China’s luxury market enjoyed robust growth in 2017. Accelerating luxury purchases by millennials, especially those from the fast-growing middle class, coupled with revived consumer sentiment backed by the buoyant domestic stock and property markets have driven the resurgence of luxury purchases by Chinese customers at both home and abroad. Considering the strong spending power of Chinese shoppers, luxury players have also stepped up their digital efforts, widened their product offerings and re-adjusted their pricing strategies in China so as to better suit local tastes and preferences.

I. Market overview

1. China’s personal luxury goods market experiences resurgence

Personal luxury goods sales worldwide came in at 262 billion euros in 2017, representing a 5% growth at current exchange rates and a 6% growth at constant exchange rates, according to Bain & Company (Exhibit 1). The remarkable growth was mainly driven by strong luxury consumption across key regions, especially the resurgence of luxury purchases by Chinese customers both at home and abroad.
In China, sales of personal luxury goods rose significantly to 20 billion euros in 2017, representing a 15% year-on-year (yoy) growth at current exchange rates and a 18% yoy growth at constant exchange rates (Exhibit 2). This notable rebound suggests that the domestic personal luxury goods market has returned to solid growth.

Source: Bain & Co; compiled by Fung Business Intelligence
* Note: Estimated value
2. Chinese millennial consumers continue to drive global luxury growth

In the past year, Chinese consumers increased their luxury purchases abroad. Chinese luxury spending accounted for 32% of global luxury purchases in 2017 (Exhibit 3), up from 30% in 2016. China’s personal luxury goods market is projected to expand by 6% annually through 2024, by then Chinese shoppers will contribute 40% of global luxury sales and drive 70% of global luxury growth, according to Boston Consulting Group.

Exhibit 3: Global personal luxury goods sales by consumer nationality, 2017 and 2024e

Source: Boston Consulting Group; Altagamma; compiled by Fung Business Intelligence
* Note: Estimated value

The growth of Chinese luxury spending in 2017 was driven by several factors, the major one being millennials accelerating their spending on luxury. Millennials in China, especially those from the fast-growing middle class, have stronger spending power and are more willing to spend than counterparts in other countries. They start purchasing luxury goods at an earlier age – around 10 years younger than those in Europe and 20 years younger than those in the U.S., and buy more frequently and freely compared with the older generation, making them among the major contributors to luxury growth. It is also expected that by 2024, millennials will account for 50% of China’s personal luxury market. Exhibit 4 shows some key traits of Chinese millennial luxury shoppers.
In addition, China’s robust economic growth backed by stellar performance in the stock market and real estate market in 2017 has also led to the revival of the luxury market in the country. Meanwhile, the rebound of luxury spending by Chinese consumers also made the country the third largest luxury goods market in 2017, sharing the same rank with Japan, just behind Europe and the U.S. (Exhibit 5).
3. Rapid growth in household disposable income and number of wealthy individuals fuel the demand for luxury goods

Household disposable income in China has grown gradually over the years. According to the National Bureau of Statistics of the PRC (NBS), upper middle income, middle income and highest income segments all registered strong growth at annual growth rates of 8.4% yoy, 8.3% yoy and 8.1% yoy respectively in 2016 (Exhibit 6). These groups of individuals often have a voracious appetite for luxury goods and are the biggest spenders on luxury products.

**Source:** Bain & Co; Fondazione Altagamma; compiled by Fung Business Intelligence
*Note: Estimated value*

**Exhibit 6: Per capita disposable income of urban households, by income group, 2016**

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Per Capita Disposable Income (¥)</th>
<th>Yearly Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>13,004.1</td>
<td>6.3%</td>
</tr>
<tr>
<td>Lower Middle</td>
<td>23,054.9</td>
<td>7.5%</td>
</tr>
<tr>
<td>Middle</td>
<td>31,521.8</td>
<td>8.3%</td>
</tr>
<tr>
<td>Upper Middle</td>
<td>41,805.6</td>
<td>8.4%</td>
</tr>
<tr>
<td>High</td>
<td>70,347.8</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

