

Luxury Redefined

Building trust with Chinese consumers through
authenticity and integrity

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Foreword

The rapid economic rise of China, combined with developments such as increased urbanisation and digitalisation of society, have had a significant impact on Chinese shopping behaviours. In the luxury market, consumers have adopted new channels to gather information and purchase products, while tastes have evolved as their knowledge of luxury products has increased.

These changes have brought significant challenges to luxury brands as they develop their strategies and positioning for the China market. Given the diversity and complexity of the market and customer base – in addition to the sheer scale of the overall market – more insights are required to support brands in making the right investment decisions.

Some of the pressing questions we had prior to undertaking this study included:

-  What are Gen Z consumers looking for when purchasing luxury brands?
-  What is the meaning of luxury for Chinese consumers and how has it evolved?
-  How can luxury brands incorporate emerging technologies such as mixed reality, the metaverse and NFTs?
-  Where will Chinese consumers travel to as COVID-19 related restrictions are being lifted?
-  How receptive are Chinese consumers to the topic of sustainability?

Luxury Redefined: Building trust with Chinese consumers through authenticity and integrity is a comprehensive study by KPMG China into the luxury purchasing behaviours of consumers in China. Through a consumer research study and interviews with a wide range of executives from across the luxury industry, we have sought to gain a deeper understanding of emerging trends and changes in consumer behaviour that have taken place as the market has evolved. In addition, we have given an overview of how shopping behaviours are expected to change in the next five to ten years and provided recommendations for brands targeting the next generation of consumers.

We would like to extend a warm thanks to the Sales and Marketing Consulting Unit of the Department of Marketing of the City University of Hong Kong, including Dr. Esterina Nervino and her team, who have significantly contributed to this study providing both quantitative and qualitative analysis, as well as YouGov for their work on the consumer research. Last but not least, we would like to thank the luxury executives that agreed to be interviewed for this report for their valuable contributions.

We hope that this report provides you with valuable insights and we welcome the opportunity to discuss these findings further.



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Executive summary

China has been the main growth market for many luxury brands for some time. With the country having undergone a rapid economic development over the last decades, so too have the levels of sophistication among its consumers. Overseas luxury brands need to understand how Chinese consumers have evolved to provide a better customer experience and to maintain sustainable growth in this market.

This study aims to deliver insights into luxury consumption in China, focusing on Tier 1 and 2 cities in the Chinese Mainland and Hong Kong SAR. The research was based on a consumer survey held in mid-2022 among 2,653 consumers. Through interviews with a wide range of executives from across the luxury industry, the findings of the survey were put into context against the emerging trends and changes that are taking place in the luxury industry in China.

To understand the changes in consumer behaviour, a cluster analysis was conducted to segment consumers into five distinct mindsets: 'Going global', 'Look at me', 'Fitting in', 'Quality first' and 'Striving for the greater good'. Consumers move from cluster to cluster as their experience with the luxury market and their outlook evolves due to socio-economic factors such as increased disposable income.

Through analysis of the survey results, five main personas were identified in addition to two emerging personas. The five personas are: Luxury Newcomers, Status Reflectors, Community Approval Seekers, Luxury Connoisseurs, and 'New Luxury' Pioneers. However, it should be noted that these personas are fluid, and some characteristics may overlap between them. As the Chinese luxury market continues to mature, two emerging personas - Luxury Investors and Cultural Resonators – are starting to rise to prominence as well. The study also sets out to profile the current and rising consumer personas driving luxury consumption and provide recommendations to brands willing to capture the next generation of consumers.

Key findings from the research study are as follows:

- Across the different personas, Chinese consumers were found to have the confidence to spend. They are eager to purchase luxury as a means of social advancement and self-differentiation, and are highly influenced by media content in their purchasing decisions.
- Gen Z consumers (respondents aged 18 to 25 in the survey) are primarily found among the 'Luxury Connoisseurs' persona. Their preferred channels for purchasing are key e-commerce platforms (for Chinese Mainland consumers) and brand official channels (for those based in Hong Kong SAR). The main motivation to buy luxury items are to obtain better quality items.
- Interviews with executives from the luxury industry confirmed that they are concerned about the impact of the COVID-19 pandemic on China's economy. However, they also reiterated the increasing importance of the Chinese market from a global perspective, thus highlighting the importance of understanding its evolution and emerging consumer personas.

- Key themes that emerged throughout conversations with industry executives were found to be digital transformation, sustainability and the need for experiential retail. These topics have been mainly driven by the demands of Gen Z consumers, which are pushing brands to invest in innovation and sustainability to remain relevant among this generation.

As a result of changes in consumer preferences – and the response to that by brands – a new paradigm in the luxury industry is starting to form. Besides focusing on conventional features such as authenticity and excellence, new elements are added to the equation such as functionality, integrity, sustainability and innovation.

With this new paradigm in mind, key takeaways for luxury brands are as follows:



Target megacities and expand to emerging ones

Target consumers living in the megacities with dedicated 'luxury experiences'. The focus should also be on Tier 2 and below cities, as consumers in these locations have higher disposable income due to lower living expenses and are likely to spend more on luxury goods.



Respect the local culture

Ensure respect for Chinese culture to capture the growing consumer segment that is identified as 'Cultural Resonators' in this study. Use brand messages and designs that can forge unique emotional connections with consumers.



Be purpose-driven

Create products that may serve as a form of social currency, to elevate consumer experiences and help pursue the greater good.



Create digital shopping experiences

Create a robust and consistent digital shopping experience across channels to remain competitive, especially to engage with younger generations.



Capitalise on Gen Z growth

Understand the emerging trends that are reshaping the consumer behaviours of younger, digitally-native generations and adapt. Invest in new technologies to engage with these consumers at an early stage and educate them about the brand story and products.



Tap into the trend for 'New Luxury'

Recognise the emergence of the 'new luxury' concept, in which certain consumers are more open to brands that promote new ideas and advanced designs that make a contribution to society, even though they might currently be more niche. A focus on inclusivity over exclusivity, and more sustainable approaches, are central to tapping into this trend.



Understand the needs of emerging personas

Understand the intricacies of all the emerging personas identified in this study and consider how business strategies need to adapt to capitalise on these developments. Leverage data to understand changes in consumer behaviour and identify new trends at an earlier stage to make informed business decisions.



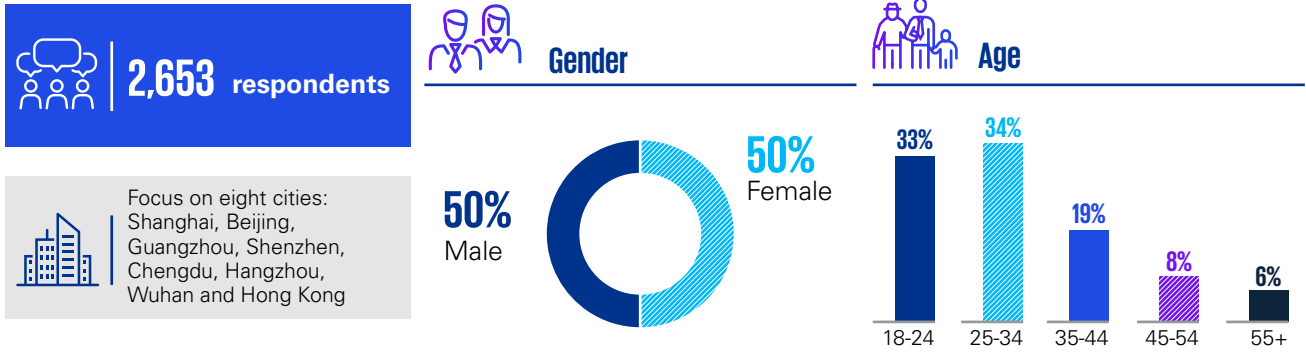
About the study

This report examines the Chinese luxury consumer, focusing on Tier 1 and 2 cities in the Chinese Mainland as well as Hong Kong SAR. It looks into their luxury purchasing habits and lifestyle and demographic factors in order to segment consumers into seven distinct personas.

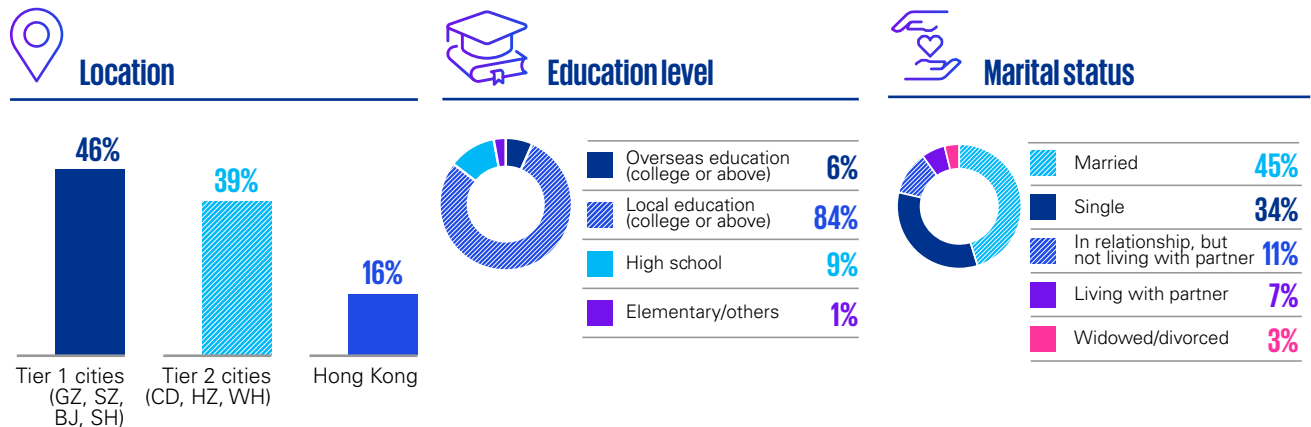
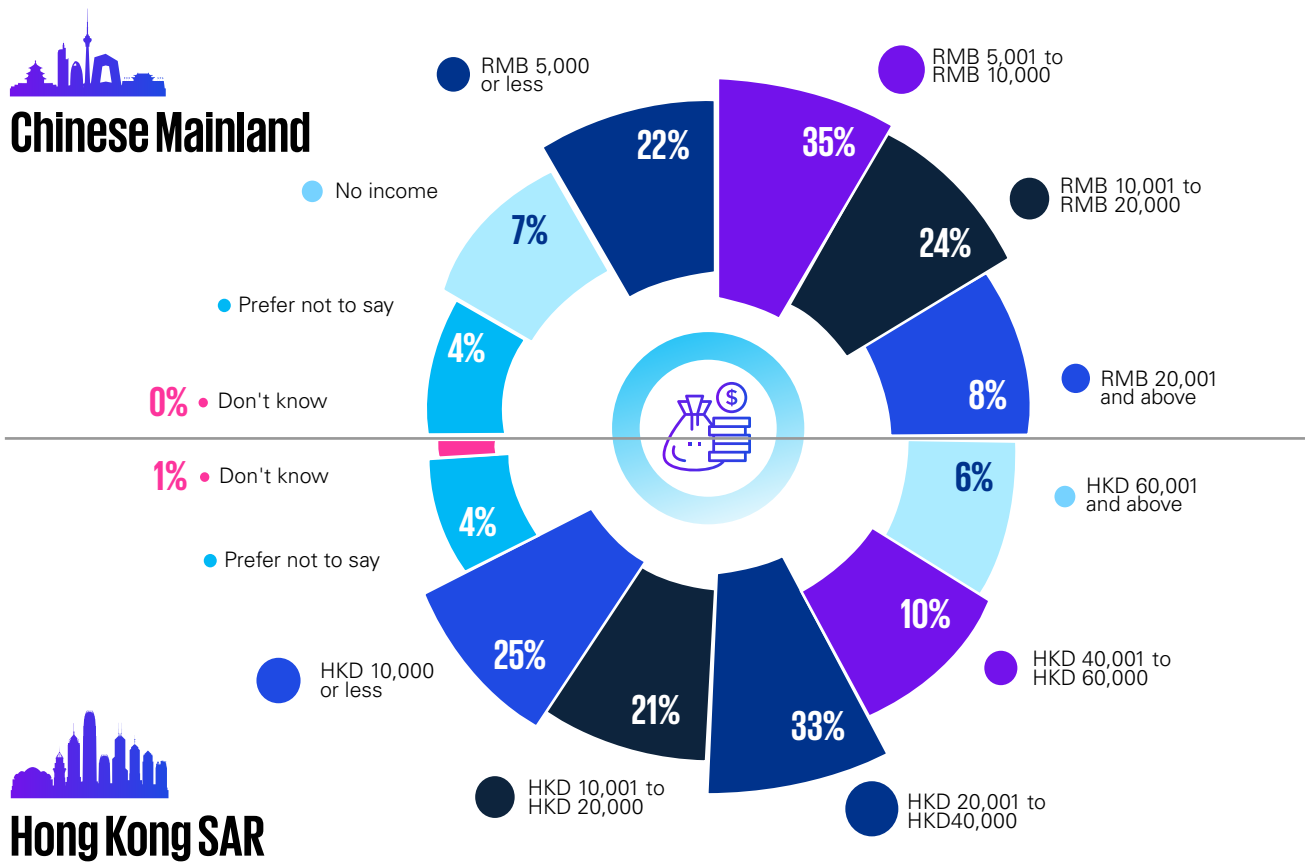
The study is based on a survey among 2,653 consumers living in the Chinese Mainland and Hong Kong SAR, with 46 percent of respondents based in Tier 1 cities (Guangzhou, Shenzhen, Beijing and Shanghai), 39 percent in Tier 2 cities (Chengdu, Hangzhou and Wuhan) and 16 percent in Hong Kong. Respondents were split evenly by gender and represented a wide range of income levels. The vast majority of respondents were educated at the (local) college level or above (Figure 1). It should be noted that not all figures in this report add up to 100 percent due to rounding.

To supplement the findings of the consumer survey, the study also draws on insights from in-depth interviews with executives from the luxury industry, representing luxury brands, marketing agencies, consumer analysts, trade associations, and other stakeholders, including players within the hospitality, tourism and property sector. These leaders have extensive experience in China's luxury market and were able to put the findings from the research into context. Lastly, the report also makes use of secondary research to highlight the socio-economic trends that are expected to shape luxury purchasing behaviours in China over the coming decade.

Figure 1: Profile of survey respondents



Monthly personal income



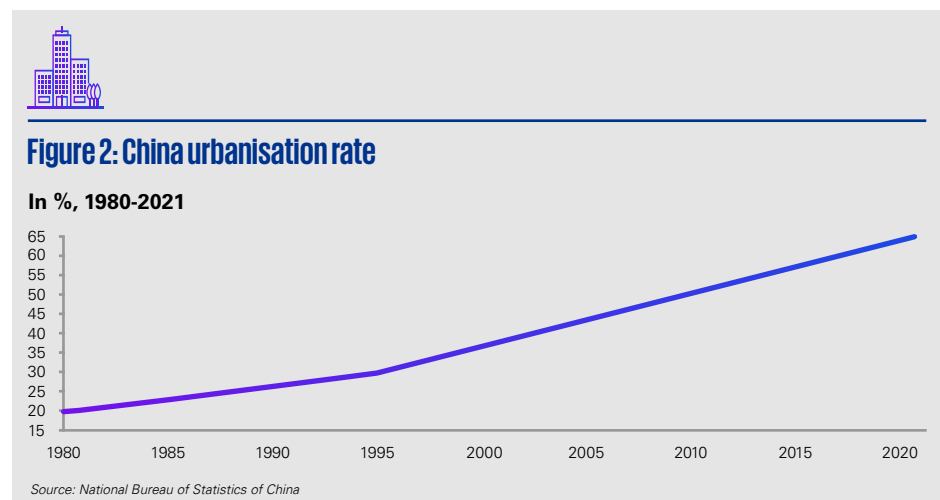
Source: KPMG analysis

Chapter 1: Overview of the Chinese luxury market: challenges and opportunities



China's rapid economic development and urbanisation over the past 40 years is well-documented. Over that period, China has become one of the most dynamic markets globally in terms of economic development, shifting the country's economic centre from agriculture to manufacturing and services. Alongside China's rising economic power, the country has also experienced a growing urbanisation of its population (Figure 2). Together with the rapid growth of its middle class, Chinese consumer behaviours have changed dramatically as disposable incomes and affluence have risen.

Economic growth and rapid urbanisation have led to a booming luxury market. The value of China's luxury market¹ has grown from RMB 213bn (USD 35bn) in 2014 to RMB 275bn (USD 43bn) in 2021, demonstrating a compound annual growth rate (CAGR) of 4 percent. The market is continuing to grow at an accelerated pace and is on track to hit RMB 378bn (USD 63bn) by 2027². As China's luxury market has developed, so too have its consumers gradually learnt about luxury brands and products, and gained the know-how to make informed purchase decisions. As a result, the psychology and purchasing habits of consumers have become more complex than ever.



In recent years, several emerging trends and developments have reshaped China's economic landscape, further impacting the luxury market. The most notable among these are slowing economic growth, the COVID-19 pandemic, greater interest and awareness of sustainability issues and technological advancements.

¹ Includes personal luxury goods (watches and jewellery, apparel and footwear, eyewear, cosmetics and fragrances)

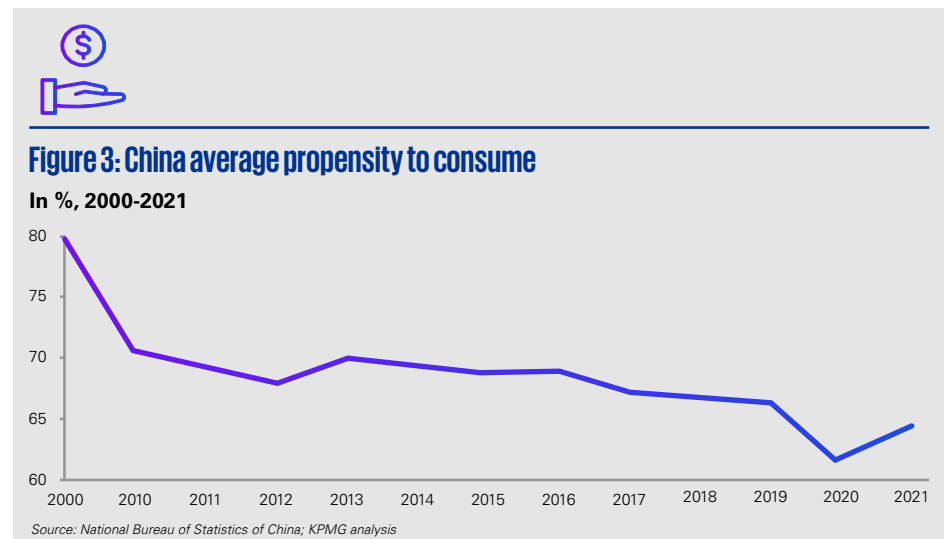
² Consumer Market Outlook, Statista, March 2022



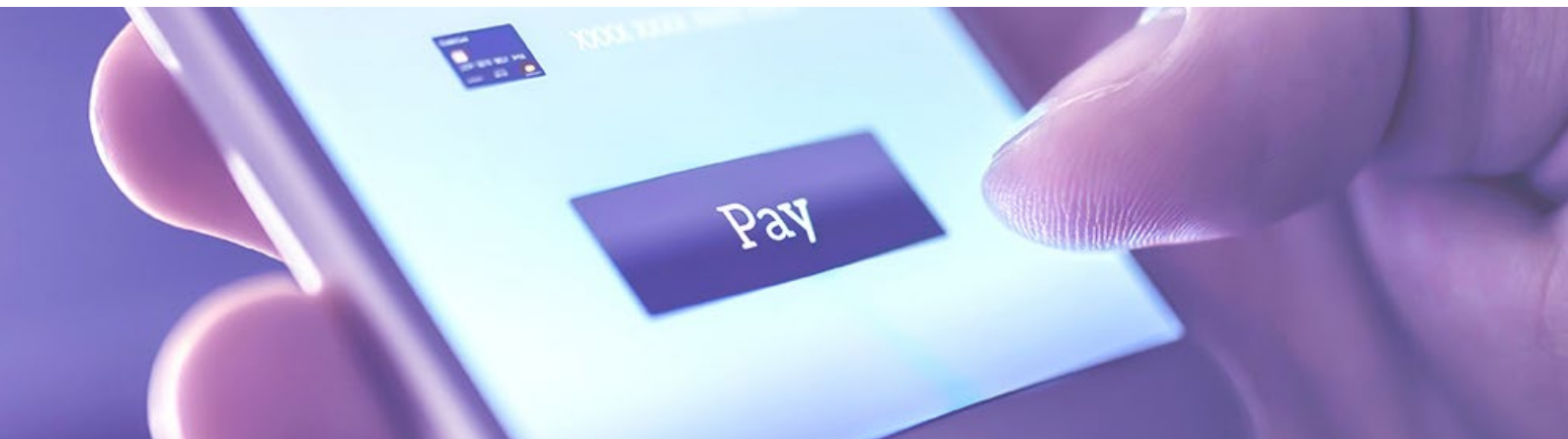
Slowing economic growth and stimulation policies

The process of transforming into a mature economy and trade tensions with the United States from 2018 have led to the slowing down of China's economic growth from its previous breakneck speed. In response, the country has progressively lowered its GDP growth target, from 6 to 6.5 percent in 2019 to 5.5 percent growth in 2022 – although even that target may be out of reach due to the economic impact of the pandemic³.

