically. **Domestic duty-free shopping is bound to become a norm in the years to come**. Hence, foreign brands should adapt to such new normal and seize the opportunities untapped by growing domestic tourism. At the same time, as digital touchpoints gain increasing importance, **brands need to provide a seamless O2O experience to stand out from the crowd**. In such context, **duty-free pop-up stores** have so far revealed powerful tools for attracting price-sensitive novelty-loving Chinese young consumers as well as for enhancing engagement and brand awareness among travel retail shoppers.

4. Develop a digital transformation strategy

The **4th Industrial Revolution** is going to deeply change the way we live, work, and interact; thus, luxury brands need to develop and implement a digital transformation strategy in order to avoid getting stuck behind the times. The **metaverse and the NFT technology** create new opportunities for luxury brands to engage with tech-savvy Chinese young consumers and reach a pool of consumers who would not normally purchase their goods in the physical world but are willing to in the virtual one. At the same time, **live e-commerce** has imposed as a tremendous driver of sales, however, when it comes to purchasing luxury goods, **consumers expect a superior experience**. Therefore, there is demand for brands to bring their class and elegance to the live streaming world as well.



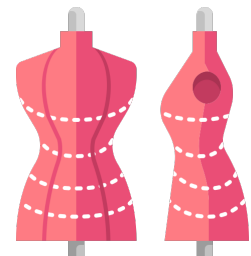
5. Chinese consumers value different environmental concerns



Chinese consumers awareness towards environmental issues is increasing, nonetheless, they are more sensitive to issues which are more likely to directly affect them in the short term. In order to future-proof, luxury brands cannot ignore Chinese beliefs around sustainability nor underestimate the power of government propaganda in driving consumers' behavior. High-income urbanites residing in higher-tier cities are usually more sensitive to environmental issues, while **the average Chinese consumer is neither apathetic nor passionate about them**. That's one of the reasons why, after waves of hype, **Chinese second-hand market does not look mature enough yet to develop and thrive**.

6. Meet Chinese demand for unique personalized items

As luxury in China is becoming a form of self-actualization and self-expression, young **Chinese consumers expect an unforgettable luxury experience throughout the entire consumer journey and are eager to share it on social media**. It is not surprising that customization services shifted from being an exciting option to a must-have feature, allowing Millennial and Gen-Z consumers to express their identity and their sense of belonging to a luxury-savvy tribe. **However, foreign luxury brands have not yet been able to meet Chinese customers' growing demand for customization services**. At the same time, the launch of the Common Prosperity Campaign as well as the economic downturn due to the global pandemic are inducing Chinese wealthy to opt for **discreet luxury items**. Low-key luxury brands and Chinese luxury brands are going to be the main beneficiaries of this trend.



7. Never undervalue the importance of market research

Due to the peculiarities of the Chinese socio-economic framework and its unique culture, luxury brands in China cannot ignore the importance of **accurate and professional market research** to prevent their products from becoming obsolete. Beyond helping companies to promptly react to changes and speculate forthcoming trends, market research assists them in adjusting and adapting their strategy to the Chinese context. In addition, considering local culture, values and history when designing marketing messages, or hiring locals to do it, **could potentially save companies from the costs implied by getting into scandals**.