**Source:** National Bureau of Statistics of China of the PRC; compiled by Fung Business Intelligence
*Note: Estimated value*
Meanwhile, there has been a continual increase in the number of wealthy individuals in China over recent years. According to Hurun Wealth Report 2017, there were 1.47 million millionaires and 99,350 super-rich individuals in China as of January 2017, up by 9.7% yoy and 11.6% yoy respectively (Exhibit 7). Among all the regions, Guangdong had the highest number of millionaires in 2017, followed by Beijing, Shanghai, Zhejiang, and Jiangsu (Exhibit 8). Hurun Research Institute also pointed out in its Luxury Consumer Survey 2017 that over 90% of surveyed high net-worth individuals in China feel confident about the economy going forward, with the number of respondents that were “extremely confident” accounting for 28% of the total. Besides, appetite for luxury products by Chinese luxury consumers in 2017 bounced back 20% to return to the level in 2013; the renewed appetite for luxury goods is expected to further drive luxury consumption in the country.

Exhibit 7: Number of millionaires and super-rich individuals in China, 2013 – 2017

Source: Hurun; compiled by Fung Business Intelligence
* Note: Millionaires are defined as individuals with personal wealth of 10 million yuan or more; super-rich are defined as individuals with personal wealth of 100 million yuan or more
### Exhibit 8: Number of millionaires in China, by geographic region, 2017

<table>
<thead>
<tr>
<th>Geographic region</th>
<th>Number of millionaires</th>
<th>Number of super-rich individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In absolute terms</td>
<td>yoy change (%)</td>
</tr>
<tr>
<td>1 Guangdong</td>
<td>268,000</td>
<td>11.7%</td>
</tr>
<tr>
<td>2 Beijing</td>
<td>263,000</td>
<td>10.5%</td>
</tr>
<tr>
<td>3 Shanghai</td>
<td>230,000</td>
<td>12.2%</td>
</tr>
<tr>
<td>4 Zhejiang</td>
<td>176,000</td>
<td>10.0%</td>
</tr>
<tr>
<td>5 Jiangsu</td>
<td>109,000</td>
<td>11.2%</td>
</tr>
<tr>
<td>6 Fujian</td>
<td>52,700</td>
<td>9.8%</td>
</tr>
<tr>
<td>7 Shandong</td>
<td>50,500</td>
<td>7.7%</td>
</tr>
<tr>
<td>8 Sichuan</td>
<td>34,600</td>
<td>6.8%</td>
</tr>
<tr>
<td>9 Liaoning</td>
<td>31,800</td>
<td>-0.6%</td>
</tr>
<tr>
<td>10 Tianjin</td>
<td>25,200</td>
<td>6.8%</td>
</tr>
<tr>
<td>11 Henan</td>
<td>25,000</td>
<td>8.2%</td>
</tr>
<tr>
<td>12 Hubei</td>
<td>19,600</td>
<td>8.9%</td>
</tr>
<tr>
<td>13 Hunan</td>
<td>19,500</td>
<td>8.9%</td>
</tr>
<tr>
<td>14 Hebei</td>
<td>18,200</td>
<td>4.0%</td>
</tr>
<tr>
<td>15 Shaanxi</td>
<td>18,000</td>
<td>5.9%</td>
</tr>
<tr>
<td>16 Shanxi</td>
<td>16,300</td>
<td>1.2%</td>
</tr>
<tr>
<td>17 Chongqing</td>
<td>17,000</td>
<td>8.3%</td>
</tr>
<tr>
<td>18 Inner Mongolia</td>
<td>13,400</td>
<td>0.8%</td>
</tr>
<tr>
<td>19 Heilongjiang</td>
<td>12,300</td>
<td>-1.6%</td>
</tr>
<tr>
<td>20 Jiangxi</td>
<td>12,700</td>
<td>7.6%</td>
</tr>
<tr>
<td>21 Anhui</td>
<td>12,500</td>
<td>8.7%</td>
</tr>
<tr>
<td>22 Jilin</td>
<td>9,800</td>
<td>3.2%</td>
</tr>
<tr>
<td>23 Yunnan</td>
<td>8,700</td>
<td>6.1%</td>
</tr>
<tr>
<td>24 Guangxi</td>
<td>7,800</td>
<td>8.3%</td>
</tr>
<tr>
<td>25 Hainan</td>
<td>5,700</td>
<td>9.6%</td>
</tr>
<tr>
<td>26 Guizhou</td>
<td>4,700</td>
<td>6.6%</td>
</tr>
<tr>
<td>27 Xinjiang</td>
<td>3,900</td>
<td>2.6%</td>
</tr>
<tr>
<td>28 Ningxia</td>
<td>1,200</td>
<td>9.1%</td>
</tr>
<tr>
<td>29 Gansu</td>
<td>900</td>
<td>1.1%</td>
</tr>
<tr>
<td>30 Qinghai</td>
<td>900</td>
<td>5.9%</td>
</tr>
<tr>
<td>31 Tibet</td>
<td>600</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