Although this relative slowdown is not necessarily negative since it parallels the economy's transition towards more sustainable growth, the purchasing behaviour of consumers has undoubtedly been impacted. People have become more prudent in their purchases as growth in disposable incomes has slowed. The average propensity to consume – which measures the percentage of income that is spent rather than saved – has dropped from 70 percent in 2010 to a historic low of 62 percent in 2020. While this recovered slightly to 64 percent in 2021, it has remained low in a historical context (Figure 3).



To deal with the challenges brought by the slowdown in economic growth, the government announced a 'dual circulation' economic development policy in its 14th Five-Year Plan to promote the development of domestic demand, alongside its emphasis on growth through exports.



³ Chinese Leaders Say GDP Growth Is Guidance, Not a Hard Target, Bloomberg, 2 August 2022, <https://www.bloomberg.com/news/articles/2022-08-02/chinese-leaders-say-gdp-goal-is-guidance-not-a-hard-target>

Increasing domestic duty-free sales has become one of the key drivers to channel overseas consumption back to China. This has been given further impetus by the release of the Development of Tourism Industry policy in January 2022, which outlined enhanced offshore duty-free policies, including increased purchase quota and product quantity, more eligible product categories and expanded channels⁴. In addition, the policy seeks to promote sales through downtown duty-free stores. The favourable policies towards duty-free, coupled with the VAT reduction in 2017, have continued to stimulate luxury purchases in China.

'Common prosperity' has also become a key agenda for the Chinese government from 2022. This policy aims to eliminate poverty by adjusting excessive incomes in society. Although detailed policies are still to be released, it is thought that this aim will likely benefit the luxury market in the long run as its ultimate goal is to promote economic growth through greater economic mobility within society, resulting in a larger middle class and more consumption.



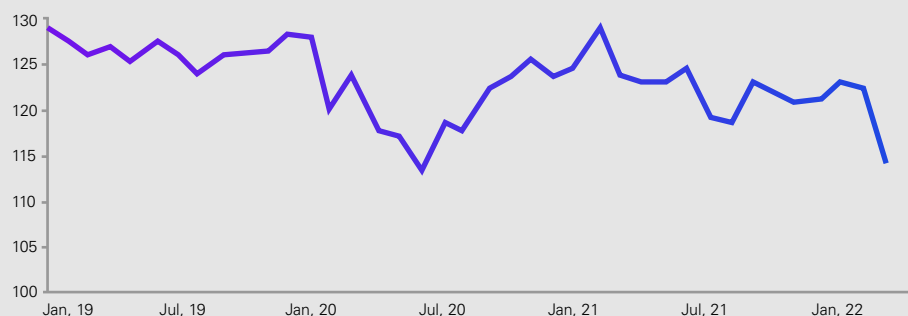
The impact of the COVID-19 pandemic

The pandemic has been one of the biggest challenges for the Chinese economy in the past 30 years. It has not only impacted economic activities, but also cast a cloud over consumer confidence. Lockdowns, travel restrictions, and other measures to contain the pandemic have led to a rising unemployment rate⁵. While consumer confidence was not impacted too much during the initial stages of the pandemic in 2020 and 2021, sporadic outbreaks of the Omicron variant from 2022 and related lockdowns have dented consumer confidence (Figure 4).

The pandemic has also caused changes in purchasing behaviour and made people rethink consumerism. Facing uncertainty, consumers are now spending more thoughtfully on quality products and services, looking for uniqueness in products. To deflect attention from the pandemic, they are also focusing more on the present moment in their pursuit of happiness and prosperity⁶. Although China has started to relax its COVID-19 policies from late 2022, some of these changes in consumer behaviour are expected to persist.



Figure 4: China consumer confidence



Source: National Bureau of Statistics of China; Trading Economics

⁴ Duty-free Shopping Policy for Travellers Leaving Hainan Island (关于海南离岛旅客免税购物政策的公告), Ministry of Finance, the General Administration of Customs and the State Taxation Administration, 29 June 2020, http://www.gov.cn/zhengce/zhengceku/2020-06/29/content_5522649.htm

⁵ National Bureau of Statistics: Unemployment rates from 2018 to 2021 were: 3.8%, 3.6%, 4.2%, 4.0%

⁶ Insights into consumption under the epidemic: Stay alive and start from "new" (疫情下的消费洞察: 苟住, 从“新”出发), Mintel, 19 August 2022, <http://www.199it.com/archives/1461034.html>



Increased awareness of sustainability

While sustainability has become a top priority globally, the Chinese government has also announced various policies and initiatives to achieve its ambitious carbon reduction goals and environmental regulations. Some notable examples include the green finance system, which will mobilise investments into the low-carbon economic transition⁷, and its dual carbon policy, with the country pledging to reach peak carbon emissions in 2030 and achieving carbon neutrality by 2060⁸. These initiatives lay the foundation for the mandatory disclosure of sustainability information and concrete carbon reduction goals. The government also intends to make environmental topics part of its 'green education' mandate in primary and secondary schools across China.

Although consciousness around sustainability in China comes from the top-down, it certainly affects consumers' perception of sustainability and influences their purchasing decisions. Young people are increasingly adopting an environmentally friendly-lifestyle, for instance, by shopping for vintage clothes and eco-friendly products. This is backed by the rise of the second-hand market in China, with spending exceeding RMB 1tn in 2020⁹. The trend is also reflected in increased demand for sustainable travel, with the consumer survey of this report indicating that 90 percent of Chinese Mainland respondents are putting more efforts into achieving sustainable travel¹⁰.

With increased awareness about sustainability, Chinese consumers are gradually going for brands that are considered to be 'green'¹¹. Brands without sustainability initiatives are likely to miss out on this growing trend and may even lose a competitive edge in China.



Digital technology has underpinned China's rise

The development of China's digital ecosystem has played a critical role in the country's economy. Companies are utilising digital marketing and social media to generate customer awareness and are further leveraging digital technology to connect online and offline channels and enhance customer activation.

The increasing exposure and integration of social media into daily life has had a significant impact on the rapid change in Chinese consumer behaviours and their outlook. Increased access to information and the channels that provide it have become an excellent tool for brands to educate customers and promote their products and services. Customers also leverage these channels to develop a unique sense of style and are turning to luxury products to demonstrate their personality. From a transactional perspective, technologies also serve to enhance the customer experience in both online and offline channels, to name just a few: the metaverse, augmented reality (AR), virtual reality (VR), and unmanned store technologies are among the most prevalent ones.

The diverse range of technologies that have been adopted in the retail market in China are helping to blur the boundaries between physical and digital touchpoints with retailers and brands. This change has pushed the traditionally offline-focused luxury industry to go digital and become more innovative as it responds to the needs and preferences of Chinese consumers.

⁷ State Council published the Integrated Reform Plan for Promoting Ecological Progress in 2015 to announce the strategy on green finance system

⁸ President X Jinping announced China's dual carbon policy objectives at the United Nations General Assembly in September 2020

⁹ Second-hand market in China becomes a trillion market, with the younger generation as the main driving force, Chinanews, 7 December 2021, <http://www.chinanews.com.cn/cj/2021/12-07/9623909.shtml>

¹⁰ Sustainable Travel Report 2022, Booking.com, April 2022, <https://globalnews.booking.com/download/1161485/booking.comsustainabletravelreport2022final.pdf>

¹¹ 2021 China Sustainable Consumption Report (2021中国可持续消费报告), Jiemiao.com and SynTao, 21 Dec 2021, <http://www.syntao.com/newsinfo/1010421.html>

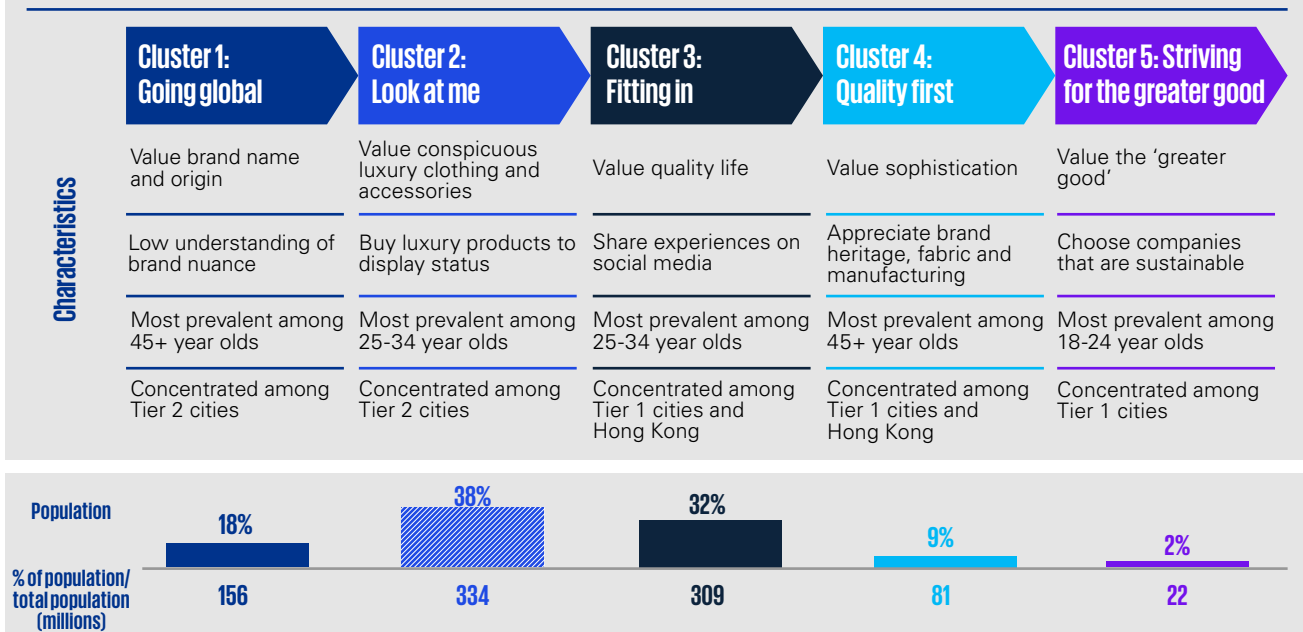


Understanding Chinese luxury consumers

When analysing consumer preferences and behaviours in the luxury market in China, it can be helpful to categorise consumers into clusters. The research for this study suggested that a consumer’s purchasing mindset evolves through a series of five clusters, with consumers moving from cluster to cluster as their experience with the luxury market and their mindset evolves (Figure 5). This transition in mindsets and purchasing behaviour is largely aligned with economic growth and has been observed in other countries as well. These five clusters can be used as a basis to test consumer mentalities in China.



Figure 5: Characteristics and population of each Chinese consumer cluster



Note: The population analysis excludes the rural population

Source: National Bureau of Statistics; KPMG analysis



The luxury industry has shown incredible resilience and creativity during the pandemic, with the total luxury market surpassing pre-pandemic levels driven by strong domestic consumption – notably in China. However, the landscape has changed significantly during that time in particular for those markets that benefitted from tourism from the Chinese Mainland. The resumption of international travel and tourism across the globe, which started in 2022 and will now also commence in the Chinese Mainland, should be a boost for Hong Kong, Macau and other Asian markets as tourism accelerates, particularly given their uniquely attractive ecosystems and appeal.

Alain Li

Regional Chief Executive, Richemont Asia Pacific



The five clusters are as follows:



1. Going global: Preference for international brands

With China's rapid economic development and growth in average disposable income, the population has experienced an increase in purchasing power as well as a greater propensity to consume. However, the understanding of foreign brands by consumers in lower tier cities, villages or rural areas may not have caught up as well with the increase in purchasing power, for instance because of lower education levels. This group of consumers is likely to be seen in areas that are at the initial stages of urbanisation. Living standards could be significantly lower than those in Tier 1 cities, with less developed infrastructure and connectivity.

The ease of access to information is also a major lagging factor. There may be less exposure to foreign brands, for instance because of a lack of physical stores of those brands. Without the ability to develop a thorough understanding of a brand's heritage and product designs, consumers tend to place more value on a brand's name and origins.

When consumers lack an understanding of a brand's value, they are likely to be influenced by the views of their peers – from friends and family to social media influencers. This has instilled a belief that foreign brands and products are superior and that purchasing imported goods is an outward symbol of a high-quality life. Consumers are more likely to believe that the name of a foreign brand itself is sufficient to symbolise their ability to purchase such items. Academic research finds that the country of origin is a strong factor in the purchasing decision, particularly in developing countries that will have a higher number of consumers that are relatively new to the luxury industry¹².



2. Look at me: Prioritising social status

This cluster comprises consumers that are driven by outward displays of their economic success. To them, conspicuous luxury clothing and accessories have become a way to display their status and define their position in society. As they move upwards across the consumption classes of China, they may tend to associate their social advancement, such as receiving a job promotion or a pay raise, with an increase in luxury spending. These consumers have a desire to demonstrate their ownership of luxury items as a means to display their status and purchasing power.

According to China's Internet Development Report, the penetration rate of the internet in rural areas was 58 percent in 2021¹³. With the advance of digitalisation and technology enablement in China, consumers in this cluster will have considerably greater access to information on digital platforms such as social media. They may be easily influenced by brands that are heavily seeded in online communities or by high profile products that are excessively marketed. Therefore, consumers in this cluster will have a strong preference for the most reputable names amongst all the luxury houses as the primary reason for purchase will be the degree of recognition of a product by others.

¹² Brand and country-of-origin effect on consumers' decision to purchase luxury products. Journal of Business Research, 65(10), pp. 1461-1470, Godey, B. et al., 2012

¹³ The 49th Statistical Report on China's Internet Development, China Internet Network Information Center (CNNIC), February 2022, <https://www.cnnic.com.cn/IDR/ReportDownloads/202204/P020220424336135612575.pdf>



3. Fitting in: Motivated by trends and a sense of belonging

Some consumers define a quality lifestyle through their consumption behaviour. They upgrade their wardrobe or change brand allegiances to reflect their values, beliefs, attitudes and success. Such upgrades go hand in hand with other changed purchasing habits, such as eating more upmarket food, travelling overseas, switching to boutique hand-brewed coffee served by foreign brands or driving luxury cars.

What really drives these purchasing behaviour changes is that this group of consumers seeks to achieve a sense of belonging within the community through what they consume. They closely follow trends and preferences within their community; they seek out similar individuals to get advice or share experiences, and as such they strengthen their sense of belonging.

Increasing education levels and urbanisation might be the fundamental drivers for this purchasing behaviour. Education levels in China have taken a leap forward in the past decade. The annual number of university graduates has increased from 5.7 million in 2010 to 8 million in 2020¹⁴. This has a causal relationship with urbanisation in China. With an expanding population of well-educated individuals, urban migration also increases as a result.

Due to the disparity of consumption behaviour across China's social classes, the pressure to fit in becomes apparent. Consumers will have a greater desire for luxury to boost their confidence and self-recognition. They may purchase certain products that are widely recognised by their community in order to signify their sense of belonging. Consumers that are part of this cluster share such experiences on social media to reinforce their status among friends and family.



4. Quality first: Focused on improving own life quality, influenced by personal beliefs

Consumers in this cluster are located in highly urbanised areas. They have usually received a higher level of education. Consumption of luxury brands is a way of life instead of an action to achieve certain recognition. Therefore, there is usually a stronger inclination towards functional and quality products rather than brand names and price levels. They gain less satisfaction from the monetary value of products or the superiority of brands based purely on the status of their names. Instead, they favour unique goods that reflect their personalities and beliefs.

Consumers in this group do not only rely on information from brands directly to educate themselves and are more likely to be influenced by communities and peers. They aspire to sophistication and appreciate subtle elements such as design, fabric and the manufacturing process. Coming from a more educated background, consumers in this cluster are likely to do research and make an independent judgement before purchasing. Despite the tendency to take a longer time to make decisions, the desire to purchase a certain product or brand (rather than an alternative or a competitive product) is often much stronger than that of the consumers in previously discussed clusters.

¹⁴ National Bureau of Statistics of China; Ministry of Education (China)



5. Striving for the greater good: Purpose and values-driven consumers

As globalisation and information transparency across borders continue to intensify, worldwide social topics are beginning to have a more significant impact on the demand for luxury products from Chinese consumers. Notably, the increasing awareness of sustainability issues in luxury.

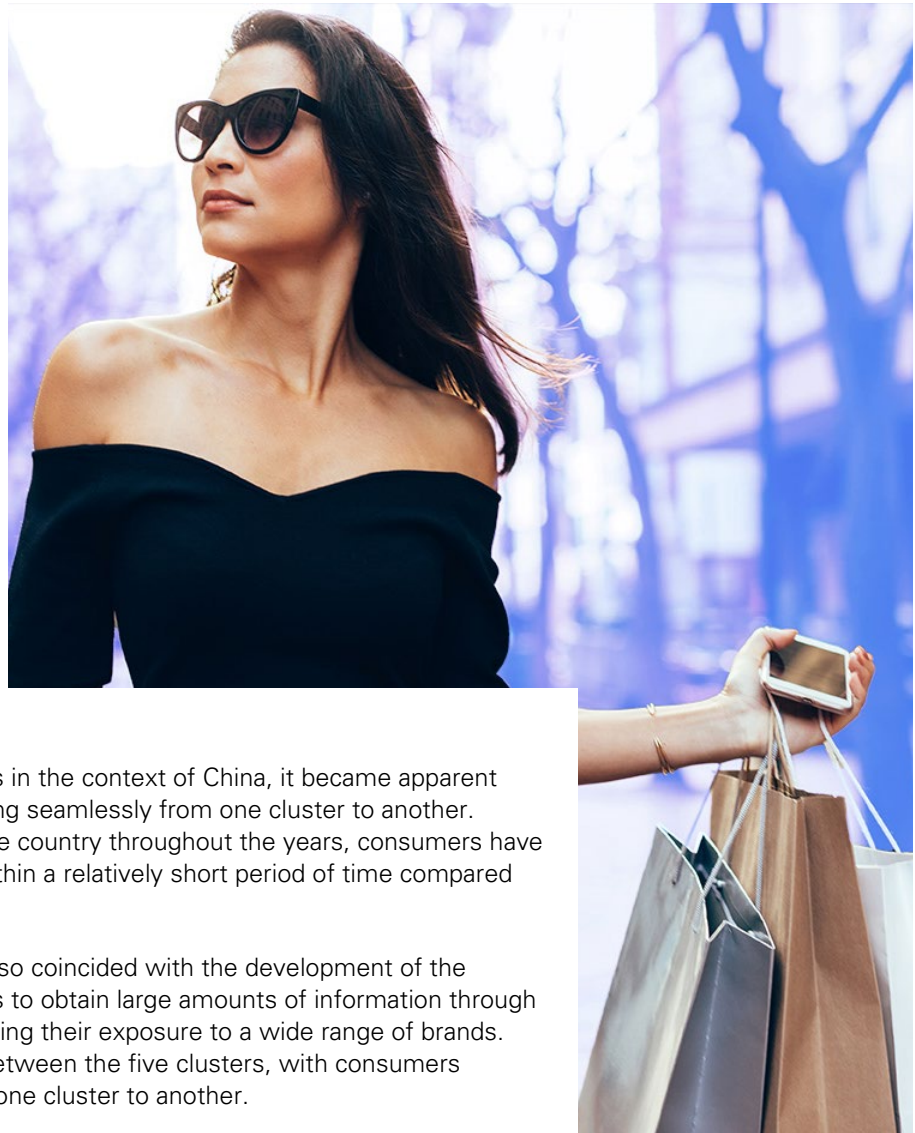
The number of students from China going abroad for study increased significantly from 285,000 in 2010 to 704,000 in 2019¹⁵. This suggests that a generation that is more likely to be influenced by foreign social advocacies, trends and topics will continue to grow in influence in the Chinese luxury consumption scene. This evolution is also supported by higher education levels and increased accessibility to information.

Consumers in this cluster are influenced by these developments. They are increasingly purchasing luxury products that they consider to contribute to social or environmental well-being. They believe there must be a moral balance between a company's pursuit of profit and their contributions to society, preferring companies or brands with clearly defined intentions that do good for people and the planet. They may buy goods made from eco-friendly materials, manufactured through sustainable practices or sourced via fair trade.

The COVID-19 pandemic has further amplified the preferences of Chinese consumers to re-anchor their focus to the purpose and the philosophy behind brands. Consumers are becoming more conscious of these credentials when they make a purchase and they are willing to trade off higher prices for products that have a positive impact on the environment and society.