About Daxue Consulting

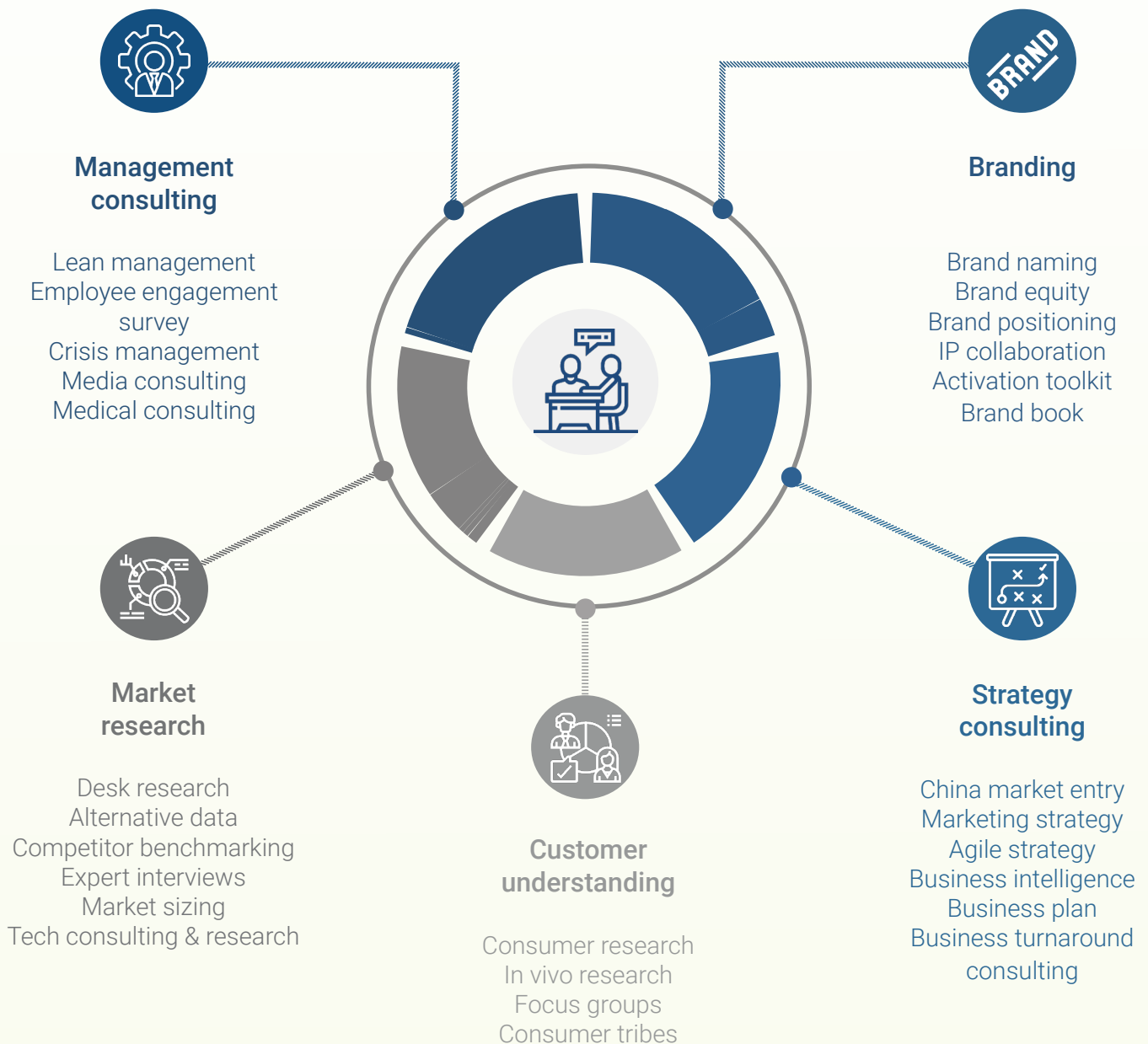
Since 2012, we are a market research and strategy consulting firm specialized in helping foreign businesses navigate the Chinese and Korean market, and Chinese businesses expand abroad. With offices in Beijing and Shanghai as well as a commercial representation in Hong-Kong, South Korea and France, Daxue Consulting is able to provide clients with accurate and reliable data of their target markets.



Our mission is to guide businesses to holistic growth in Asia

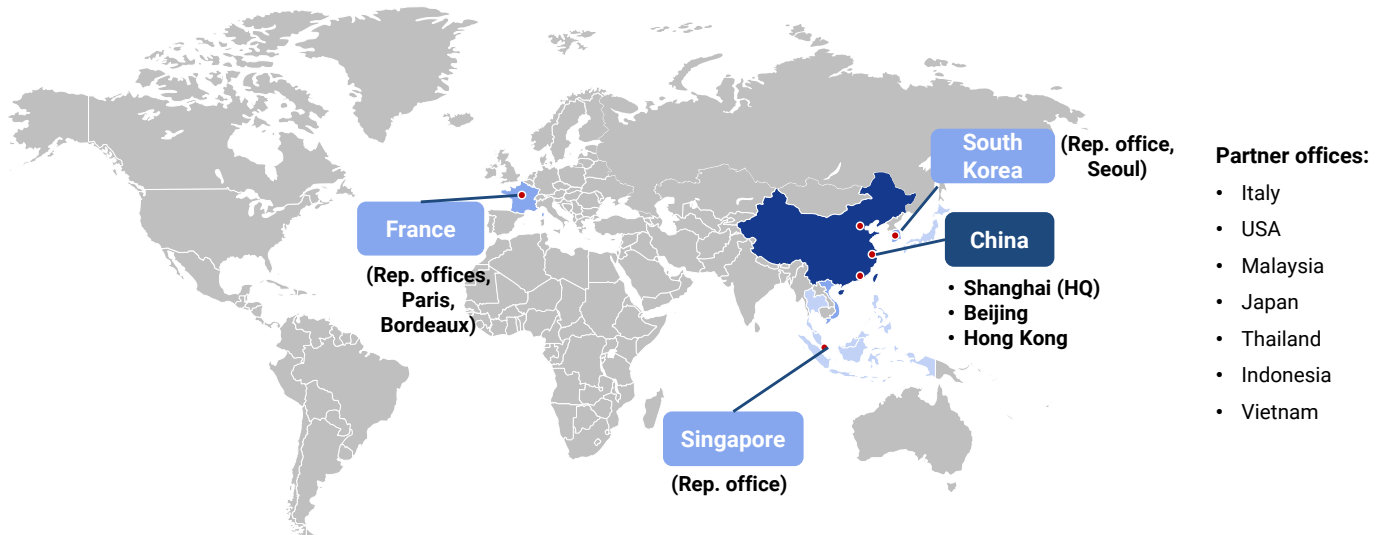
Through our market research and strategy consulting, we equip businesses with the knowledge and guidance to achieve growth in China and beyond.