**Total** | **1,469,500** | **9.7%** | **99,350** | **11.6%**

*Source: Hurun; compiled by Fung Business Intelligence*
4. Female-related products continue to lead growth in the luxury market

China’s luxury market experienced remarkable growth overall in 2017, following four years of lackluster performance and decline. Dominated by female shoppers, a number of categories, including women’s apparel, jewelry, cosmetics, perfume and personal care products, which altogether contributed almost 50% of total luxury spending in China, posted more than 20% growth respectively in 2017, fueling the growth in the domestic luxury market. (Exhibit 9).

Exhibit 9: Market share of China’s luxury market and growth rates by category, 2017

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmetics, perfume and personal care products</td>
<td>30%</td>
<td>10%</td>
<td>7%</td>
<td>5%</td>
<td>28%</td>
</tr>
<tr>
<td>Watches</td>
<td>20%</td>
<td>-11%</td>
<td>-13%</td>
<td>-10%</td>
<td>13%</td>
</tr>
<tr>
<td>Leather goods</td>
<td>15%</td>
<td>5%</td>
<td>0%</td>
<td>-5%</td>
<td>18%</td>
</tr>
<tr>
<td>Men’s apparel</td>
<td>10%</td>
<td>-1%</td>
<td>-10%</td>
<td>-12%</td>
<td>8%</td>
</tr>
<tr>
<td>Jewelry</td>
<td>8%</td>
<td>5%</td>
<td>2%</td>
<td>7%</td>
<td>27%</td>
</tr>
<tr>
<td>Women’s apparel</td>
<td>7%</td>
<td>10%</td>
<td>11%</td>
<td>10%</td>
<td>24%</td>
</tr>
<tr>
<td>Shoes</td>
<td>5%</td>
<td>8%</td>
<td>8%</td>
<td>2%</td>
<td>21%</td>
</tr>
<tr>
<td>Accessories</td>
<td>5%</td>
<td>8%</td>
<td>0%</td>
<td>-6%</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>2%</strong></td>
<td><strong>-1%</strong></td>
<td><strong>-2%</strong></td>
<td><strong>20%</strong></td>
</tr>
</tbody>
</table>

* Note: Estimated value
II. Key trends and developments

1. Luxury brands team up with young Chinese celebrities to market their products

Recently, increasing numbers of luxury retailers are ramping up efforts to better engage with millennials, the most powerful consumer group in China’s luxury market today. To woo young shoppers, retailers are turning to young celebrities and influencers to market their products. They are also launching new product lines catering to younger tastes. British luxury fashion house Burberry, for instance, has appointed Kris Wu, one of the most popular millennial idols in China, as its brand ambassador and launched a new collection dubbed the “Burberry x Kris Wu Edit 2017”. The new collection, featuring five specially curated looks of the brand’s classic English-woven cotton gabardine trench coat and sports striped knitwear, has given a new and fresh interpretation of Burberry classic items and brought a youthful touch to the heritage brand, making the brand more appealing to young consumers in China. In April 2017, French luxury brand Christian Dior also appointed Chinese actress Yang Ying, commonly known as Angelababy, as its first brand ambassador in China. Thanks to her 87 million followers on Weibo, Yang succeeded in raising the popularity of Dior among the younger generation in China. Exhibit 10 shows selected examples of international luxury brands appointing young Chinese celebrities as their brand ambassadors.