¹⁵ National Bureau of Statistics of China; Ministry of Education (China)



Fluidity of the five clusters

When considering the five clusters in the context of China, it became apparent that Chinese consumers are moving seamlessly from one cluster to another. Given the rapid development of the country throughout the years, consumers have developed a global perspective within a relatively short period of time compared with other mature economies.

The rapid development of China also coincided with the development of the internet, allowing most consumers to obtain large amounts of information through a wide range of channels, broadening their exposure to a wide range of brands. This has helped to blur the lines between the five clusters, with consumers displaying traits that overlap from one cluster to another.

Despite the fluidity of the consumer clusters, it is essential to identify the underlying factors that drive consumer transitions between different clusters as this will help to forecast how consumers will change over the next three to five years. This will be considered in Chapter 2.



Given the rapid development of the country throughout the years, Chinese consumers are evolving fast and have developed a global perspective within a relatively short period of time compared with other mature economies. The definition of luxury among Chinese consumers may not always be the same as how the west views luxury.

Willi Sun

Head of Advisory, Consumer & Retail, KPMG China

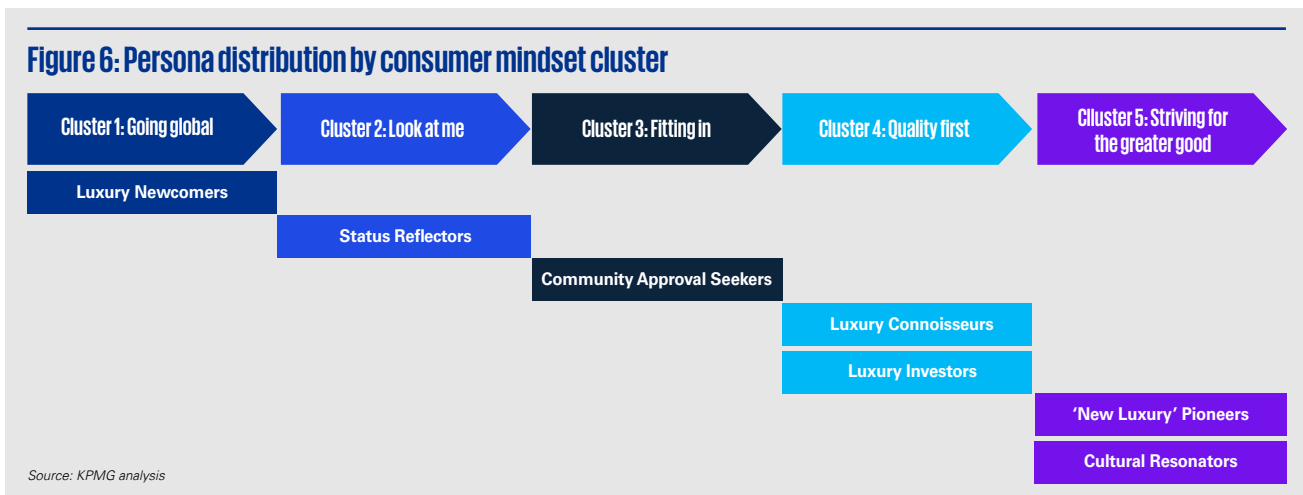


Chapter 2: Chinese luxury consumer personas

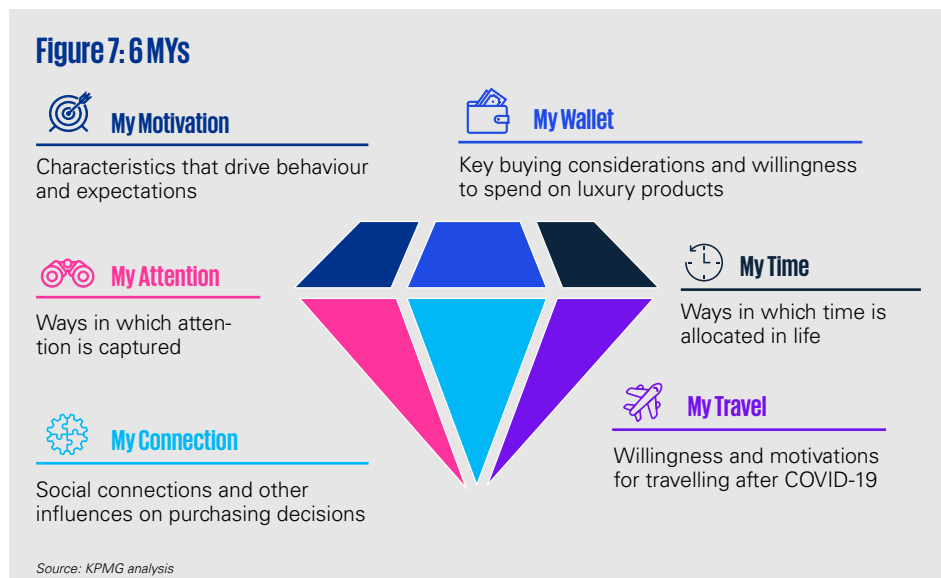


By analysing the consumer survey and taking into account the background of the Chinese market, this study has identified five core luxury consumer ‘personas’ in China: Luxury Newcomers, Status Reflectors, Community Approval Seekers, Luxury Connoisseurs, and ‘New Luxury’ Pioneers. In addition, two emerging personas were identified which are anticipated to become more significant as the Chinese market continues to mature: Cultural Resonators and Luxury Investors. However, consumer behaviour can be fluid and consumers may exhibit characteristics of multiple personas.

It should be noted that the seven personas that were identified through the survey align with the five consumer clusters discussed in the previous chapter (Figure 6).



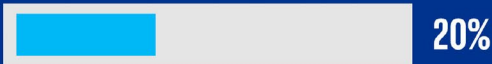
Consumer choices and behaviours are complex and driven by multiple factors. To gain a clearer understanding of the differences among the seven personas and identify opportunities for brands to better target each of the different customer groups, this study has adopted KPMG’s proprietary ‘6 MYs’ (Figure 7). This framework analyses consumer behaviours in a structured way across six dimensions: motivations, spending habits, attention, time usage, social connections and post-pandemic travel behaviours.



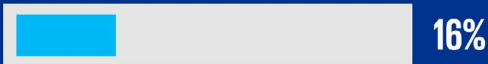
My Wallet

Factors that have changed purchasing habits¹

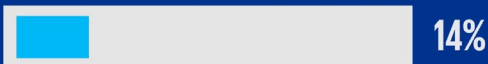
Increased knowledge and understanding of luxury brands



Corporate responsibility initiatives by brands



Increased focus on extravagant designs by brands



My Time²

Working/studying 28%

Browsing social media 18%

Health, wellness, and mindful activities 16%

My Connections

Main source of information:

- Friends and family
- In-store sales representatives
- Douyin

Main purchasing channel:

- Brand offline store
- JD.com
- Tmall
- Brand online store

Jack Zhou

周博宇

Luxury Newcomer



Age: 45+
Marital status: Married with no or 1 child

Education Level:



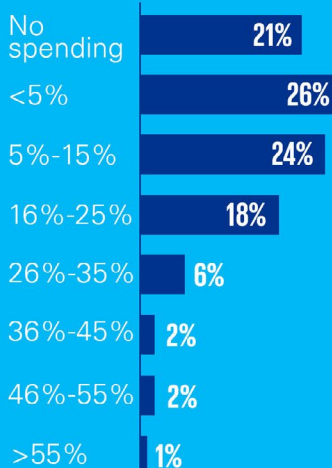
81% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations

Goals:

- Easily-recognisable brand names

Drivers:

- Iconic designs
- Good quality and better service
- Friends and family

Pain points:

- Lack of knowledge on products

My Attention

Information filter:

- Product placements (e.g. in films and TV shows)
- Key Opinion Customer (KOC)

Key considerations:

- Better quality and service
- Sense of achievement

My Travel

High willingness to travel (post-COVID-19):



Top destinations:

Sydney, Seoul, Hainan, Hong Kong

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend "most" of their time and could select multiple options

1. Luxury Newcomers

Luxury newcomers are those who recognise and favour foreign brands and they tend to purchase easily recognisable major brands. They are likely to all share the same basic understanding of a brand's name and products. Without a thorough understanding of a brands' heritage and story, Luxury Newcomers are likely to opt for well-known international brands – or products made in an overseas country – as they consider them to be more superior to something made locally.

Older age groups dominate the ranks of the Luxury Newcomers, with 40 percent of respondents above the age of 45 and only 15 percent aged between 18 and 24. Consumers in this segment commonly live in Tier 2 cities and have also gained the lowest level of education, with 19 percent having an education level of high school or below. Just over half of this group are married (53 percent).

Recommendations from family, peers and sales representatives influence Luxury Newcomers. Higher availability of information on luxury products and brands from such sources will increase the potential of this group to spend on luxury products. They are characterised by having a low level of knowledge about luxury products and are highly influenced by brand advertising, word of mouth or brand ambassadors. The main reasons for a change in brand perception or purchase habits include the increased availability of information, switching to brands that invest strongly in direct marketing to Chinese consumers and those that have a more extravagant design.

Luxury Newcomers spend less time researching products compared to other personas. Therefore, their perception of brand quality is primarily influenced by where a product is manufactured or the opinions of family, peers and salespeople. Consumers in this segment were found to be more receptive to sales, discounts, factory outlets and duty-free shops. Just over a quarter (26 percent) will spend 5 percent or less of their annual household income on luxury, which is slightly higher than the overall survey average of 23 percent. Due to higher price sensitivity and lower purchasing power, only a third is willing to pay a price premium of up to 5 percent more for brands that share their values, while 21 percent are unwilling to pay any additional amount – the largest proportion among all the personas.

Luxury Newcomers are eager to resume travelling post-COVID-19, with 68 percent of people somewhat willing to or very willing to travel, while 32 percent of them are unsure or not willing to travel. Their primary purpose of travel is to experience culture, relax and retreat. Sydney and Seoul are considered to be the most sought-after overseas destinations for this group, while Hainan and Hong Kong are the top destinations for domestic travel.

Actions for brands



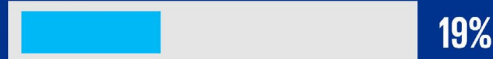
- Focus on in-store service and sales activation activities
- Provide more information about brands' heritage and classic product lines/items
- Showcase products with lavish and extravagant design at accessible price points



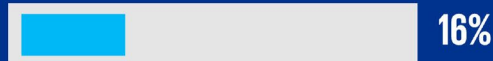
My Wallet

Factors that have changed purchasing habits¹

New technologies introduced by innovative brands



Increased knowledge and understanding of luxury brands



Corporate responsibility initiatives by brands



My Time²

Working/studying 22%

Browsing social media 18%

Shopping luxury and limited edition products 13%



My Connections



Main source of information:

- Little Red Book
- Douyin
- Official brand channel



Main purchasing channel:

- JD.com
- Tmall
- Brand offline store
- Amazon

Audrey Lau

刘子君

Status Reflector



Age: 25-34

Marital status: Married with 1 child

Education Level:



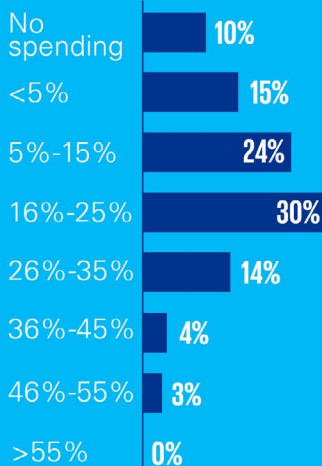
93% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations



Goals:

- Signalling status and wealth



Drivers:

- 'Early adopter' mentality
- Limited edition products
- Sense of achievement



Pain points:

- Recognisable brands are diminishing in importance, particularly among younger consumers



My Attention



Information filter:

- Celebrity/Key Opinion Leader (KOL)
- Product placements (e.g. in films and TV shows)



Key considerations:

- Sense of achievement
- Demonstration of personality



My Travel

High willingness to travel (post-COVID-19):



Top destinations:

Milan, New York, Hong Kong, Hainan

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend 'most' of their time and could select multiple options



2. Status Reflectors

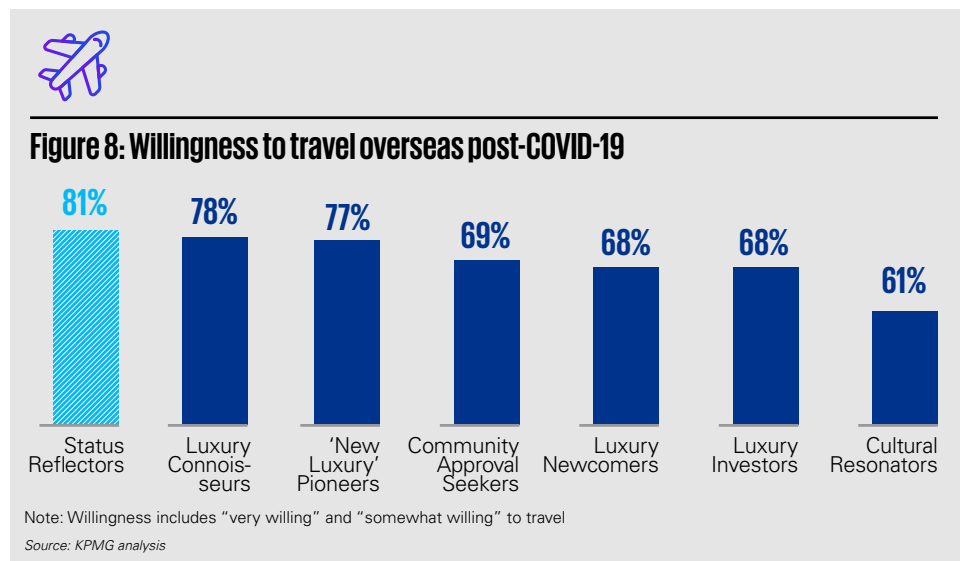
Status Reflectors value products and services with a good reputation and high brand visibility to reflect and showcase their status and wealth. This group is heavily represented by consumers aged between 25 and 34, when wealth is gradually starting to accumulate. Half of them are married with a child. They also are the most likely among all personas to be educated overseas, with 10 percent having studied abroad.

Status Reflectors' increased willingness to purchase luxury goods reflects their growing, often newly acquired, purchasing power. Just under a third spend 16-25 percent of their annual household income on luxury goods, and 55 percent is willing to pay a 6-20 percent premium for luxury brands that resonate with their values. By location, 40 percent lives in Tier 1 cities and 39 percent in Tier 2 cities, with a smaller percentage based in Hong Kong.

Status Reflectors tend to like high-profile and recognisable brands, while niche or boutique brands are rarely purchased. Hence, they are likely to be influenced by information on mainstream social media and in advertisements, such as product placements on TV shows and in video games. Among all personas, this group is most likely to make purchases on Amazon, perhaps to display their access to unique goods from abroad. Hong Kong consumers are particularly familiar with Amazon as a platform to purchase desired foreign goods. Status Reflectors also seek out limited edition products and aim to be an 'early adopter' to demonstrate their success. Therefore, luxury items are used to signal their status and wealth, helping to showcase a sense of achievement and build their self-esteem. Status Reflectors become frustrated when brands are no longer popular or well-received by the general public, especially among younger generations.

The main reasons for a change in brand perception or purchase habits include whether a brand can maintain its social status and success. At the same time, brands adopting new technologies or increasing their engagement through digital channels may also trigger a change in purchase habits.

Status Reflectors show a strong desire to travel post-pandemic, with 81 percent willing or somewhat willing to travel (Figure 8). While the primary purpose of travel is to relax, retreat and experience culture, a higher proportion of this group wants to travel to visit friends and family and for their honeymoon, compared with other personas. The preferred travel destinations for this group are Milan and New York, while the most attractive domestic location is Hong Kong.



Actions for brands



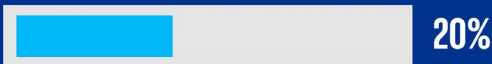
- Use social media and product placements in dramas, TV shows and video games – celebrity endorsement plays a key role
- Provide more information on fashion trends and how products can demonstrate a buyer's success
- Showcase trendy items, limited editions or products with higher price points



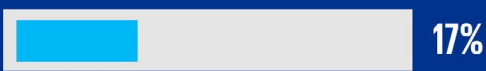
My Wallet

Factors that have changed purchasing habits¹

Increased knowledge and understanding of luxury brands



Cross-brand collaborations



Increased focus on extravagant designs by brands



My Time²



My Connections

Main source of information:

- Little Red Book
- Official brand channel
- Bilibili

Main purchasing channel:

- Tmall
- Brand official channels
- JD.com
- Livestreaming platforms

Robin Lin 林迪

Community Approval Seeker



Age: 18-24
Marital status: Single

Education Level:



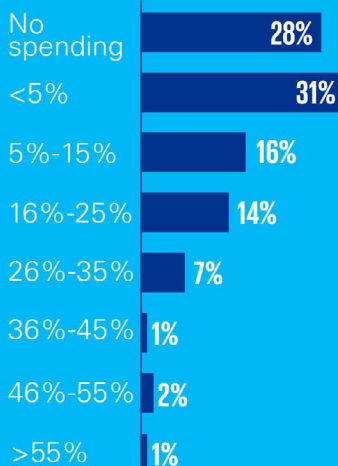
86% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations

Goals:

- Signalling status and wealth

Drivers:

- 'Early adopter' mentality
- Limited edition products
- Sense of achievement

Pain points:

- Brands and products not being recognised by the community

My Attention

Information filter:

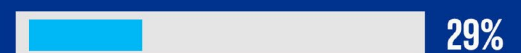
- Friends and family
- Key Opinion Customer (KOC)

Key considerations:

- Societal and peer pressure
- Trends

My Travel

High willingness to travel (post-COVID-19):



Top destinations:
Seoul, Sydney, Hainan, Chengdu

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend "most" of their time and could select multiple options

3. Community Approval Seekers

Community Approval Seekers see luxury as a form of social currency that can give a sense of belonging. Consumers in this group are most likely to be aged 18 to 24, while 45 percent live in Tier 1 cities and 30 percent in Tier 2 cities. Most are single. Due to their young age and relatively low affluence, 31 percent spend less than 5 percent of their annual income on luxury, and 55 percent would not want to pay a price premium of more than 5 percent to buy a brand that reflects their values.

Community Approval Seekers prefer to spend their time at social events, parties and in virtual environments. They are also keen trend watchers. To gain recognition from the community, luxury purchases are influenced by societal and peer pressure, and there is a heavy reliance on information from social media and key opinion leaders (KOLs). This group's primary information sources are robust social media platforms such as Little Red Book, Bilibili and Douyin.

Community Approval Seekers believe that purchasing luxury goods enables them to enjoy a shared communal experience and value system with groups of people they want to be on par with. Linked to this, 17 percent of respondents from this group sometimes make impulse purchases based on recommendations along their shopping journey – the highest among all the personas. They are also often frustrated by brands or products not being recognised within their community.

The main reasons for a change in brand perception or purchase habits include influence from friends and family. Brand collaborations resulting in more accessible products (especially those between prestige brands and modern street style or fast fashion brands) and information availability will also drive consumers to change their purchasing habits.

Just under 30 percent of Community Approval Seekers are willing to travel post-COVID-19, with another 41 percent somewhat willing to do so. Their primary purpose of travel is to experience art, culture and history, while their preferred travel destinations are considered to be Seoul, Sydney, Hainan and Chengdu.

Actions for brands



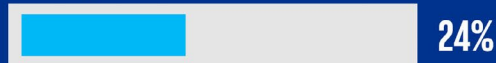
- Attract this customer group with celebrity/ KOL endorsements and generate peer effects
- Leverage major social media platforms to engage with these consumers and third-party e-commerce channels as the main place for transaction conversion
- Promote 'hot items' that are popular and well accepted by communities



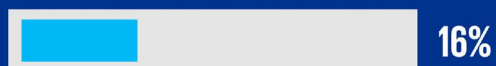
My Wallet

Factors that have changed purchasing habits¹

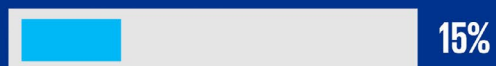
Increased knowledge and understanding of luxury brands



Cross-brand collaborations



Luxury retail products are more accessible and no longer exclusive



My Time²



My Connections



Main source of information:

- Official brand channel
- Little Red Book
- Douyin



Main purchasing channel:

- Brand offline store
- Tmall
- JD.com
- Brand online store

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend "most" of their time and could select multiple options

Rebecca Lee

李羽希

Luxury Connoisseur



Age: 18-34

Marital status: Single

Education Level:



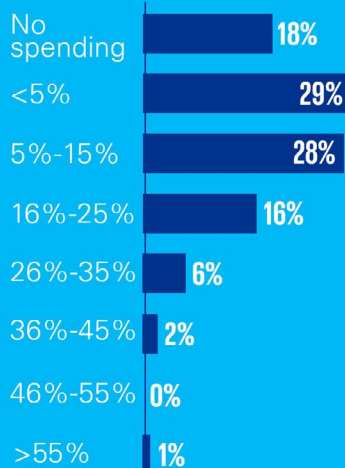
93% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations



Goals:

- Obtain better quality
- Demonstrate personality



Drivers:

- Seen as stylish/with good taste
- Upgraded services and products



Pain points:

- Brands that do not align/resonate with their unique identity and personality



My Attention



Information filter:

- User feedback and product reviews
- Own research



Key considerations:

- Demonstration of personality
- Sophistication



My Travel

High willingness to travel (post-COVID-19)



Top destinations:

Tokyo, Singapore, London, Hong Kong, Macau

4. Luxury Connoisseurs

Luxury Connoisseurs value high-quality goods that can demonstrate their unique personality. They typically live in Tier 1 cities, representing 46 percent of this group. A fifth of respondents in Hong Kong also belong to this persona. This group mainly comprises 18 to 34 year-olds, most of whom (89 percent) are educated at local college level.