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A research and consulting firm headquartered in China with an Asia-focus and a presence on three continents



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IN-HOUSE ORGANIZED

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TRADITIONAL METHODOLOGIES

Interviews, cold calls, focus groups, surveys, and more



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Third-party software and in-house built scrapping tools



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Consulting backed up by massive research



AGILE

We keep pace with market changes



COLLABORATIVE

We encourage frequent meetings with our clients



TRANSPARENT

Full insights into our work with frequent intermediate updates



INDUSTRY PARTNER NETWORK

Built-up over 350+ projects and 100+ podcasts guests



CROSS-CULTURAL UNDERSTANDING

Mix of foreign-educated Chinese and China-educated foreigners

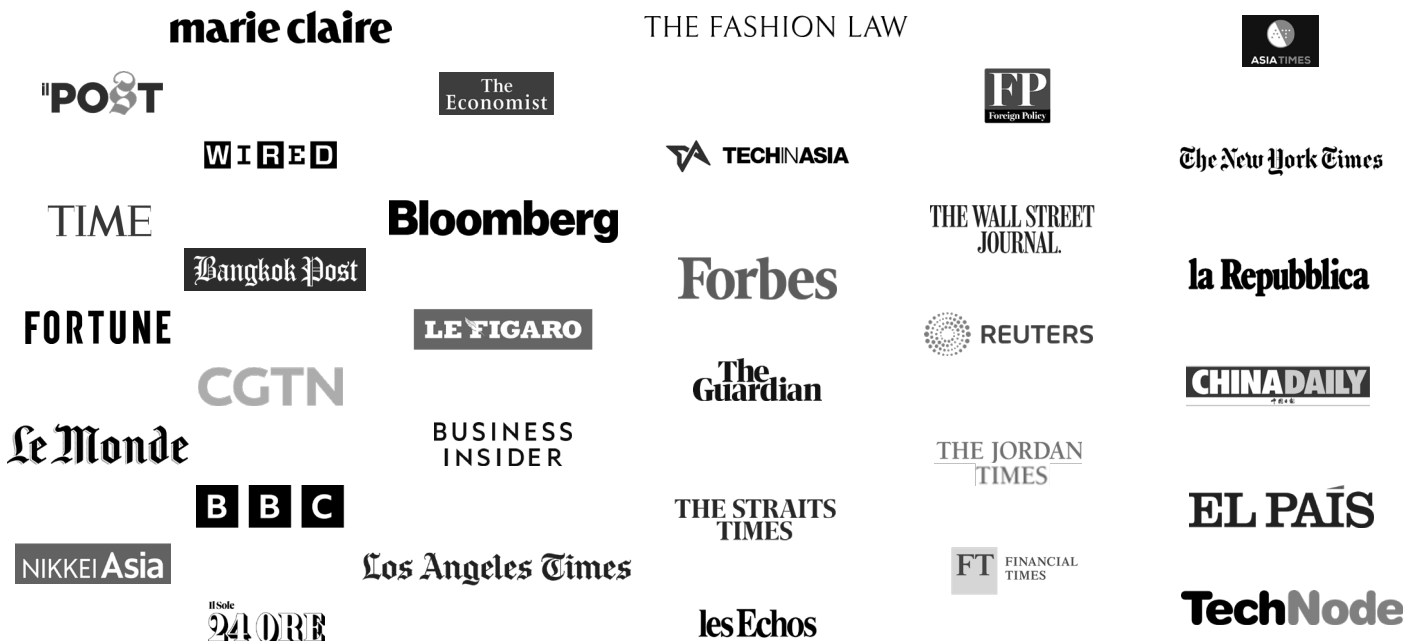
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