BURBERRY X KRIS WU, a limited-edition capsule collection Burberry created in collaboration with Kris Wu in 2017
(Source: Burberry.cn)
## Exhibit 10: Selected examples of international luxury brands appointing young Chinese celebrities as their brand ambassadors

<table>
<thead>
<tr>
<th>Brand</th>
<th>Celebrity</th>
<th>Announcement of brand ambassador</th>
<th>Number of followers on Weibo (as of September 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burberry</td>
<td>Kris Wu, born in 1990, a Chinese hip hop star, actor and model</td>
<td>November 2016</td>
<td>39 million</td>
</tr>
<tr>
<td>Dior</td>
<td>Yang Ying, Angelababy, born in 1989, a Chinese actress, model, and singer</td>
<td>April 2017</td>
<td>87 million</td>
</tr>
<tr>
<td>Bally</td>
<td>Tang Yan, born in 1983, a Chinese actress</td>
<td>June 2017</td>
<td>67 million</td>
</tr>
<tr>
<td>Louis Vuitton</td>
<td>Lu Han, born in 1990, a Chinese actor, singer</td>
<td>July 2017</td>
<td>52 million</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>Yang Mi, born in 1986, a Chinese actress and singer</td>
<td>September 2017</td>
<td>94 million</td>
</tr>
<tr>
<td>YSL Beauty</td>
<td>Z.Tao, born in 1993, a Chinese actor and singer</td>
<td>September 2017</td>
<td>33 million</td>
</tr>
<tr>
<td>Fendi</td>
<td>Guli Nazha, born in 1992, a Chinese actress and model</td>
<td>September 2017</td>
<td>16 million</td>
</tr>
<tr>
<td>Valentino</td>
<td>Zhang Yixing, born in 1991, a Chinese actor, singer and a former member of South Korean-Chinese pop group EXO</td>
<td>November 2017</td>
<td>38 million</td>
</tr>
</tbody>
</table>

Source: Respective companies’ official websites; FDKG; compiled by Fung Business Intelligence
2. E-commerce players crack the luxury market; yet Chinese luxury shoppers still prefer offline

Chinese luxury shoppers have become more accustomed to purchasing luxury goods online. The big data of Alibaba’s Tmall shows that more than 100 million consumers have either browsed, bookmarked, or purchased luxury goods online over the past year – this huge potential customer pool is four to five times the number of the current luxury goods’ customers in China. Eying the increasing demand for luxury goods online, e-commerce players such as Alibaba and JD.com have set up their luxury e-commerce platforms targeting this segment.

In August 2017, Tmall launched the “Luxury Pavilion”, which is an invite-only online platform for premium and luxury brands. The platform is exclusive to a selected number of ultra-rich consumers. It features a wide range of luxury products, including apparel, watches, beauty and cosmetics, and luxury autos. Following the launch of the Luxury Pavilion, Tmall also unveiled “Tmall Space” – an online pop-up luxury retail platform in August 2017. Spanish luxury brand Loewe is reportedly the first luxury brand to use Tmall Space to hold a 24-hour flash sale campaign; it released a limited-edition Barcelona bag tailored for Qixi festival (Chinese Valentine’s Day) exclusively on Tmall Space in August 2017.

Similarly, JD.com also launched its first-ever luxury e-commerce platform “Toplife” in October 2018. Toplife is JD.com’s independent shopping platform where foreign and domestic brands can set up their official flagship stores on the platform and sell directly to consumers. Apart from displaying and selling products, the platform also shares the brand’s design concepts with users. Product delivery will be handled by JD.com’s specialized logistics team for luxury products, and air freight shipment will be provided. With all the dedicated services including dedicated warehouse and aircraft, as well as dedicated personnel and vehicle, JD.com is able offer personalized one-stop logistics services to customers.

Despite the enthusiasm of Chinese consumers for online shopping, most still prefer purchasing luxury products at bricks-and-mortar stores. These enable them to see, touch, feel and try out products, as well as to enjoy high-end customer experiences such as refreshments, invitations to private lounges where goods can be previewed, and other customized services. According to a report by Tencent and Boston Consulting Group, in 2017, 95% of luxury purchases were made offline versus merely 5% of luxury purchases done online. Nevertheless, Chinese luxury shoppers tend to research luxury products online before making purchases offline, with over 50% of polled respondents started their luxury purchasing journey through researching on mobile. They are more inclined to discover and learn more about luxury brands and items through various online channels, including celebrities’ and fashion influencers’ Weibo and WeChat accounts (12%), brand’s social media platforms (12%), luxury brands’ official websites, apps and mini-programs (11%), luxury brands’ digital advertisements (8%) and third-party e-commerce platforms (7%).
When it comes to online shopping, over half of the online luxury purchases in China were made through major e-commerce platforms such as Tmall’s Luxury Pavilion and JD.com’s TopLife; and almost a quarter of online orders were placed on brands’ official e-commerce websites. While social commerce shopping currently makes up merely 11% of online luxury sales volume in China, it is expected that shopping on social platforms will continue to grow considering that major social commerce platforms, such as WeChat and Xiaohongshu, are developing and catching up swiftly.