Consumers in this group have a relatively higher knowledge of luxury brands and an understanding of their differences. Their aspiration for sophistication allows them to appreciate subtle elements such as design, fabric and manufacturing processes. They are more likely to be influenced by social media, direct engagement from brands (e.g. newsletters, text messages, sales staff engagement), communities and their peers rather than advertisements. This is also reflected in their WeChat usage, as they are the persona that most frequently browses content on brands' WeChat official accounts.

Luxury Connoisseurs buy specific brands to demonstrate their uniqueness and are prepared to pay a premium to get what they want; 72 percent of respondents are willing to pay up to 10 percent extra for brands that align with their values – the highest among all personas – but only 14 percent is willing to pay more than that, the second lowest among all personas. This group is also willing to commit a larger proportion of their income to luxury items: 57 percent spend up to 15 percent of their annual household income on luxury products, with another 16 percent willing to spend up to 25 percent. This suggests that a more intense pursuit of sophistication is shaping their luxury purchasing attitudes.



Chinese consumers value quality, heritage and experiences. Their purchase decision reflects their personality and lifestyle aspirations. Global brands need to stay true to their brand and understand the ever-changing consumer trends in order to be relevant to the market. Wellness, Nature and Sustainability are the key areas of focus post-pandemic and digital will continue to play a significant role in driving social engagement, which is also one of the major pillars in our next five-year strategy. Having our presence on T-mall Global since June 2022 has enabled us to connect more closely with our Chinese Mainland customers and create a flywheel effect to our Piccadilly and Hong Kong flagship stores from online-to-offline experiences once travel resumes.

Carmen Chiu

Regional Managing Director, APAC, Fortnum & Mason



Luxury Connoisseurs mainly purchase luxury products as a demonstration of their personality, as they want to be perceived as a particular type of person. They also value good quality and high service as they wish to be regarded as a stylish person with good taste. As a result, they are turned off by brands that do not align with their unique personality.

This persona has a higher acceptance of niche brands, while trends and influencers primarily dictate their purchasing decisions. They consume social media heavily and aspire for the luxury lifestyle portrayed on these channels. At the same time, they also take time to research and compare, with 89 percent of them doing this before making a purchase – which is ranked highest among all personas.

For luxury connoisseurs, the main factors that will cause a change in brand perception or purchase habits are a change in income level and lifestyle. The increased availability of information and partnerships with more accessible brands through cross-brand collaborations may also drive a change in their purchasing behaviour.

Luxury Connoisseurs are driven by a desire to travel, with 78 percent citing that they are very willing or somewhat willing to travel post-COVID-19. They want to travel for relaxation and retreat purposes, but compared with other personas they are also more likely to travel for adventure. Tokyo, Singapore and London are considered to be desirable overseas destinations for Luxury Connoisseurs, while Hong Kong and Macau are seen as the most attractive places for domestic travel.

Actions for brands



- Attract this group mainly with excellent customer services. Provide strong brand stories, product education and focus on the detailed elements of design and craftsmanship
- Engage customers through direct communications from brands (e.g. newsletters, personalised text messages, continuous engagement from designated sales representatives or relevant luxury communities)
- Promote products with uniqueness, sophistication and those that can easily reflect a user's personality



Chinese luxury consumers are increasingly sophisticated in their choices and tastes. They are confident, know what they want and are willing to pay for it. They will spend time to research, learn and compare. Digital technology and social media have presented great channels for luxury retailers to educate and engage consumers on the uniqueness and values of their brands.

Raymond Lam

Country Sector Head, Consumer & Retail, KPMG China

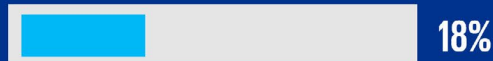




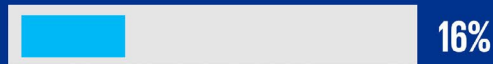


My Wallet

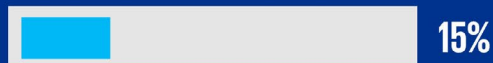
Factors that have changed purchasing habits¹
Corporate responsibility initiatives by brands



Cross-brand collaborations



Increased knowledge and understanding of luxury brands



My Time²

Working/studying 24%

Browsing social media 20%

Shopping luxury and limited edition products 13%



My Connections



Main source of information:

- Official brand channel
- Little Red Book
- Douyin



Main purchasing channel:

- JD.com
- Tmall
- Brand official channels
- Second-hand physical stores

Chloe Wang 王梦逸

'New Luxury' Pioneer



Age: 18-34

Marital status: Married with 1 child

Education Level:



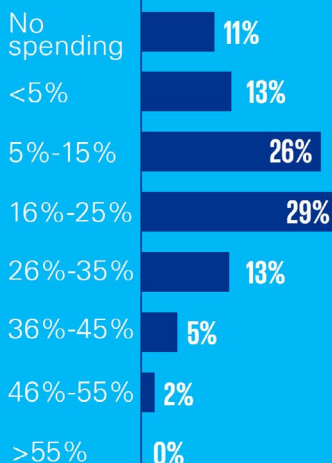
92% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations



Goals:

- Purpose and value for the 'greater good'
- Early adopter of innovations (e.g. metaverse)



Drivers:

- Being 'in-the-know'
- ESG/sustainability initiatives
- Better quality and sense of achievement



Pain points:

- Unable to signal to others that they care about the environment, its people, etc.
- Privacy concerns



My Attention



Information filter:

- Product placements (e.g. in video games and esports)
- Events (e.g. fashion shows)



Key considerations:

- Better quality
- Sense of achievement



My Travel

High willingness to travel (post-COVID-19):



Top destinations:

Milan, New York, Hong Kong, Macau

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend 'most' of their time and could select multiple options

5. 'New Luxury' Pioneers

'New Luxury' Pioneers are consumers who are attracted to new values and concepts, mostly around themes such as the environment, social responsibility and diversity. The term 'new luxury' refers to artisanal, high-quality and also often highly priced goods that are not only produced by prestige and traditional European fashion houses, but also boutique and specialist up-and-coming brands.

Compared with other personas, 'New Luxury' Pioneers are more open to brands that promote new ideas and advanced designs that make a contribution to society, even though they might be more niche. These brands emphasise environmental sustainability and inclusivity, and also often use unique and niche designs. Consumers who buy these luxury labels are driven by their knowledge of the product rather than as a reflection of their spending power. They are also more inclined to align with new concepts and values, such as emerging technologies and sustainable fashion.

'New Luxury' Pioneers are likely to be college educated (92 percent), while two-thirds (64 percent) is under 34 years old. They are typically located in Tier 1 cities. Nearly a third is willing to spend 16 to 25 percent of their annual household income on luxury. Unsurprisingly, this group is also more willing to pay a high premium for brands that reflect their values. Among all respondents who are willing to pay a premium of over 20 percent, 'New Luxury' Pioneers have the highest representation at 9 percent. Meanwhile 82 percent is willing to pay up to 20 percent more.



On paper, the sheer size of the Chinese consumer market is the natural destination for global luxury companies seeking sustainable growth. In reality, success in China will remain elusive unless those companies seek to truly understand the rapidly changing behaviours of Chinese consumers – in particular outside Tier 1 and 2 cities where most have not ventured historically. The opportunities are there and can be unlocked with the right 'localisation' of the brand value proposition, granular consumer segmentation and an ability to deliver on technology expectations that are far ahead of those in other countries around the world.

Isabelle Allen

Global Head of Consumer & Retail, KPMG International



Those willing to pay more for green products also tend to be more conscious of the different brands operating in the luxury market. This suggests that buying and using environmentally-friendly products and having a green mindset is increasingly associated with social status and being trendy. 'New Luxury' Pioneers look for brands that emphasise sustainability and rely on their own research and digital marketing to inform their purchases. They are more exposed to brand disclosures, e.g. sustainability reports and corporate social responsibility-related campaigns that promote the values of a brand.

'New Luxury' Pioneers are also attracted to brands that actively innovate. Their willingness to spend on luxury brands that use new technologies, such as virtual try-on technology, is the highest among all personas at 20 percent. They are the persona most likely to use WeChat Mini Programs to learn more about the brands, but also to actually make a purchase. Another channel that is used more by 'New Luxury' Pioneers is Amazon, which may be due to their desire to discover products unavailable in China. Nearly nine in ten consumers in this group (89 percent) conduct research before making a purchase, while they are also highly influenced by celebrities or KOLs. 'New Luxury' Pioneers are driven by purpose and value sustainability initiatives. This is backed by a high proportion wanting to be perceived as firm believers in promoting positive values to the community.

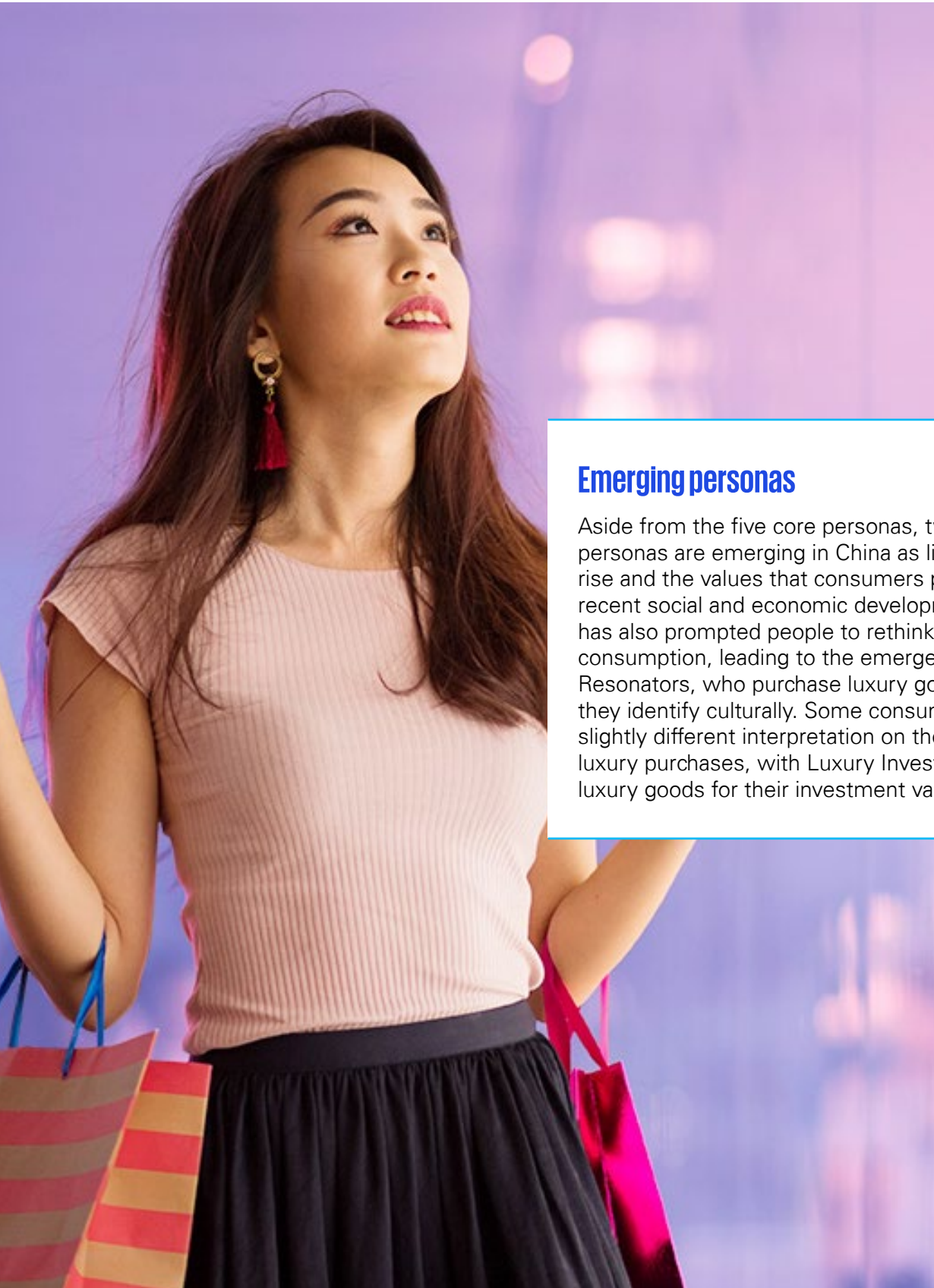
The main factors that may drive a switch to another brand include a more significant focus on corporate responsibility and partnerships with more accessible brands. They tend to prefer to have their views about the environment and community reflected in their choice of luxury products and feel frustrated if their views are not well conveyed.

'New Luxury' Pioneers are the keenest travellers among all personas, although mainly for business trips. However, they also have a high willingness to travel post-COVID-19 for shopping purposes. The most attractive destinations are perceived to be Milan and New York, with Hong Kong and Macau preferred as domestic travel destinations.

Actions for brands



- Sustainable concepts and involvement in corporate social responsibility initiatives are key tactics
- Leverage digital marketing to engage customers with CSR and sustainability-related brand campaigns or to announce disclosures
- Deepen customer engagement through use of new technologies and innovation
- Promote products with niche designs or embed sustainability and technology into products. Higher price points are usually acceptable



Emerging personas

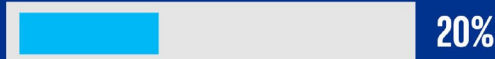
Aside from the five core personas, two additional personas are emerging in China as living standards rise and the values that consumers pursue alter. The recent social and economic development of China has also prompted people to rethink the meaning of consumption, leading to the emergence of Cultural Resonators, who purchase luxury goods with which they identify culturally. Some consumers have a slightly different interpretation on the purpose of luxury purchases, with Luxury Investors buying luxury goods for their investment value.



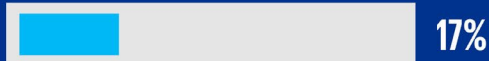
My Wallet

Factors that have changed purchasing habits¹

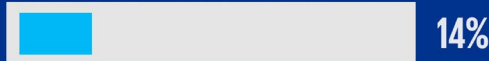
Corporate responsibility initiatives by brands



Increased knowledge and understanding of luxury brands



Increased focus on extravagant designs by brands



My Time²

Working/studying 35%

Browsing social media 19%

Health, wellness, and mindful activities 10%



My Connections



Main source of information:

- Douyin
- Little Red Book
- Official brand channels



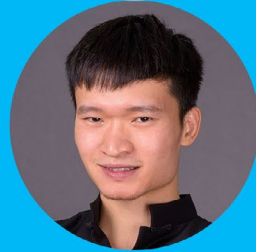
Main purchasing channel:

- JD.com
- Tmall
- Brand offline store
- VIP.com

Wei Yu Chen

陈玮瑜

Cultural Resonator



Age: 18-34

Family: Married with no or 1 child

Education Level:



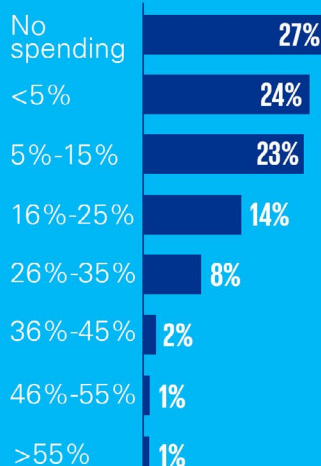
97% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations



Goals:

- Resonance with Chinese culture



Drivers:

- Emotional connection



Pain points:

- Luxury products that do not align with cultural values



My Attention



Information filter:

- Celebrity/Key Opinion Leader (KOL)
- User feedback and product reviews



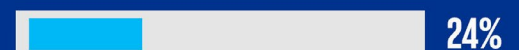
Key considerations:

- Better quality and service
- Trends



My Travel

High willingness to travel (post-COVID-19):



Top destinations:

Milan, Paris, Hainan, Chengdu

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend "most" of their time and could select multiple options

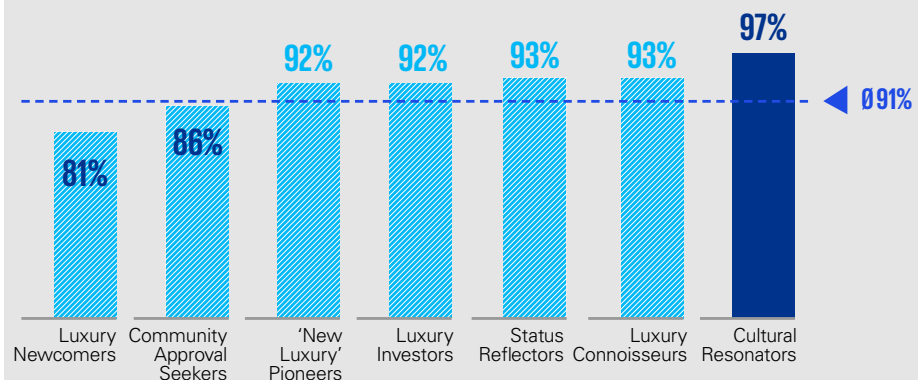
6. Cultural Resonators

Cultural Resonators are a young cohort of shoppers whose purchasing habits are driven by emotional connections to Chinese culture. Cultural Resonators see purchasing local brands as a sign of being an 'insider' and one that allows them to represent their heritage.

Cultural Resonators are young (usually between the ages of 18 to 34). The majority (54 percent) live in Tier 2 cities, with a small proportion based in Hong Kong (2 percent). They are the most educated personas, with 97 percent of this group educated to the college level (Figure 9). While 24 percent spend less than 5 percent of their annual income on luxury, a further 35 percent of this group is willing to spend a sizable 16 to 25 percent of their yearly income on luxury. Regarding the willingness to pay a premium for brands that align with their values: around a third is willing to pay 1 to 5 percent more, with another third open to spending a 6 to 10 percent premium.



Figure 9: Percentage of college educated respondents per persona



Source: KPMG analysis

Cultural Resonators are motivated to purchase luxury goods for gifting purposes and to ensure they receive better service and product quality. They are highly engaged with social media, but also influenced by TV advertisements – more so than other personas. Their main purchasing channels are large third-party e-commerce platforms, namely JD.com and Tmall. These two channels alone are used for luxury purchases by 52 percent of Cultural Resonators. On the other hand, the usage of online and offline channels from brands directly is the lowest compared to other personas.

For Cultural Resonators, the survey indicates that luxury brand perception and purchase habits mainly change due to an increased sense of patriotism. In contrast, changes in their social position, income level and influence from family and friends play less of a role than with other personas. That explains why 45 percent of Cultural Resonators see a strong resonance to Chinese culture as a "more important" factor in their purchasing decisions compared to a few years ago. In addition, this group also wants to be perceived as a firm believer in pursuing the greater good and they are inclined to support brands with a stronger focus on corporate responsibility.

They are also likely to hold subjective opinions about their local culture and would prefer to choose brands that align with their values. When a preferred brand has been found to conflict with their personal beliefs or values, 31 percent of this group will stop purchasing. Another 21 percent will even persuade other people to do the same – the highest percentage among all personas.

Cultural Resonators are relatively hesitant to travel post-COVID-19, with 40 percent of them not willing or unsure about travel. Therefore, many Cultural Resonators prioritise domestic travel, with Hainan and Chengdu the most sought-after destinations. Milan and Paris are on top of their wish list in terms of overseas travel.

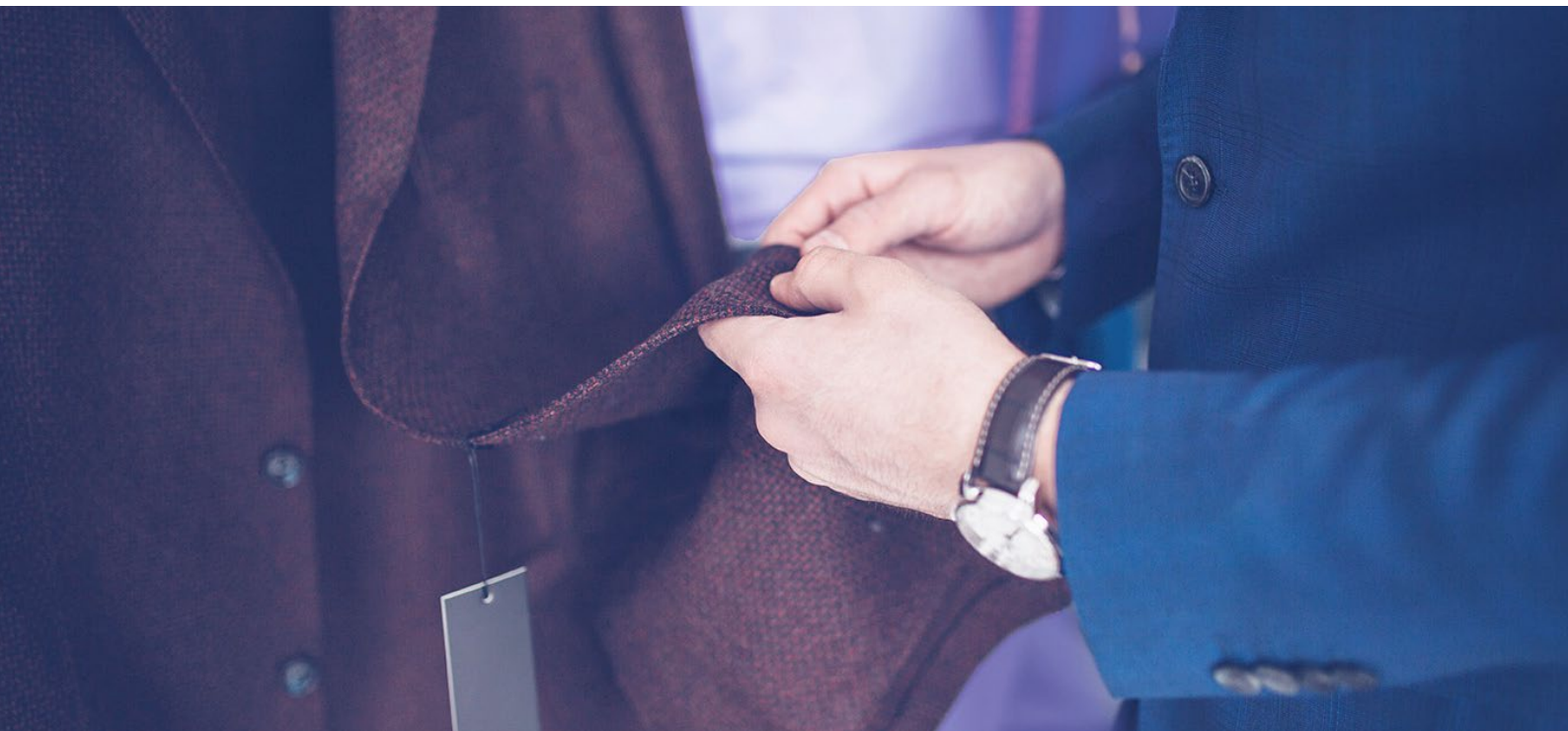
27%

of consumers regard resonance with Chinese culture as one of their key considerations when selecting luxury brands



45%

of consumers think cultural factors will become a more important consideration in the next 5 years





When defining luxury, time and space have always played a key role; today, digital and sustainability transformation have contributed to create a whole new paradigm that transcends geographies. Chinese consumers, more than ever, attribute great value to brands that resonate on a socio-cultural level. Localisation of brand communications goes beyond language translation and requires a deep understanding of local culture and values to establish long-term relationships and generate customer loyalty.

Dr. Esterina Nervino

Assistant Professor, Department of English, Department of Marketing, Associate Director of the Sales and Marketing Consulting Unit, City University of Hong Kong



Actions for brands



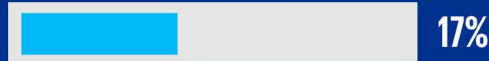
- Focus on products that associate with Chinese culture and consider promotion by local celebrities or foreign celebrities with recognition and respect towards Chinese culture.
- Manage a brand's image and public relations carefully in order to avoid accusations of cultural appropriation, especially from the internet-native generations
- Promote products that are made in China or include elements from local culture. Association with better corporate responsibility is another lever to gain traction with this group
- Engage customers primarily through mainstream social media and third-party e-commerce sites instead of directly through brand-owned platforms



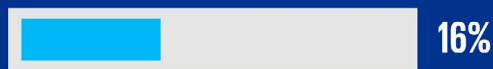
My Wallet

Factors that have changed purchasing habits¹

Increased knowledge and understanding of luxury brands



Corporate responsibility initiatives by brands



Increased focus on extravagant designs by brands



My Time²

Working/studying 32%

Browsing social media 19%

Health, wellness, and mindful activities 12%



My Connections



Main source of information:

- Official brand channel
- Little Red Book
- Douyin



Main purchasing channel:

- Brand offline store
- Tmall
- JD.com
- Brand online store

Zoey Wu
吴祖仪

Luxury Investor



Age: 25-34

Marital status: Married with no child

Education Level:



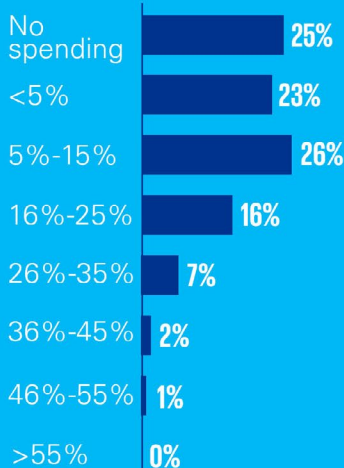
92% college educated

Location:



Luxury spending:

As a % of annual household income



My Motivations



Goals:

- Investment potential



Drivers:

- Strong brand heritage



Pain points:

- Products that do not retain their monetary value



My Attention



Information filter:

- Own research
- Digital marketing on social media



Key considerations:

- Investment return
- Better quality



My Travel

High willingness to travel (post-COVID-19):



Top destinations:

Milan, Singapore, Macau, Chengdu

¹ Respondents were allowed to select two factors that have influenced their purchasing habits

² Respondents were asked to select the ways they spend "most" of their time and could select multiple options

7. Luxury Investors

Luxury investors purchase luxury brands for their resale value, treating luxury products as an alternative investment vehicle. The products they buy are in high demand and are often limited editions or member-exclusive pieces. Due to greater accessibility and awareness of luxury products, Luxury Investors are considered an emerging persona. With more people gaining information about new designs and exclusive launches, there is greater demand for a 'surrogate buyer' role in the industry, catering for the needs of consumers who can afford certain products but only have limited access.

Luxury Investors are mostly 25 to 44-year-olds (60 percent). They mainly live in Tier 1 cities, while 42 percent of them are Hong Kong residents. Nearly half (48 percent) are married. Luxury Investors are not necessarily wealthy or highly educated – they are driven by a passion for and dedication to their job. Half of Luxury Investors spend 5 to 25 percent of their annual household income on luxury goods. Interestingly, they usually prefer not to pay an additional premium for brands that reflect their values as it might impact their investment return.

In addition to using social media, Luxury Investors are willing to proactively visit events, such as art shows and fashion shows, to obtain information in the market. A high portion of this group also researches how to make the best investment, reads magazines and browses luxury online retail websites to keep up with the latest trends.

Consumers in this group leverage a wide range of channels to purchase luxury goods, including cross-border e-commerce platforms (for instance Kaola or Amazon), international platforms (Net-a-Porter or Farfetch) and niche platforms (second-hand stores or curated multi-brand concepts stores). They are also comparatively very likely to use WeChat Mini Programs to make a purchase. The main reasons for a change in brand perception among Luxury Investors are changes in their own income level, increased awareness about luxury products serving as an investment alternative and a lifestyle change.

Luxury Investors are willing to travel overseas post-COVID-19: 68 percent is somewhat willing or willing to travel, for various reasons, including shopping. The preferred travel destinations are Milan and Singapore, while Macau and Chengdu are the most attractive domestic destinations.

In addition to popular products from traditional luxury houses, more recently Luxury Investors have also branched out into different types of products, such as trendy and highly demanded street style fashion. Many consumers develop a relationship with a specific luxury investor they trust, allowing for a more customised shopping experience, with Chinese Mainland shoppers seeking recommendations from Luxury Investors on what to buy. Besides importing well-known luxury goods, these consumers help raise the profiles of lesser-known brands in China, helping them to build traction in an already saturated online market.

Luxury Investors are driven by brands that are perceived to have high resell or investment value. This could range from ultra-premium brands to in-demand streetwear brands that have particular characteristics – such as good craftsmanship, heritage, niche culture and celebrity backing. That is also why this persona overlaps with Luxury Connoisseurs, who appreciate brand nuances but purchase luxury to demonstrate their personality rather than for investment purposes.

Where Luxury Investors previously specialised in well-known luxury brands, investments have recently transcended into the metaverse and non-fungible tokens (NFTs), in particular for consumers in Hong Kong. Investors hope to take advantage of the growing value of NFTs or virtual products, earning a profit from their resale. In the Chinese Mainland, NFTs are referred to as ‘digital collectibles’ and in contrast to other jurisdictions users are prohibited from trading or reselling their purchases – so this asset is of lesser interest to Chinese Mainland-based Luxury Investors.

Actions for brands



- Develop iconic and timeless styles, which could generate trust from consumers that these products will rise in value and experience higher demand in the future, not just seasonal styles
- Promote products that have ‘sought-after’ characteristics and uniqueness
- Engage customers through niche channels, such as shows, events, fashion magazines and online luxury websites and communities, with strong brand equity as the foundation

Observations across personas

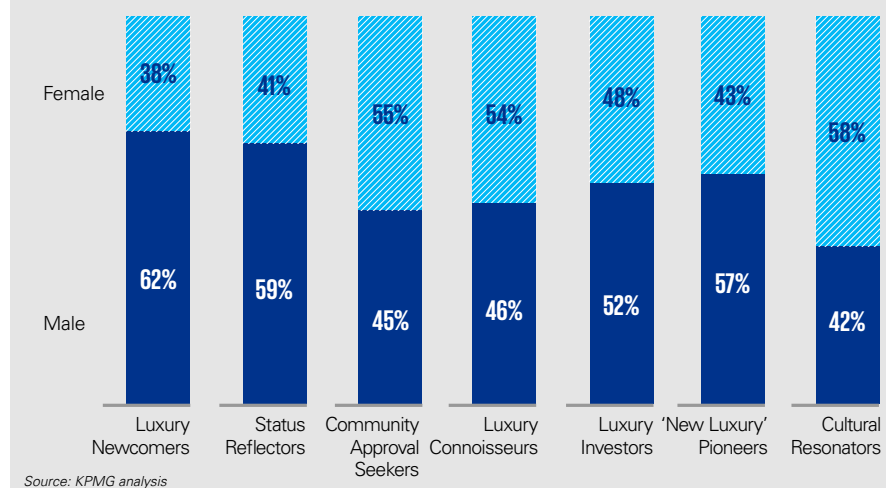


1. Gender

The study shows that males dominate in two personas – Luxury Newcomers and Status Reflectors – and are also in the majority among the 'New Luxury' Pioneers (Figure 10). This can be attributed to the increasing consumption of fragrance and grooming products among males, but also brands' investment in redefining masculinity and the embracing of streetwear to engage younger male consumers¹⁶. Men are also more attracted to luxury concepts using new technology and less traditional luxury elements.

On the other hand, females dominate the Community Approval Seekers, Luxury Connoisseurs and Cultural Resonators personas. Women have always led fashion conversations across different communities; therefore, they tend to become leading voices promoting values they believe in (Community Builders and Cultural Resonators). Being exposed to a wide range of brands and products to interact with also means they tend to collect information to make informed choices, and therefore naturally can be classified as Luxury Connoisseurs.

Figure 10: Persona distribution by gender



You must be respectful and true to brand... Chinese brands have caught up with technology, quality and service. It's not that those Chinese consumers prefer local; they prefer respectful brands. The more respect and the more status your brand offers them, the more likely they will buy.

Josh Gardner

Co-founder and CEO, Kung Fu Data



¹⁶The 'He Economy' Is Luxury's Next Big Thing, Jing Daily, 12 Jan 2021, <https://jingdaily.com/china-luxury-male-consumers-dior-fendi/>



2. Location

In Hong Kong, a relatively high percentage of survey participants are classified as Luxury Investors and Luxury Connoisseurs (Figure 11). This might be because of Hong Kong’s advanced stage of economic development, which often correlates with a higher understanding of luxury brands and products. By the same token, Tier 1 cities in the Chinese Mainland also show a higher representation of these two groups compared with Tier 2 cities.

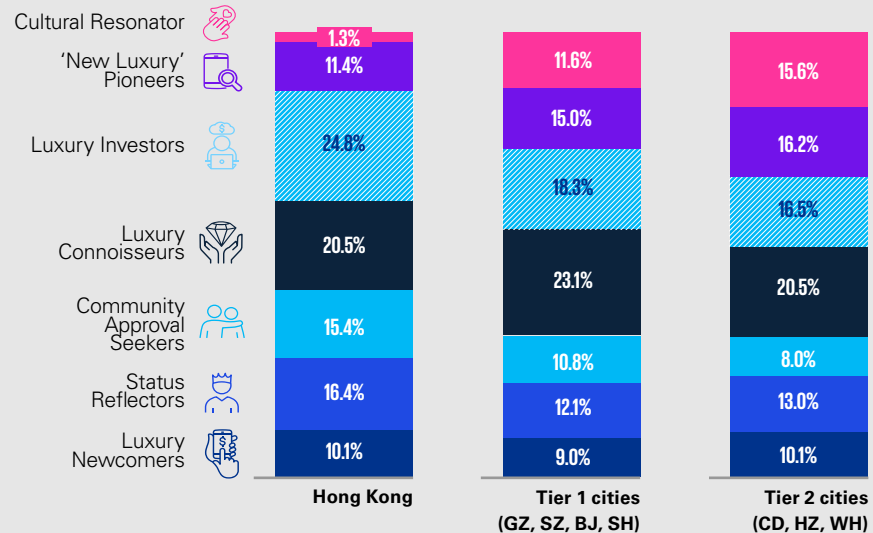
Hong Kong also has a higher proportion of respondents among the Status Reflectors and Community Builders. Hong Kong consumers consider a change in living environment, income level and lifestyle as key factors leading to changes in purchasing habits. This implies that luxury is used as a symbol of an individual’s wealth, success and the associated lifestyle – in line with Status Reflectors. The survey also shows that Hong Kong consumers are more likely to be influenced by recommendations from friends and family, perhaps as they seek to gain recognition from the community. This is similar to the behaviours of Community Builders.

Hong Kong respondents were less likely to be ‘New Luxury’ Pioneers and Cultural Resonators. Consumers in the city seem to be less influenced by sustainability and technology innovation in their purchasing decisions. At the same time, they also place less value on products that specifically incorporate features that resonate with Chinese culture.

Tier 1 and Tier 2 cities in the Chinese Mainland show a very similar distribution across personas as Hong Kong. This may be due to higher education levels on average in these cities, contributing to a better understanding and interest in topics about environmental and social issues. A more advanced information sharing system and digital social landscape also allow ideas and point of views to be easily and publicly expressed.

Among the differences, the proportion of Cultural Resonators and ‘New Luxury’ Pioneers stands out in Tier 2 cities compared to Tier 1. This may be due to the relatively late arrival of physical luxury stores in those cities, which would allow consumers to interact directly with ‘new luxury’ concepts. At the same time, the late interaction of consumers in Tier 2 cities with global brands compared to Tier 1 has made consumers more sensitive to topics related to their own culture.

Figure 11: Persona distribution by location

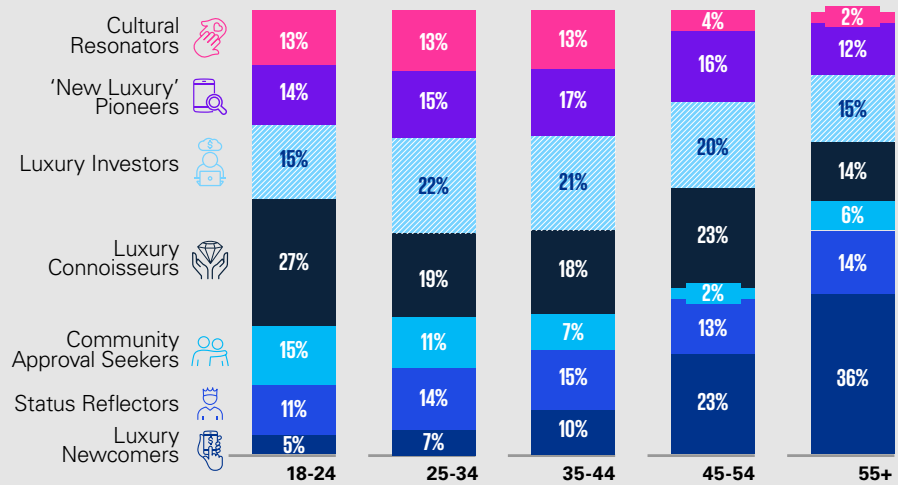


Source: KPMG analysis



3. Age and Gen Z consumer mindset

Figure 12 : Persona distribution by age segment



Source: KPMG analysis

Gen Z consumers are born between 1997 and 2012, so in this study respondents aged 18 to 25 are considered to belong to that generation. Nearly one-third of Gen Z consumers (27 percent) can be categorised as Luxury Connoisseurs – those who appreciate the essence of luxury and would like to be regarded as a stylish person with good taste. The remainder is split relatively evenly between the other personas, with the exception of a low percentage classified as Luxury Newcomers.

The key motivation for Gen Z consumers to purchase luxury goods are to receive better quality products and services, while gifting is also an important reason (Figure 13). Meanwhile Gen Z consumers based in Hong Kong are also motivated to make purchases because of recommendations from friends and family, as well as for investment purposes.



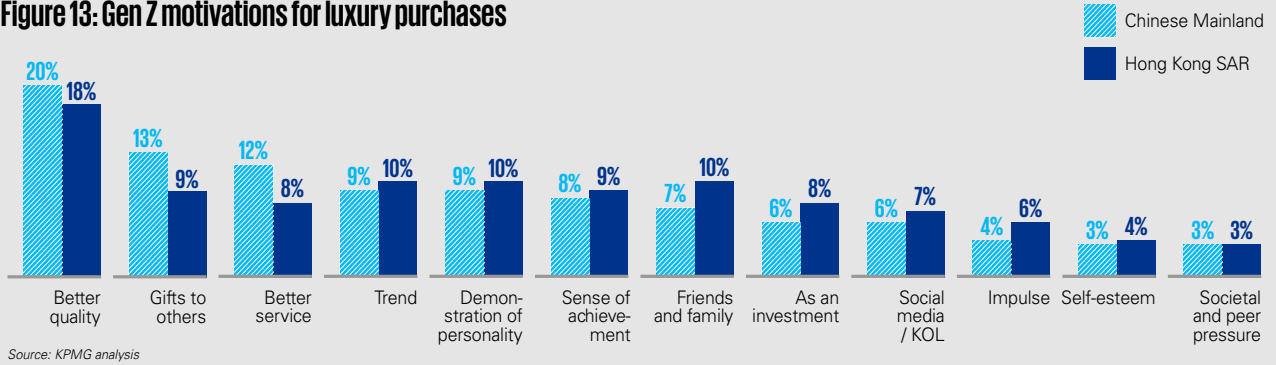
Gen Z will soon become the major force of purchase in China. Brands need to understand their values, beliefs, motivations and behaviours, factor those insights into retail experiences and customer journeys. Gen Z is leading the adoption of immersive technologies such as AR, VR and the metaverse. They also expect brands' commitment to issues such as sustainability and to be purpose-driven.

Anson Bailey

Head of Consumer & Retail ASPAC, KPMG China



Figure 13: Gen Z motivations for luxury purchases



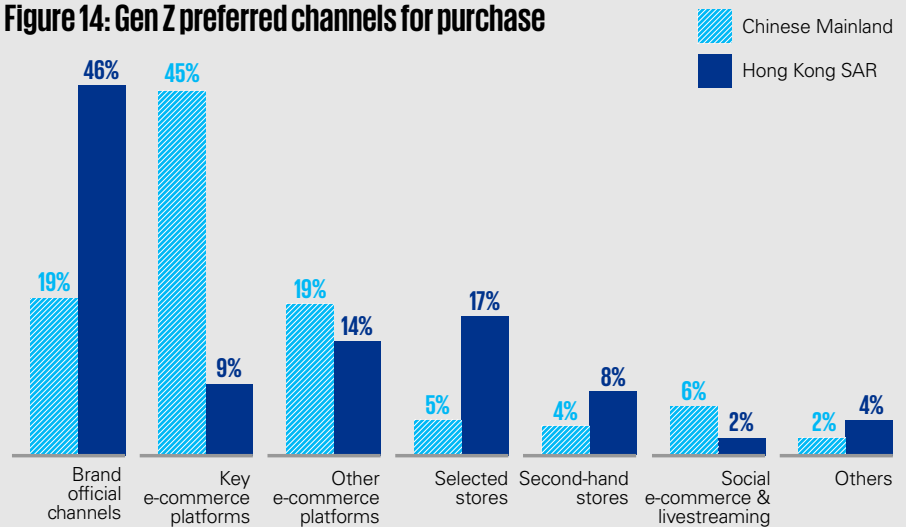
If you want to compete on a global level you have to take into account consumer demand for more sustainable practices among younger generations. Consumers have changed and especially in emerging markets the luxury industry is increasingly catering to a younger customer. That means you have to be a leader in the way you ethically conduct your business.