3. More international fashion brands set up self-operated online stores in China

Apart from selling on major e-commerce platforms, more and more international luxury brands have also ramped up their online presence in China by setting up self-operated transactional websites, as a way to obtain a full control of its online consumer search data and higher profit margin.

A typical example of luxury brands setting up their own transactional website is Gucci. In July 2017, the Italian luxury fashion house opened a self-managed online store in China. Consumers can order from the online store the full range of products from its current season’s collection, including bags, shoes, apparel and jewelry. According to media report, Gucci.cn is currently the only official online store for the brand in China.

Louis Vuitton is also a case in point. In July 2018, the French luxury brand announced the official opening of its self-operated online flagship store in China after a year of trial operation. Contrary to catering to 12 of China’s largest cities in the past year, Louis Vuitton has rolled out its online services to all cities in the country, meaning that all Chinese consumers can enjoy the brand’s premium services including delivery service and 7-day return policy. In addition, the luxury brand has also extended the product range available online, from leather goods and accessories to footwear, ready-to-wear and fine jewelry. Meanwhile, besides launching self-managed online stores, LVMH’s private equity arm L. Catterton has also partnered with JD.com to inject US$175 million in Secoo, one of largest and fastest-growing luxury e-commerce platforms in China. The investment in Secco is expected to extend LVMH’s e-commerce reach in China, where the French luxury giant has already listed a number of its brands on Secoo’s website, including fashion labels Celine, Dior, Fendi, Givenchy, Kenzo and Loewe; fine watch brands Hublot, Zenith and Tag Heuer, and cosmetics brands Guerlain and Fresh.
4. Luxury players scramble to strengthen social commerce presence; WeChat Mini Program is gaining popularity

Considering that social media and word-of-mouth are major sources of information for Chinese consumers, increasing numbers of international luxury players are striving to boost their social commerce presence as a way to market their products in China. For example, in September 2018, Italian luxury menswear brand Ermenegildo Zegna launched a China-only capsule collection “Ermenegildo Zegna XXX”, which was available on the brand’s pop-up store on WeChat Mini Program, an embedded app within WeChat.

During the Qixi festival (China’s equivalent to Valentine’s Day), which in 2018 fell on 17 August, many luxury brands also used the WeChat Mini Program to offer products exclusively for the festival (Exhibit 11). For example, on 3 August, Burberry officially launched its store on WeChat Mini Program, through which the brand released its two new Qixi-themed bags – red “Belt Bag” and red “Pin Clutch” available only in China. It is also the first time that Burberry introduced “China-only” products. Michael Kors, after setting up its store on WeChat Mini Program on 24 July, introduced a limited-edition Whitney purse co-designed with Chinese actress Yang Mi on the WeChat Mini Program store in celebration of Qixi festival.

*Michael Kors launched a limited-edition Whitney purse co-designed with Chinese actress Yang Mi on the WeChat Mini Program store to celebrate Qixi festival. (Source: Michael Kors.cn)*
### Exhibit 11: Selected WeChat Mini Program marketing campaigns rolled out by luxury brands during Qixi festival in 2018