Stefania Lazzaroni
General Manager,
Altgamma



The way Gen Z obtains information about luxury items is very similar across Hong Kong, Tier 1 and Tier 2 cities. Official brand channels are a key source of information, but unsurprisingly social media features as a significant source of information. However, there are differences in terms of the channels used to buy luxury products: Gen Z primarily uses brand official channels in Hong Kong, including online and offline; while in the Chinese Mainland Gen Z instead prefers to purchase through key third-party e-commerce platforms, such as Tmall and JD.com (Figure 14).

Figure 14: Gen Z preferred channels for purchase



Notes: 'Key e-commerce platforms' refers to Tmall, JD and Amazon; other e-commerce platforms refer to VIP Pinduoduo, Kaola, ASOS and ZALORA; others refer to events and other purchasing channels
The 'Selected stores' refers to a retail outlet with a wide selection of products chosen specifically by buyers

Source: KPMG analysis

Gen Z also tends to take action towards what they believe in. Compared to other age segments, 16 percent of Gen Z respondents are more likely to change their purchasing behaviour and try to influence others to do the same if a brand does not align with their values and beliefs (12 percent for age 35-44; 6 percent for 55+).

Gen Z consumers are increasingly being targeted by brands because they represent the fastest-growing population group in the Asia Pacific region. By 2025, Gen Z will account for 21 percent of the total population of the Chinese Mainland¹⁷. The survey data on Gen Z consumers broadly aligns with previous studies on this demographic and reveals the following trends:



Understanding of luxury

With the increased amount of information available online on luxury products and easier access to luxury brands due to increasing store presences in China, Gen Z has learnt to appreciate luxury products from an early age. They also have different expectations due to greater awareness about more niche and artisanal brands ('new luxury'), sustainability and technology. Gen Z will leverage this knowledge to showcase their understanding of the trends in the market.



Emerging technologies

According to the survey, 39 percent of Gen Z stated that virtual environments (such as the metaverse and video games) were one of the top three ways to spend their time. This is higher than for any other generation. Gen Z is also the demographic with the highest percentage of people that understand what the metaverse is and how it can enhance the shopping experience. This aligns with our understanding of Gen Z as digital natives that value innovation.



Cross-brand collaborations

Gen Z is more receptive to luxury products that are more accessible, as can be seen from their preference for lower price points¹⁸. For instance, 18 percent of Gen Z users state that cross-brand collaborations – when luxury brands partner with more mass market brands – are among their top three factors that will influence their purchasing decision.



Propensity to pay

Growing up against a backdrop of the one-child policy, better education levels and financial literacy, Gen Z in China received utmost care and support from their family, experiencing less hardships than the previous generations. They have access to greater disposable incomes and are usually much more willing to spend. In fact, Gen Z is the wealthiest generation to have ever entered the consumer market¹⁹.

Based on the survey, 21 percent of Gen Z survey respondents are willing to spend more than 16 percent of their income on luxury – a relatively large proportion for individuals who have just completed their first degree or have recently entered the job market. For Millennials (25-34), this proportion is only 11 percentage points higher at 32% in comparison. In terms of the premium that Gen Z are willing to pay for brands that align with their values, 43 percent of Gen Z respondents say they are willing to pay a premium of more than 5 percent for such products. This is only 4 percentage points lower than that of respondents aged 25-34, who are likely to be more affluent. This signifies a strong propensity to pay for luxury among Gen Z consumers.

¹⁷ UN Population Division Data Portal

¹⁸ Why Accessible Luxury is Winning Over Millennials and Gen Z, Dalziel & Pow, 2018, <https://www.dalziel-pow.com/news/accessible-luxury-millennials-gen-z>

¹⁹ The New Game of Luxury: Gen Z in China, Jing Daily, June 27 2022, <https://jingdaily.com/new-game-luxury-gen-z-china/>



The future of the Chinese consumer

Based on the survey analysis, purchasing power is a critical factor in the ability to buy luxury items, which drives the development of consumer mentality. When consumers are no longer limited by their purchasing power, they have a certain degree of freedom to expand their purchasing scope from low-level needs to high-level pursuits. Using GDP forecasts, we can assess the consumption patterns of Chinese consumers and estimate how they will change in the future according to the trends observed in other countries.

According to the survey results, Chinese consumers generally are in cluster 2 ('Look at me') and 3 ('Fitting in'), while consumers' attitudes in most Tier 1 cities are in the fourth cluster ('Quality first') or at least approaching it (Figure 15). Most consumers in Tier 2 cities fit into the second and third clusters, with increased income and economic development allowing for greater purchasing power and thus a growing appetite for luxury goods.

China's GDP per capita (adjusted by purchasing power parity) is currently one-third of that of the United States (Figure 16). Yet, if broken down by city class, China's GDP per capita for Tier 1 cities is lower than the United States by just 30 percent, and it is ahead of developed countries such as Japan and South Korea. Through forecasts based purely on past economic performance, the GDP of Tier 1 cities could catch up with the US's current level in 2030, implying that most residents in these cities will have a consumer mindset in clusters 4 and 5 by 2030.

However, some external factors are also driving a change in consumer mindsets, such as relevant policies on ESG and brands' initiatives around consumer education. Some of these top-down actions are pushing consumers to think and act differently than they would have without this influence, leading to higher awareness and different purchasing behaviours. This will shorten the required time for consumers to transition from the current status to the more advanced clusters 4 and 5 ('Striving for the greater good'). Therefore, it is thought that the mentality of consumers in Tier 1 cities in China may only be about three to five years behind the consumer mindsets seen in the US market, while the overall Chinese market could be about five to eight years behind.



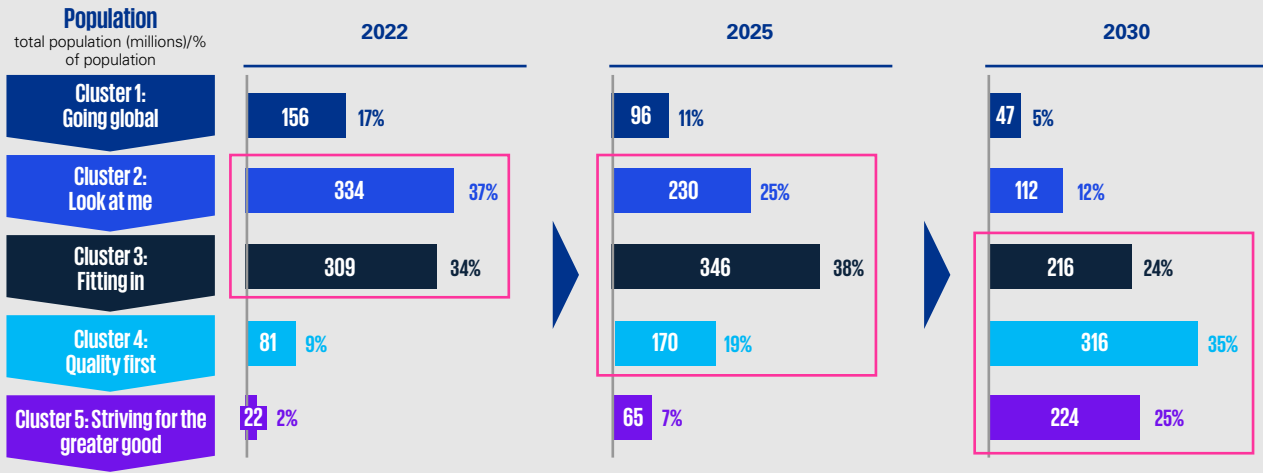
Mindsets of Chinese consumers may change due to external factors such as relevant policies on ESG and brands' initiatives around consumer education. Some of these top-down actions are pushing consumers to think and act differently than they would have without this influence, leading to higher awareness and different purchasing behaviours.

Jennifer Weng

Head of Tax, Consumer & Retail, KPMG China



Figure 15: Forecast of population by consumer cluster

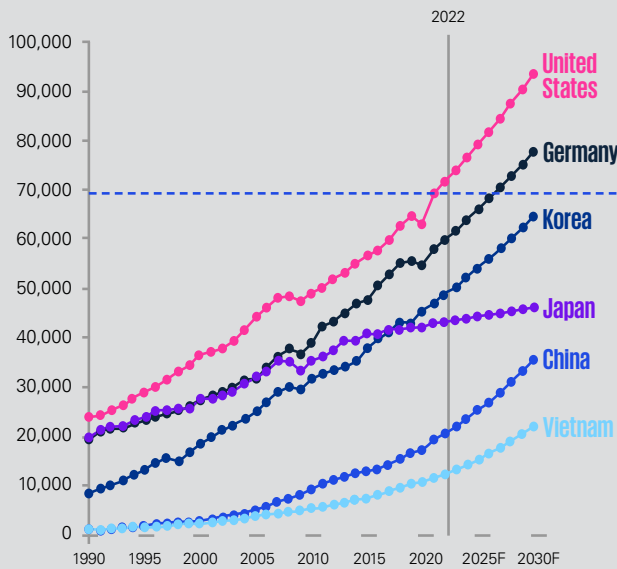


Note: The population analysis excludes the rural population

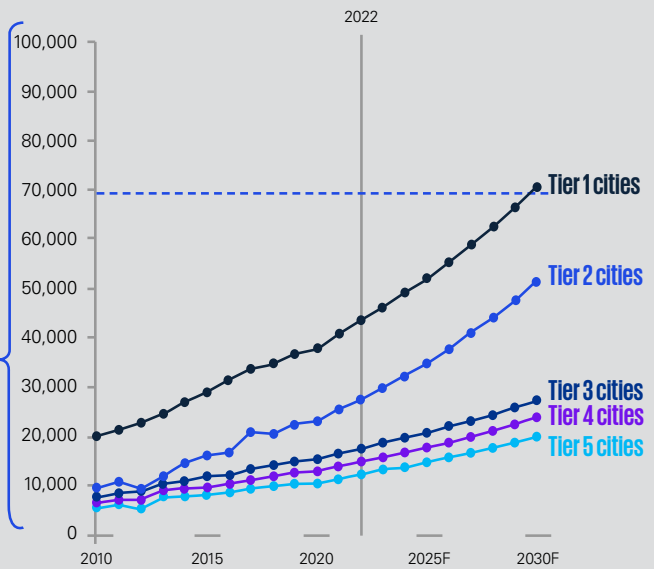
Source: KPMG analysis

Figure 16: GDP per capita of China and selected countries (PPP adjusted)

GDP per capita of selected countries
(PPP adjusted, USD)



GDP per capita of China
(PPP adjusted, USD)



Source: World Bank; National Bureau of Statistics of China; KPMG analysis

Chapter 3: Trends reshaping Chinese consumer behaviour





If we think of Gen Z, the 'Instagrammability' of the experience matters. Most guests are celebrating life milestones and want to create memories. Social media is part of the process as it allows them to keep those memories alive and share them with their community to be able to look back on their life journey at a later stage.

Kristy Lee

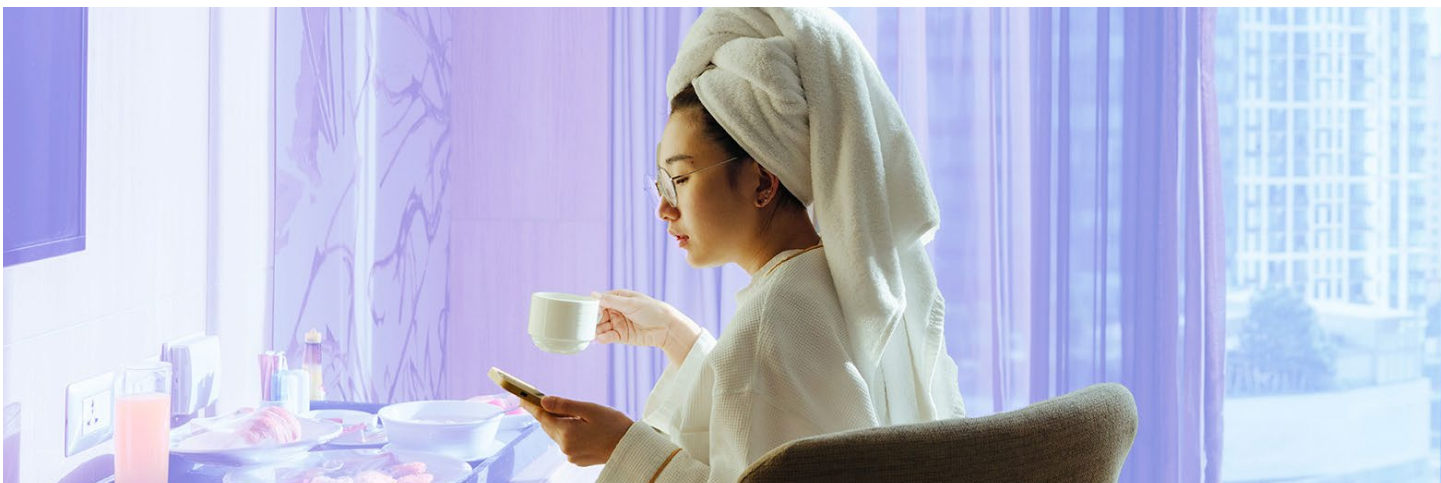
Director of Sales and Marketing, Ritz-Carlton Hong Kong



While economic uncertainty has characterised the domestic market in China in recent periods, business executives agree that the neighbourhood approach that emerged during the pandemic, which saw consumers become more local in their consumption habits, is here to stay. While international travel restrictions in China have been eased from early 2023, consumers are expected to continue to take an interest in experiential luxury versus material goods, as well as products to make stay-at-home time more pleasant. Among the trends that emerged from the survey and interviews with executives in the luxury industry are: increasing use of technology, new ways of engaging with consumers, sustainability, and the rise of 'new luxury' driven by the different mindset and purchasing behaviours of Gen Z.

Jaime Martin Chocano, Managing Director of Hong Kong and Macao at Edrington, commented that the pandemic has increased consumers' interest in spirits for personal consumption. "With the closures of bars, spirits consumers started to purchase products online for at-home consumption. Most importantly they started to develop an interest in finding out more about products, their history, production process and raw materials. More knowledge translates into higher loyalty towards the brand because a relationship based on trust and transparency is nurtured."

Meanwhile, Kristy Lee, Director of Sales and Marketing at the luxury hotel group Ritz-Carlton Hong Kong, commented, "While offering staycations, our focus was on adding value to our premises through content and food experience." "Family stays with educational content such as a Safari experience and themed menus from our various restaurants became key in capturing spend by local consumers", she continued. "If we think of Gen Z, the 'Instagrammability' of the experience matters. Most guests are celebrating life milestones and want to create memories. Social media is part of the process as it allows them to keep those memories alive and share them with their community to be able to look back on their life journey at a later stage." "Gen Z are also keen to book hotels which care about the environment and communicate their commitment through visible actions," she added.





China's social media landscape and the consumer journey

In the past, social and e-commerce platforms in China played very specific roles along the consumer journey, with most platforms (except for WeChat) focused on specific stages - whether it was awareness, interest, purchase or loyalty. However, these platforms evolved over time, increasing their digital touch points and developing a wider range of functions that allowed them to cover more stages of the online consumer journey. While social platforms started to introduce e-commerce functions in a bid to create more seamless user shopping experiences, e-commerce platforms began to launch social offerings to capture users at the top of the funnel as well. This resulted in a convergence of social and e-commerce platforms, and a heightened emphasis on building single-platform user journeys rather than cross-platform.



International celebrity ambassadors or global campaign images rarely resonate with Chinese luxury shoppers. Global brands and their headquarters should either work with their local teams to ensure relevant assets are being generated, or give markets more flexibility and ownership over these topics.

Lydianne Yap
Marketing and Research
Director, DLG (Digital
Luxury Group)



That said, it is important to note that despite these changes and the growing list of functionalities offered by social platforms in China, consumers do not necessarily interact with the same platform along all stages of the journey, and across all touch points. Back when functions on these digital and social platforms were limited, Chinese consumers were used to switching between them as they progressed along the journey. While these behaviours might have shifted slightly with changes to the ecosystem, users still by and large access each social platform for a specific purpose. For example, they visit Weibo for celebrity and news updates²⁰; Douyin for entertaining short videos, livestreams and e-commerce²¹; Little Red Book for product reviews, feedback and general inspiration²²; and WeChat for brand updates, information, content, e-commerce and other services²³.

“To date, WeChat remains the only social platform in China that allows brands to effectively capture and nurture consumers along all stages of the user journey”, says Lydianne Yap, Marketing and Research Director at DLG (Digital Luxury Group). Known as an all-in-one mega app, a WeChat Official Account (OA) serves as a brand’s official presence outside of its dotcom presence and acts as a gateway to all its other related digital properties in the market. Brands can link their OAs to their WeChat Channels account (for videos and livestreams), Mini Programs (light applications on WeChat that can essentially support the development of any brand digital experience, from AR/VR functions to e-commerce and loyalty programmes), as well as external sites.

“Given the vast possibilities afforded by the main social platforms in China, the onus is on brands to effectively design user journeys that fully leverage what each platform can offer, and make sure that the right performance indicators are assigned to each platform based on its objective along the user journey,” says Yap. “Performance on social platforms in China should not just be evaluated based on KPIs that are typically used for social platforms outside of China – such as likes, shares or comments – that offer brands little insight into purchase intentions and the conversion ability of a piece of content. Take WeChat articles for example: given their length and rich content, they are actually more similar to direct email marketing in the west than social content, and should instead be evaluated based on KPIs such as open rate, clickthrough rate and associated revenue.”

There is no one-size-fits-all approach to social media in China and it is important for brands to consider the specific media type, tone of voice and topics popular on each channel in order to fully maximise the potential of each platform as well. Content and assets need to be adapted accordingly for brand messages to resonate with intended audiences, and cannot simply be replicated across the Chinese digital ecosystem.

²⁰ How Weibo is Fueling Social Capital for Brands in China, Jing Daily, 16 July 2021, <https://jingdaily.com/weibo-panel-luxury-brand-influence/>

²¹ What if TikTok really just wants to sell you stuff, Financial Times, 16 December 2022, <https://www.ft.com/content/dd13a2c8-4e58-4b69-9ddd-b0f918f17627>

²² Viral Products For The Win: New Data From Xiaohongshu, Jing Daily, 18 November 2022, <https://jingdaily.com/viral-products-xiaohongshu-social-media-balenciaga/>

²³ Luxury's New WeChat Playbook, Business of Fashion, 10 May 2022, <https://www.businessoffashion.com/briefings/china/luxurys-new-wechat-playbook/>

Yap highlights how brands should use different approaches for each channel: “While a luxury brand’s WeChat content can have a more official look and feel, and focus on brand storytelling, its Weibo content should highlight celebrity and brand news and its Little Red Book content should take a more lifestyle and social approach, with a large emphasis on user-generated content.” Beyond that, she adds that brands should also take elements of localisation into consideration – such as making sure they have the right image assets to support marketing around local celebrations or shopping festivals, or working with relevant local celebrities, KOLs and KOCs.



The use of social media shows us how Chinese consumers lead the conversation when it comes to digital. I foresee a similar development for those technologies; a new playground where Gen Z will require the delivery of more and more content, and the brands will eventually adapt to this demand.

Jacopo Pesavento

CEO and Founder, Branding Records



The booming fan economy

While influencers and celebrities have long been a part of a brand’s overall marketing mix, it was not until top livestreamer Austin Li (Li Jiaqi) took China’s e-commerce scene by storm in 2019 that international luxury brands around the world started to see how star power in China directly translated into sales. Li broke records for the Singles Day e-commerce shopping festival that year, generating over US\$145 million worth of sales on the platform²⁴.

Celebrities and influencers (KOLs) at the top of their game in China are able to tap into the fan economy and generate huge returns for a brand²⁵ – but there are truly only a handful of them that have star power on this scale. As a result, these top idols are often highly sought after by luxury brands in the market, with most locked into exclusive contracts with brands that span across categories. Given the hefty cost that comes with celebrity collaborations, brands that work with idols outside of these famed few will likely find it difficult to achieve return on investment (ROI).

With the growth of user generated content platforms like Little Red Book, another class of influencers has emerged: Key Opinion Consumers (KOCs). Being a product reviews and sharing platform, Little Red Book has created an interesting space for itself and its users outside of the typical consumer journey of awareness, interest, purchase and loyalty, adding an additional layer of advocacy. After having purchased a product from a brand, KOCs post their experiences and share feedback about the brand or products on the platform, acting as spokespersons for the brand. Although KOCs typically do not have huge followings, their numbers are many and the sheer volume of content they generate is useful in helping brands to capture share of voice on the platform. As researching about products on Little Red Book before the act of purchase is a common practice in China²⁶, having a substantial share of voice can help brands to drive conversions. As such, apart from working with top-tier idols, the only other category of influencer that can help brands make a significant impact on sales is that of KOCs.