<table>
<thead>
<tr>
<th>Brands</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marni</td>
<td>On 24 July, the Italian luxury brand started selling its limited-edition “Caddy” bag in celebration of Qixi festival on the brand’s WeChat Mini Program store.</td>
</tr>
<tr>
<td>Valentino</td>
<td>On 25 July, the Italian luxury brand launched its Chinese Valentine’s Day campaign “Be My VLTN” and offered its special collection of fashion items co-designed with Chinese actress Zhang Yixing on the brand’s WeChat Mini Program store.</td>
</tr>
<tr>
<td>Montblanc</td>
<td>On 26 July, the German luxury brand started selling its Chinese Valentine’s Day collection co-created with Chinese fashion blogger Mr. Bags on the blogger’s WeChat Mini Program store.</td>
</tr>
<tr>
<td>Versace</td>
<td>On 27 July, the Italian luxury brand launched a boutique store on WeChat Mini Program, first of its kind store of the brand. Running until 27 August, the store offered a wide range of Versace’s signature handbags with four of them available exclusively on its WeChat Mini Program store.</td>
</tr>
<tr>
<td>Dior</td>
<td>On 31 July, the French luxury brand released its “DiorAmour” handbag for sales exclusively on its WeChat Mini Program in celebration of Qixi festival; prior to the new launch, the brand had already published 16 posts to promote the new handbag. With the limited-edition bags sold out in seconds on its WeChat Mini Program store, Dior then opened a pop-up store at Beijing’s SKP shopping mall (from 5-19 August), releasing more “DiorAmour” fashion products to further cash in on the raging demand.</td>
</tr>
<tr>
<td>Bottega Veneta</td>
<td>On 31 July, the Italian luxury brand launched its Chinese Valentine’s Day campaign through its store on WeChat Mini Program; a number of the brand’s limited special items were available on the platform, including Catena City Knot handbag and Intrecciato Maze wallet.</td>
</tr>
</tbody>
</table>
(Exhibit 11 Cont’d)

<table>
<thead>
<tr>
<th>Brands</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Kors</td>
<td>On 1 August, the U.S. designer brand introduced its limited-edition Whitney handbag, co-designed with Chinese actress Yang Mi, on the brand’s WeChat Mini Program in celebration of Qixi festival.</td>
</tr>
<tr>
<td>Burberry</td>
<td>On 3 August, the British luxury brand officially launched its WeChat Mini Program store, through which the brand released its two China-only limited-edition bags – red “Belt Bag” and red “Pin Clutch” to celebrate Qixi festival.</td>
</tr>
<tr>
<td>Stella McCartney</td>
<td>On 3 August, the British designer brand’s WeChat Mini Program store officially went online, allowing users to place orders directly.</td>
</tr>
<tr>
<td>Givenchy</td>
<td>On 5 August, the French luxury brand officially launched its WeChat Mini Program store, enabling Chinese shoppers to order the brand’s special GV3 handbag created for Qixi festival.</td>
</tr>
<tr>
<td>Gucci</td>
<td>On 6 August, the Italian luxury brand launched its Chinese Valentine’s Day campaign along with the release of its WeChat Mini Program store. To celebrate Qixi festival, the brand rolled out limited-edition products, including special “GG Marmont” handbags and “Ace Patch” sneakers exclusively designed for Chinese consumers.</td>
</tr>
<tr>
<td>Cartier</td>
<td>On 7 August, the French premium jewelry brand launched its WeChat Mini Program store dedicated to selling the brand’s Qixi festival special “Juste un Clou” bracelet.</td>
</tr>
<tr>
<td>Berluti</td>
<td>On 8 August, the French luxury leather goods brand released Qixi festival limited-edition “Nino GM” leather document holder, exclusively available on the brand’s WeChat Mini Program store.</td>
</tr>
</tbody>
</table>

Source: Ebrun, Jing Daily, China Daily, Fashion Network, Sohu, Vogue; compiled by Fung Business Intelligence
5. Domestic luxury players buy out international players

To exert international influence and enrich their brand portfolios, some leading domestic luxury players and large-scale Chinese companies are actively expanding overseas by investing in foreign luxury brands. For example, in February 2018, Shandong Ruyi Investment Holding, the investment tool of Shandong Ruyi Group, dubbed as the LVMH of China, acquired a majority stake in Swiss luxury brand Bally. Although the two sides have not disclosed any details of the deal, but insiders mentioned the transaction value was about US$700 million. Previously in November 2017, Shandong Ruyi Group’s subsidiary Ruyi Technology Group Ltd. acquired a 54% stake in Israeli menswear group Bagir Group Ltd. for US$16.5 million, becoming the latter’s controlling shareholder. Prior to the takeover of Bally and Bagir, Shangdong Ruyi also acquired Parisian high-end fashion labels Sandro, Maje, and Claudie Pierlot, as well as British luxury brand Aquascutum.