²⁴ Who is millionaire Li Jiaqi, China’s ‘Lipstick King’ who raised more than US\$145 million in sales on Singles’ Day, South China Morning Post, 9 March 2020, <https://www.scmp.com/magazines/style/news-trends/article/3074253/who-millionaire-li-jiaqi-chinas-lipstick-king-who>

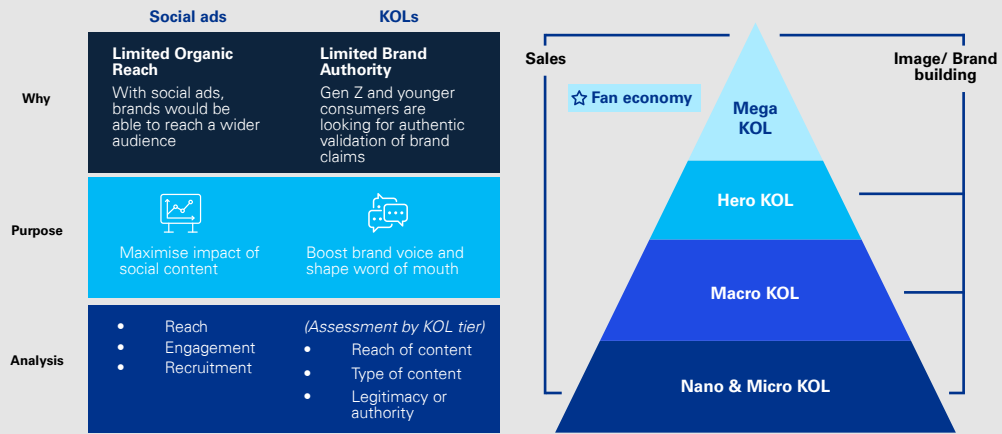
²⁵ One Second Wonder: Mr. Bags x Qeelin Sells Out Immediately, Jing Daily, 9 December 2022, <https://jingdaily.com/one-sec-wonder-mr-bags-x-qeelin-sells-out-immediately/>

²⁶ Viral Products For The Win: New Data From Xiaohongshu, Jing Daily, 18 November 2022, <https://jingdaily.com/viral-products-xiaohongshu-social-media-balenciaga/>

“Influencers across all tiers, however, will generally help in brand building and awareness generation,” explains Pablo Mauron, Partner and Managing Director China at DLG (Digital Luxury Group). “However, collaborations carried out for this purpose are unlikely to generate significant sales ROI and should not be evaluated with this in mind. Instead, brands should be looking at awareness indicators such as impressions, search volumes or word-of-mouth.”

Figure 17: Paid media

As a paid media strategy is naturally built around social ad spending and Key Opinion Leaders (KOLs), KOLs are an integral part of the equation. While working with KOLs across all tiers will have an impact on exposure and brand building, only a small number of Top KOLs/celebrities/idols have enough star power to drive the fan economy and generate high conversions. Key Opinion Consumer (KOC) collaborations, when carried out at scale, can also have a significant impact on purchase intentions.



Source: DLG (Digital Luxury Group) analysis



CRM and consumer segmentation

In its most traditional sense, customer relationship management (CRM) is seen as a means to establish and nurture a relationship with existing customers. The related tools and technology available in China, however, enable brands to extend their reach beyond customers, to prospects as well.

Unlike the rest of the world, where email addresses are the primary contact point for brand CRM efforts, WeChat is now the most appealing platform for CRM in China²⁷. With the implementation of third-party tools and solutions on WeChat, brands are afforded an additional layer of insight into consumer behaviours on the platform. Instead of merely obtaining transaction-based consumer data, brands are able to collect behavioural data on an individual level as well. This makes it possible for them to both activate existing customers and generate new ones through CRM on WeChat.

Behavioural data collected on WeChat can also allow brands to identify purchase intention triggers, product interest and brand preference. With this, brands are able to better segment their consumers into different groups based on the stage of the consumer journey they are at, carry out targeted advertising and direct communications, as well as develop life cycle communications that can have a stronger impact on driving consumers down the funnel or reactivating them for repurchases.

²⁷ Cartier, Bulgari and other luxury brands are flocking to WeChat, TechCrunch, 24 June 2019, <https://techcrunch.com/2019/06/23/luxury-brands-sell-on-wechat/>

However, one of the largest challenges for brands remains in associating consumer behaviours on other platforms with that on WeChat. While the digital ecosystem in China is increasingly integrated following the adoption of anti-monopoly laws in 2021²⁸, it is still difficult to bind consumers across platforms, with their mobile numbers as the only identifier.



Global brands have been able to get by with a somewhat extended version of their global CRM infrastructure in China until the Personal Information Protection Law (PIPL) came into effect in 2021. With these new regulations, brands now have to completely rethink their consumer data infrastructure to both meet local regulations and maximise performance – something that is exceedingly important at a time when customer retention and life cycles have become a growing focus for brands.

Pablo Mauron

Partner and Managing Director of China, DLG (Digital Luxury Group)



PIPL and its impact on consumer data collection

Following the introduction of the China Personal Information Protection Law (PIPL) in 2021²⁹, brands now have to ensure that their customer relationship management (CRM) systems in China are compliant with local regulations in terms of collection, storage, processing and transfer.

This has prompted brands to reassess their current infrastructure and overhaul existing systems where necessary, at the same time addressing other areas that were perhaps overlooked in the past such as behavioural data tracking, synergies with smart advertising or even issues related to system capabilities, connectivity and integration.

The enforcement of PIPL has also created an additional layer of complexity for brands when it comes to collecting the data of Chinese travellers shopping abroad. This is especially relevant when the country's borders reopen, as brands will need to think about how they can continue to engage with and reactivate these customers when they return home from their travels abroad.

²⁸ China issues new anti-monopoly rules targeting its tech giants, Reuters, 7 February 2021, <https://www.reuters.com/article/us-china-internet-anti-monopoly-idUSKBN2A70DT>

²⁹ Personal Information Protection Law of the People's Republic of China, The National People's Congress of the People's Republic of China, updated on 29 December 2021, http://en.npc.gov.cn.cdurl.cn/2021-12/29/c_694559.html



The evolving role of technology

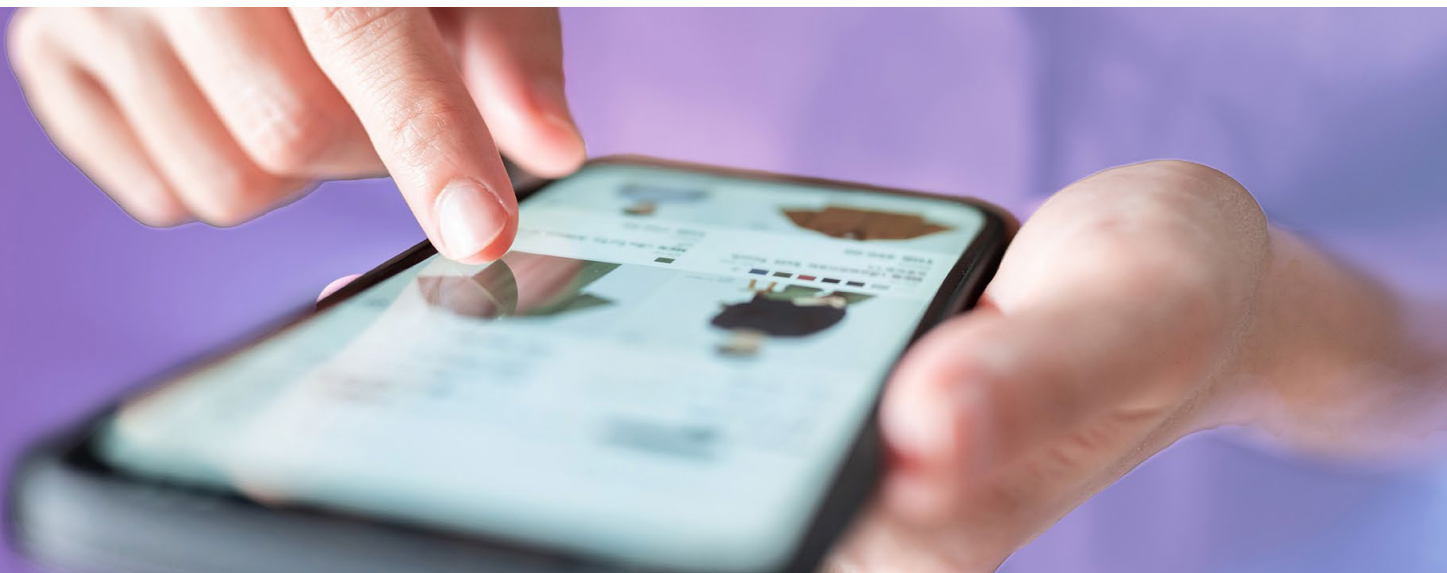
Consumers are increasingly using digital channels to engage with luxury brands. According to the survey, Chinese Mainland consumers in Tier 1 and 2 cities rely heavily on e-commerce channels for luxury purchases, at nearly 80 percent. The percentage stands at 55 percent for Hong Kong, which has traditionally lagged behind Chinese Mainland consumers when it comes to adopting online retail.

More than two years after the start of the COVID-19 pandemic, most major luxury brands have an e-commerce presence. However, a round of lockdowns in Shanghai in early 2022 made it clear that having a mature digital ecosystem had its limitations during these exceptional circumstances. Logistics and supply chains were severely impacted and while consumers could easily place orders online, products could take weeks to arrive. "This is not just e-commerce, it is the whole digital transformation that also implies supply chain monitoring and technological evolution," explained one executive. "It also impacts how you upskill your talents, and it requires a lot of investment linked to production and sales and communication, which is now more and more digital."

Consumers are also increasingly embracing luxury products with digital elements. According to the survey, 18 percent of respondents might change their purchase habits if brands engage consumers more through digital channels. Another 23 percent will do so if brands adopt technology innovations such as the metaverse, NFTs, artificial intelligence and VR/AR technology (Figure 18).

In response to changing consumer preferences, brands are also catching up with the adoption of the latest digital technology in how they promote and sell products. Another luxury executive commented that augmented reality (AR) or virtual reality (VR) are great tools for both internal and external use by luxury brands. "For example, it will help us to see a product before buying, without visiting a showroom." Retailers are also excited by the opportunities that Web 3.0 offers to create new value and reimagine the customer experience. "Deploying purpose-built virtual experiences – whether VVIP boutiques or one-off events – will become the norm and a complement to IRL (in real life) customer intimacy."

Though brands have been working for quite a while on their digital infrastructure, changing the culture and attitude towards digital inside the organisation is much harder.





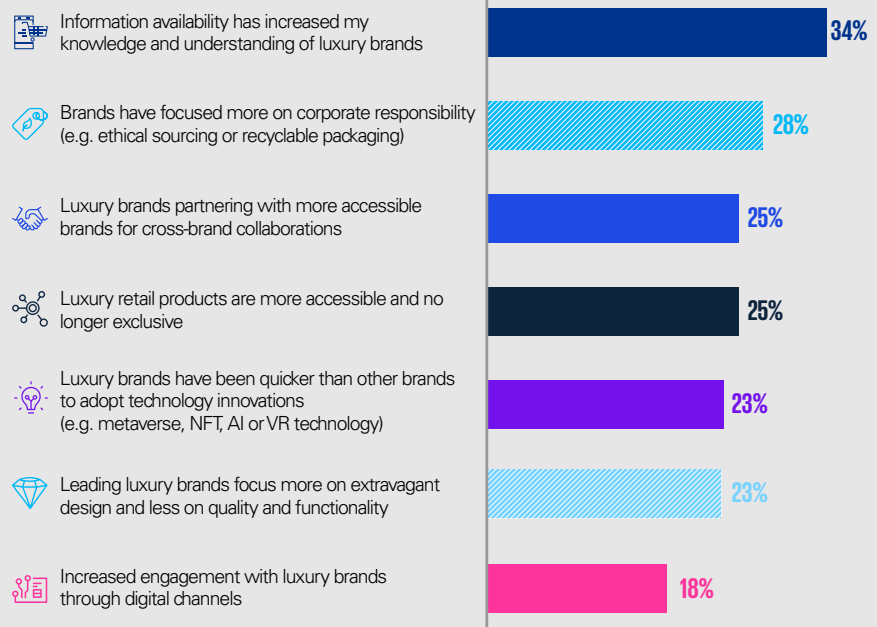
Brand managers need to prioritise data-driven experimentation and structured problem-solving in their day-to-day marketing and operations. That is the only way to achieve continuous optimisation, and it's also where a skill gap can leave you most exposed. I see the solution as less about re-skilling than bringing in new skillsets that complement and elevate existing functions. But up-skilling is also essential. All our associates – especially at the store level – need to value and use digital tools to get better at what they already do. That's where training should focus.

Ashley Micklewright

President and CEO, Bluebell Group



Figure 18: What factors will change your purchasing habits?



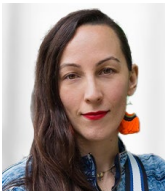
Source: KPMG analysis



The role of the metaverse in future customer engagement

Features such as fully customised high-resolution virtual shopping environments are already available, and luxury retailers see themselves as metaverse-bound, which will serve to engage customers on a deeper level, blur the lines between brand and customer, shopping and living, and more. As one interviewed executive remarked: "I think that more than a commercial channel the metaverse should rather be an ecosystem where you can leverage, replicate and enjoy the existing relationship with your fan base."

While sceptics may wonder why people would want to buy a digital piece of fashion, those buying now are early adopters, who may want to 'suit up' their character in a virtual game, or their avatar in a virtual community. "If I can have a Gucci shoe-wearing avatar versus some non-brand, and I'm into gaming, I'm going to do it," challenges Elisa Harca, Co-founder and CEO of marketing agency Red Ant Asia, which works with multiple luxury brands. "Imagine, kitting out your LinkedIn profile with a digital wardrobe, or some kind of NFTs to make your profile stand out within the virtual world. These early adopters do not see a real divide between the virtual and physical worlds."



Imagine, kitting out your LinkedIn profile with a digital wardrobe, or some kind of NFTs to make your profile stand out within the virtual world. These early adopters do not see a real divide between the virtual and physical worlds.

Elisa Harca

*Co-founder and CEO,
Red Ant Asia*



Harca says the brands that are early adopters in the space – Gucci is a prime example with its 'Gucci vault' of digital apparel – are banking on being at the forefront of mass adoption. "I don't think it's a fad. The ones who have started are really smart because no one is an expert right now. No one wants to get left behind by the development of the Web 3.0."

Camilla Eunyoung Song from City University of Hong Kong explained that technology represents a great opportunity in terms of audience. "When you exhibit a designer bag in a store, your audience might be around three to 50 potential customers. However, when you purchase an online version of that handbag on the Roblox gaming platform, your audience will run into the millions. How to sell such a product? It all comes back to brand awareness."

The technology behind NFTs, meanwhile, might have its place in proving authenticity, according to luxury brand executives that were interviewed. Jinjie Chen from City University of Hong Kong says NFT-based solutions could be a promising approach to tackle the problem of counterfeits. "NFTs are useful because they can do two things – it makes it very hard for counterfeits to copy, while it makes it relatively easy for consumers to observe and judge if something is real. At the current stage, it does not appear that there are better offline alternatives to verify authenticity."

Despite the advancements that NFTs are expected to bring to the luxury industry, some are still unconvinced of its application beyond that. Consumers are equally uncertain – according to the consumer survey, 46 percent of respondents are unsure about the value that the metaverse or NFTs can bring to the shopping experience, while 27 percent say they are unwilling to pay extra for such technologies.

Despite the metaverse and NFTs still being new concepts for both businesses and consumers, 41 percent of survey respondents think technological innovation will be a more important consideration factor for luxury purchases going forward (in the next 5 years).

According to Pablo Mauron from DLG (Digital Luxury Group), Chinese e-commerce players are taking a leading role in deploying new technologies. “Having established the concept of ‘New Retail’ early on, Alibaba has been consistently collaborating with luxury brands to explore the intersection of retail and digital experiences. Compared to the west, Chinese e-commerce players can better embed these concepts into feasible day-to-day offerings, such as selling branded NFT collections within the Tmall ecosystem, or other initiatives that are more tied into the purchase journey. This could pave the way for global brands to create even more meaningful initiatives that can also drive conversions in China.”

Jacopo Pesavento, CEO and Founder of Branding Records, agrees that while the metaverse and NFTs are still in their infancy stage, and some may find it a hype destined to fade out, Gen Z in China has always shown an interest in innovation. “The use of social media shows us how Chinese consumers lead the conversation when it comes to digital. I foresee a similar development for those technologies; a new playground where Gen Z will require the delivery of more and more content, and the brands will eventually adapt to this demand.”

A recent study conducted by Nervino and Nah from the City University of Hong Kong³⁰ on the involvement of luxury brands in video games (a platform similar to how consumers will engage with the metaverse) shows that over time, brands have moved from using technology and new media as pure entertainment, to an educational function in which potential future customers are educated about the history and products of the brand, as well as their values on issues such as sustainability. The two scholars find that those tools may not directly generate revenues, but rather create brand awareness for future adopters.

The metaverse and NFTs, on the other hand, still present technological barriers for most potential users such as the need to use a device to enter the metaverse or a crypto wallet to purchase NFTs, which limits their use to a smaller community, in addition to the fragile concept of digital ownership. Informal conversations conducted with Gen Z individuals provided evidence that the metaverse and NFTs are yet to become popular concepts among younger generations. Nervino and Nah are cautious on viewing the metaverse as the future of interaction, but conclude that brands should join the conversation to project an image of themselves that is innovative, financially-healthy and attentive to the next generation’s interest. From this, it can be concluded that brands will follow the attitude of consumers towards technology.



Most young customers are digital natives. As our digital and physical worlds become increasingly interconnected, many retailers and shopping mall operators are also trying to further extend their customers’ life cycle journey via digital means beyond their in-store interaction.

Horace Lam

Head of Strategic Development, K11



³⁰Luxury and the next internet’s frontier: virtual worlds as instances of metaverse, Nervino, E. and Nah, F., March 2022, presented at CityU Sales and Marketing Consulting Unit seminar “Luxury in the ‘texts of our times’”



Consumers are demanding experiences in their engagement with brands

Luxury brand executives that were interviewed for this study agreed that COVID-19 has forced brands to embrace digital sales channels – if they weren't already. "Omnichannel has become a necessity and not an option," in the words of one. "Experience is being delivered through the brand strength, the products – and the team of customer service people that make it a luxury experience."

An observation noted in several interviews is the way that increased access to information across different channels has pushed brands to reflect on their shopping experience. Nowadays, the average consumer will enter a store with way more information than in the past. According to the survey, more than 85 percent of consumers do their own research when making luxury purchase decisions. While companies have always focused on product training for retail staff, that does not appear to be enough these days. To attract customers, brands should focus on providing customised and interactive customer experiences, such as establishing personal touchpoints with customers and providing tailor-made styling or mix and match suggestions.

Several brand executives mentioned that the pandemic has proven to be a great opportunity to upskill their staff. Training is mainly focused on digital initiatives such as using social media to interact with customers and leveraging new tools to ensure a seamless customer experience. In addition to that, greater emphasis has been put on data: how to collect it, what to collect, and most importantly, how to use data to enhance the customer experience and inform business decisions.

With the vast majority of consumers doing their own research prior to purchase, an ecommerce presence becomes more important than ever, as it acts as a window to the brand universe and is an important touch point for consumers doing their research online before purchasing luxury products.

Beyond its pure conversion potential, e-commerce channels can be considered a search tool and a brand marketing platform that can help brands convert offline interest into online and offline sales as well. This means that brands should fully leverage their e-commerce presence to showcase their full product ranges – whether or not they sell well online.

"This is especially relevant on e-commerce marketplaces like Tmall, where luxury brands are typically focused on generating gross merchandise value (GMV) and tend to focus excessively on entry-level product listings," says Jacques Roizen, Managing Director, Consulting, at DLG (Digital Luxury Group). "Such a practice can be potentially detrimental, as it might create a less premium image of the brand. Brands should focus their e-commerce on providing information about the brand history and its universe, while also including their higher-end products – even those they do not expect to sell online – as a point of reference for shoppers that are researching more about the brand. This adds to the overall consumer experience, and helps to project the right brand image as well."

While companies have always focused on product training for retail staff, that does not appear to be enough these days.



On average, a luxury brand's Tmall store only accounts for less than 10 percent of its total revenue in China. With the bulk of its sales coming from other channels and offline, luxury brands need to carefully balance their online commercial objectives with the critical role Tmall plays in driving conversions offline, where 90 percent of their revenue comes from.