Another example is Chinese investment company Fosun International. In February 2018, Fosun acquired a controlling stake in Lavin, one of the oldest luxury fashion houses in France. Following the acquisition of Lavin, Fosun also bought a majority stake in Austrian luxury lingerie maker Wolford for 55 million euros in March 2018. In addition to Lavin and Wolford, Fosun also has purchased stakes in Italian premium menswear brand Caruso and U.S. luxury fashion house St. John Knits.

JD.com has also expedited its push into the luxury sector with a partnership with Farfetch, a London-based luxury marketplace listed recently on the New York Stock Exchange in September 2018. In June 2017, JD.com bought a stake in Farfetch for US$397 million and became one of its largest shareholders. Under the partnership, JD.com would help Farfetch build a digitized sales and marketing system in China with JD.com’s technology and big data. For Farfetch, the partnership allows it to have direct access to the China market. Farfetch consumers can also use JD.com’s recently launched premium delivery service, JD Luxury Express, as well as payment service JD Pay and microcredit service JD Baitiao.

6. Luxury retailers lower prices in China in response to tariff cuts by the Chinese government

To encourage domestic consumption while promoting imports, the State Council announced in May 2018 that the country will reduce import tariffs on a range of consumer goods with effect from 1 July 2018. In response, some international brands have marked down their prices in China. For example, Burberry and Louis Vuitton have lowered the prices of some of their products sold in China. Burberry has trimmed the prices of selected apparel and luggage products by 4% in China from 14 July onward, while Louis Vuitton lowered prices of some of its products available on its China’s official website and physical stores in end-June, ranging from 300 yuan to 1,500 yuan, which is equivalent to a drop of between 3% and 5%. Gucci also
confirmed that it will adjust retail prices of all merchandise with an average drop of about 5%. This is applicable to all products including new and classic items sold in its directly operated stores in China. Another Italian luxury fashion brand Moncler has also followed suit and cut its product prices by an average of 3.5% in China starting July 2018.

III. Concluding remarks

China’s luxury market is expected to maintain stable growth in the coming years. The China-U.S. trade war is set to raise economic uncertainty in China and weigh on domestic consumer confidence. Nevertheless, driven by a number of positive factors such as rising household disposable incomes, increasing numbers of millionaires and super-rich individuals, as well as government’s latest tariffs cut to boost domestic consumption, China is set to remain as one of the most lucrative markets for global luxury retailers.

To keep pace with the rapidly evolving needs of Chinese luxury consumers, especially the millennials, global luxury retailers are advised to constantly evaluate their business strategies and marketing plans, keep on innovating and embrace technologies in-store to better engage with customers. In the past year, a few luxury brands have set up pop-up stores that coupled with advanced technologies and innovative marketing contents to promote their products and gain awareness. Chanel, for instance, launched a pop-up store in the format of game center at K11 Shanghai in April 2018. The COCO Game Center offered mainly cosmetics products and perfumes, and featured racing games, game machines, game booths and claw machines. Miu Miu also launched a Miu Miu disco pop-up store in Nanjing Deji Plaza in March 2018. The store was designed with a disco theme; displayed and sold a selection of specially chosen Miu Miu handbags, shoes, jewellery and accessories. These pop-up stores successfully caught shoppers’ attention and drove customer traffic.

Meanwhile, as the new generation of consumers are more sophisticated and digital savvy, global luxury retailers should come up with a comprehensive digital strategy to provide seamless shopping experience for customers. The use of social media to promote products and enhance brand awareness is a must in today’s digital world.
Contacts

Asia Distribution and Retail

Teresa Lam
Vice President
Email: teresalam@fung1937.com

Tracy Chan
Research Manager
Email: tracychan@fung1937.com

Fung Business Intelligence
10/F, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
Phone: (852) 2300 2470 | Fax: (852) 2635 1598
Email: fbicgroup@fung1937.com | https://www.fbicgroup.com

© Copyright 2018 The Fung Business Intelligence. All rights reserved. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Though the Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence is prohibited.