Jacques Roizen

Managing Director, Consulting, DLG (Digital Luxury Group)



Gen Z is on its way to becoming the largest customer base for luxury brands

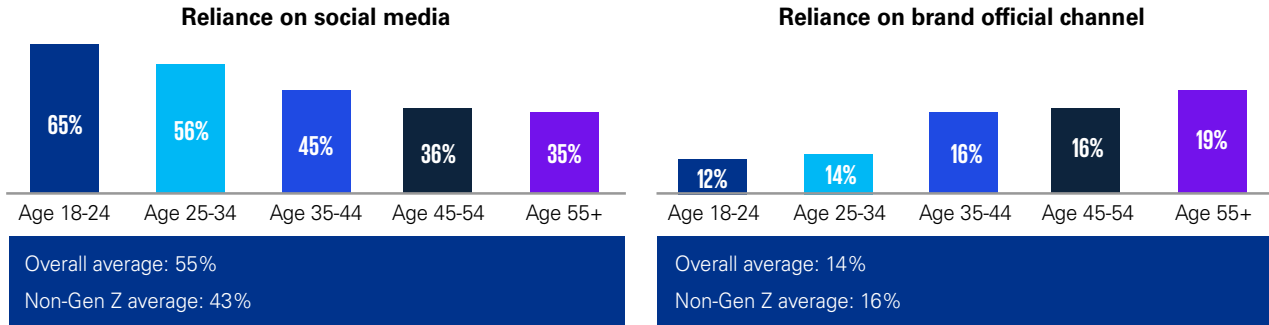
Gen Z consumers, those born during 1996 and 2011, will lead the future of luxury shopping as they reach adulthood, and their personal disposable income continues to rise. Gen Z is a digitally-native generation, compared to the preceding generations. While Gen Z audiences value brand messages just as much as previous generations, they also value authenticity. This means that messaging should not only be communicated top-down via brand-owned channels. In the words of one executive, Gen Z consumers want to participate in a brand's life, sparking what he terms "a participatory culture".

Gen Z is not only becoming the largest consumer base, their luxury spending is not weak either. According to the survey, while 29 percent of Gen Z is only willing to pay less than 5 percent of their annual income on luxury products, a fifth of this group are much bigger spenders and willing to pay more than 16 percent of their annual income, which is the same ratio as for respondents aged 55+.

Maintaining the voice of third parties, such as through partnerships with influencers, is essential to safeguarding the brand image. The survey suggests that Gen Z relies on mainstream social media more than any other generation. Social media accounts for 65 percent of their luxury information sources, while for those aged 25-34, social media accounts for a lower 55 percent. This drops even further for older age groups: only 35 percent for those aged 55 or older. In terms of using brands' official channels for information, this was only done by 12 percent of Gen Zs, compared to 16 percent for older generations (Figure 19).



Figure 19: Use of social media vs brand official channel as a luxury information source



Source: KPMG analysis

At the same time, Gen Z consumers not only have higher expectations of the shopping experience, but are also looking for more personalised products and experiences. From the survey, 31 percent of Gen Z respondents are motivated by better quality and service when they purchase luxury products. In another survey conducted by KPMG³¹, it was suggested that Gen Z consumers have more demand for a targeted and tailor-made retail journey – 86 percent of Gen Z respondents in the Chinese Mainland expect a swift response when approaching brands and expect them to use technology including AI to help shortlist new products based on their purchase history and style.

These behaviours have encouraged brands to experiment with more innovative retail tactics, with major luxury companies creating personalised experiences throughout the consumer journey in order to cater to these ever-changing and discerning consumers.

Gen Z also has higher standards when it comes to how much professional information brands can share with them. For example, when seeking luxury jewellery or timepieces, Gen Z consumers are more likely to shop at a branded store, rather than a multi-brand retailer, as they want to obtain more detailed information through direct interaction with a brand's sales representative. A luxury executive explained, "Their exposure to content is different from other generations – they have a thirst for information, and they are continuously being fed content, so they are more demanding in that sense."



Gen Z are continuously exposed to brand messages and consume information across different channels. While this is a great opportunity for brands to create a 360-degree experience to engage with both existing and aspiring consumers, each and every detail should be carefully curated to ensure brand consistency.

Ivan Perra
General Manager Asia, Moschino



³¹ Retail's Realignment, KPMG, June 2021, <https://home.kpmg/cn/en/home/insights/2021/06/retail-s-realignment-the-road-ahead-for-omnichannel-in-the-greater-bay-area.html>



Awareness and interest in sustainability amongst Chinese consumers may still be in its early stages, but it is on the rise and being embraced, with Gen Z consumers leading the trend. Luxury brands should start focusing on sustainability in the supply chain. Embarking on an all-round ESG journey that engages the whole value chain takes a lot of effort, but it will give luxury brands a competitive edge in attracting Gen Z consumers and nurturing brand loyalty from them in the long term.

Rani Kamaruddin

ESG Advisory, Sustainable Finance, KPMG China



Sustainability

While there is a growing appreciation for sustainability initiatives among Chinese luxury consumers, this is currently mostly restricted to younger consumers according to interviews conducted for this report. Nevertheless, it is a trend that cannot be ignored by luxury brands according to Italian luxury trade association Altgamma.

“If you want to compete on a global level you have to take into account consumer demand for more sustainable practices among younger generations. Consumers have changed and especially in emerging markets the luxury industry is increasingly catering to a younger customer. That means you have to be a leader in the way you ethically conduct your business,” said Stefania Lazzaroni, General Manager of Altgamma.

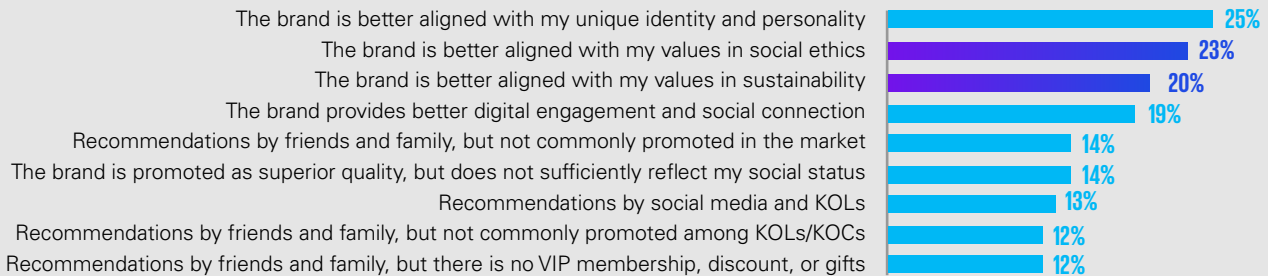
Other interviewed brand experts agree that interest in sustainability is very much in its early stages and more mature Chinese luxury customers have yet to buy into it, unlike their western counterparts. “It will be some time yet before sustainability-related topics have a concrete impact on consumer purchase decisions in the market,” said one.

In the survey, when respondents were asked whether or not they are willing to switch from a brand that they are loyal to towards a new brand that is better in terms of sustainability and social ethics, the majority (over 50 percent) of respondents provide slightly uncertain answers – they are only “somewhat likely” to switch.

However, it is perhaps not overly optimistic to say that the general awareness of social and environmental topics has been on the rise among Chinese consumers. A fifth of respondents are willing to state that they are “very likely” to switch to brands that are better aligned with their values in sustainability, while 23 percent would do so if another brand aligns with their social ethics (Figure 20). “Globalisation and a strong push towards production and fast fashion have made us forget that luxury brands are intrinsically more sustainable as they produce fewer and longer lasting items. It is more sustainable to pay more and then use and reuse these items,” commented an interviewee.



Figure 20: What circumstances would make you switch to another luxury brand?



Note: KOCs are Key Opinion Consumers

Source: KPMG analysis

Despite tepid demand from consumers, luxury brands are starting to adopt more sustainable practices. Of the same idea is Jaime Martin Chocano, Managing Director of Hong Kong and Macao at international luxury spirits company Edrington. He notes, "Macallan has put sustainability at the core of the business from the very beginning, ensuring that the production process follows strict protocols that ensure the quality of the product and simultaneously respects the environment by feeding a culture of 'giving back'." He highlights that it is important that "companies understand that sustainability goes beyond environmental protection and transcends all aspects of business across the three ESG pillars."

According to the survey, the younger generation places a higher importance on sustainability and corporate responsibility when making luxury purchases: 30 percent of surveyed consumers aged 18 to 24 think it is a key consideration, compared with only 16 percent for those aged between 45-54.



The interest in sustainability has grown exponentially, not only among consumers, but also B2B partners. For example, real estate developers are more willing to include in their new projects healthy F&B concepts and retailers that align with sustainability at large, such as retailers organising yoga classes, organic food events, outdoor activities. While younger generations of consumers are quite sensitive towards this topic, they are also sensitive to price, therefore, marketing plays a key role in communicating the brand's investment in sustainability throughout the supply chain.

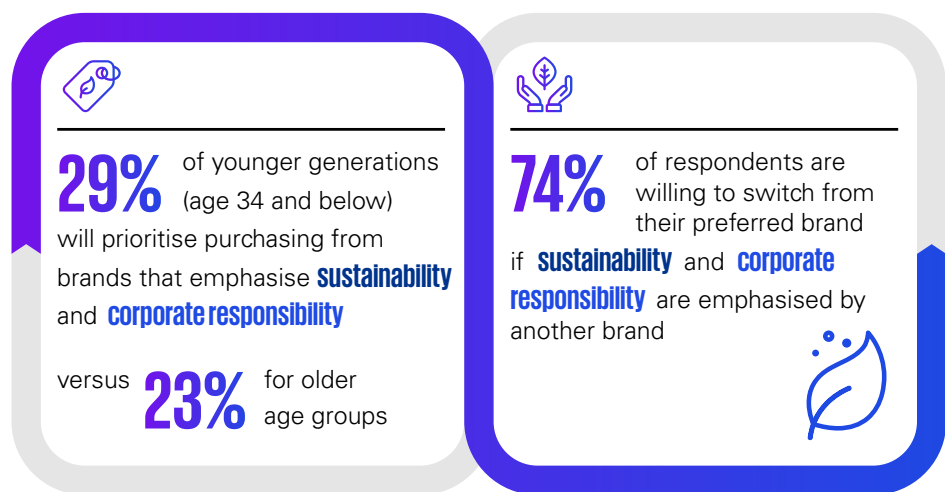
Filippo Gori

President APAC, Stella McCartney



Meanwhile Pablo Mauron, Managing Director of DLG (Digital Luxury Group), believes that views about sustainability will start to change across the board. He comments: “Given the rapid rate of evolution of Chinese consumers and increasing adjustments towards global values, we expect there to be a shift in perception towards these ideals eventually, and when that happens, brands need to be able to adapt quickly. This is especially so as China intends to reach peak carbon emissions by 2030 and achieve carbon neutrality in 2060.”

Interpreting the survey results also provided support for a view from Nervino’s study³² suggesting that while environmental commitments tend to be globally relevant, social issues requires a higher degree localisation, for example the lack of affordable housing in Hong Kong.



“



Sustainability is a critical pillar of the luxury business and the industry is making impressive strides to make a positive impact that is both quantifiable and lasting. As both stakeholders and consumers increasingly demand sustainable industry change, luxury brands are raising their benchmarks by achieving certifications, examining their value chains and, most recently, signing the Fashion Pact. The momentum is strong and the next steps for consideration are bringing in monitoring systems for water, air and energy usage, introducing evidence-based certifications (e.g. WELL), prioritising the health and well-being of people and integrating circularity to minimise waste.

Alessandro Bisagni

Founder and CEO, BEE Incorporations

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³² Creating shared value : a social semiotic analysis of ESG discourse on social media, Nervino, E., August 2022, presented at 31st European Systemic Functional Linguistics Conference, University of Southern Denmark



New Luxury

The definition of luxury is changing: it is becoming more about the culture and values of a brand rather than just the product. “The principle of being inspired by aesthetics, but also guided by ethics, is really becoming more and more relevant,” said a luxury executive interviewed for this report. “Excellence, authenticity, and responsibility – making sure products are sustainable – this has become paramount. In the world we live in, the ‘new luxury’, is not about status or exclusivity anymore, it is about being inclusive and being able to give back because you are at a level where you can do that. The consumer expects the biggest brands to also be the good brands.”

This assertion is backed by the survey results with corporate responsibility found to be the second most important factor that can potentially change consumers’ purchasing habits and mentality. In addition, when preferred brands are found to conflict with a consumer’s personal beliefs or values, more than 40 percent of respondents will stop purchasing from those brands, and even persuade others to do the same.

Both trade interviews and the survey results suggest the emergence of a new paradigm for luxury, one that reflects the values of contemporary society. An executive commented: “While before consumers were buying luxury goods to show off their achievements, now they are buying to show their personality and their values.” According to the survey, 25 percent of respondents think that ‘demonstration of their own personality’ is the third most important motivation for purchasing luxury products, ranked after ‘buying for better quality’ (50 percent) and ‘buying for a sense of achievement’ (27 percent).

The interviews with executives from the luxury industry found that many brands are in the process of evolving and incorporating new values into their identity. Among the values that were identified as being essential were:



authenticity, integrity and trust



self-expression and uniqueness



functional and comfortable



technology and innovation



sustainable and purpose-driven



It is important that companies understand that sustainability goes beyond environmental protection and transcends all aspects of business across the three ESG pillars.

Jaime Martin Chocano

Managing Director, Hong Kong and Macao, Japan, Korea, Edrington



Authenticity, integrity and trust are values related to the brand and product itself, but are also key elements in creating a long-lasting relationship between brand and customers.

Self-expression and uniqueness are the results of a strong sense of individuality which characterises Gen Z. In Nervino's work³³, these two characteristics also amplify the shift from a brand-centric to a customer-centric approach. In the past, brands would define taste and propose collections that customers would embrace, influenced by media. In today's world, with the internet enabling a two-way communication, brands and customers co-create content, and this interaction enables brands to understand and respond to consumer demands.

Functionality, such as that seen in trench coats, is a characteristic which brings in a new dimension that clashes with the association of luxury with conspicuous consumption. With the pandemic having pushed people to rethink their priorities, luxury needs to add value to people's lives and somehow make it easier and more comfortable. This relates to sectors such as hospitality, home decor, equipment, and to some extent, fashion and accessories.

Technology and innovation are important for any sector and are a natural development for financially-healthy businesses. Technology is an enabler to facilitate the engagement between brands and consumers. The challenge lies in updating the infrastructure of brands, which has often been around for over a century. Most of the time, the transformation is delayed by the difficulties involved in changing the company culture. However, the pandemic has spurred many companies on to slowly shift to more agile business models and recognise the added value of technology.

Sustainable and purpose-driven, even at this early stage in the Chinese market, is an inevitable direction for companies. Different stakeholders are working on their transformation and demanding their peers to follow. Younger consumers are driving the demand for products that reflect a responsible business.

As a consequence, brand strategy is also changing. The interviewed executives have understood these developments and are already acting upon it. "Preparing appropriately, having the best products with the best functionality, the best brand image you can portray, and maintaining that image and its appeal should be your number one priority."

Said another: "Brands need to start thinking about leveraging innovative solutions to build long-term equity around their products, craftsmanship and history, in addition to driving direct conversations. The act of purchase should not be seen as the end of a consumer's journey with the brand, but viewed as the beginning of a much longer relationship that should be nurtured over time."

³³ Social media is the new black: A social semiotic analysis of branding discourse. Nervino, E., 2018 (unpublished PhD Thesis submitted to The Hong Kong Polytechnic University)








COVID-19 as the catalyst for the domestic travel market

When the survey for this publication was conducted in 2022, travel restrictions aimed to contain the COVID-19 pandemic were still in place in both the Chinese Mainland and Hong Kong. Despite this, Chinese consumers showed a strong willingness to travel. According to Laura Houldsworth, Managing Director, Asia Pacific at Booking.com, “China ranked as first in willingness to travel in the next year in our APAC travel confidence index, with 89 percent likely to head overseas in the next 12 months and 68 percent of travellers planning to make up to three domestic trips in 2022.” The survey shows similar results, with 71% of the respondents willing to travel overseas post-COVID-19 (Figure 21).

“The desire to ‘just get away’ emerged as the top motivation to travel among Chinese Mainland and Hong Kong travellers after two years of COVID-19 and a rapidly evolving travel landscape.” says one executive from Booking.com.

When travel restrictions were in effect, Chinese travellers shifted their attention from overseas to domestic travel. With travel disrupted to Macau and Hong Kong for most of the pandemic, Hainan, the largest tropical island in China, became an attractive tourist destination. According to the survey, Hainan was the most sought-after domestic travel destination with 30 percent of respondents hoping to travel there, followed by Hong Kong. When compared with major cities around the world, 32 percent of respondents pick domestic cities as their desired go-to place, with cities in Europe and North Asia ranking lower at 26 percent and 21 percent respectively (Figure 22).

Typically, the majority of consumers in China:

-  Prefer to have at least one to three domestic trips annually
-  Plan to head overseas once China’s quarantine policy is lifted
-  Prefer to travel within Asia, to countries such as Japan, Korea and Singapore
-  Prefer to travel for short periods of only one week or even less
-  Consider the ease of administrative tasks such as visas, planning and booking when considering where to travel



China ranked as first in willingness to travel in the next year in our APAC travel confidence index, with 89 percent likely to head overseas in the next 12 months and 68 percent of travellers planning to make up to three domestic trips in 2022.

Laura Houldsworth

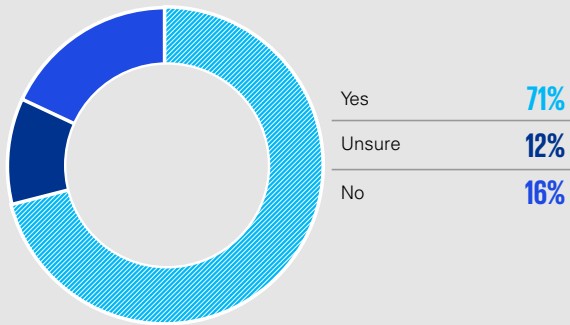
Managing Director, Asia Pacific, Booking.com





Figure 21:
Willingness to travel overseas

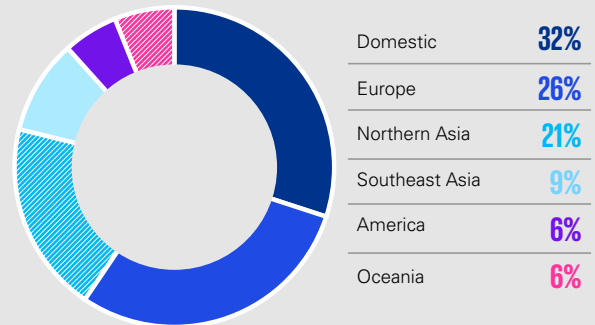
Overseas travel plans after the lifting of China's quarantine requirements



Source: KPMG analysis



Figure 22:
Destinations travelers plan to visit post-COVID-19



Note: respondents were asked to pick their top destination they wanted to travel to post-COVID-19

Source: KPMG analysis

Chinese consumers are highly accustomed to shopping during their travels – a practice that luxury brands can leverage. According to the survey, shopping is ranked as the third main purpose for a trip, behind ‘relax and retreat’ and ‘experience art, culture, and history’.

Added to that, some of the budgets that people previously allocated to luxury travel have been redirected to luxury goods, bought at home. “2021 was a record year for us because it was really booming after the most dramatic decrease that the luxury sector has experienced in 30 years,” said one executive. This is backed by a surge in Asia’s share of the global duty-free market in 2020, from 53.6 percent in 2019 to 71.3 percent in 2020³⁴. According to KPMG’s Hainan Travel Retail Market Whitepaper, the Hainan offshore duty-free market was one of the key drivers behind this growth. The market rose by 127 percent and 84 percent respectively through 2020 and 2021. Sales of RMB 91bn were estimated to have taken place over the two-year period from July 2020.

The global luxury goods market decreased by 13 percent year-on-year in 2020. It was a huge turnaround from the steady 5 percentage CAGR growth seen between 2016 and 2019³⁵. The lack of Chinese tourists in Europe forced brands to evolve their marketing strategies to interact and engage with their local consumers, strategies that have proved successful.

As one of the world's largest luxury consumer markets, China is reopening its borders in early 2023. Following nearly three years in relative isolation, massive shifts in the global luxury market are to be expected once leisure travel for Chinese shoppers resumes.

³⁴ 2022 Hainan Travel Retail Market Whitepaper, KPMG, July 2022, <https://home.kpmg/cn/en/home/insights/2022/07/hainan-travel-retail-market-whitepaper.html>

³⁵ Consumer Market Outlook, Statista, March 2022

A couple of phases can be expected during this reopening process. The first phase will be a period of transition, as Chinese travellers look into renewing their travel documents, obtaining visas and planning for trips abroad. Actual travel might be slow to pick up, as residual hesitation about coming into contact with COVID-19 overseas could still be on the minds of consumers. With the Chinese economy slowing and economists estimating that its growth in 2022 could be as low as 3 percent³⁶, consumer confidence has understandably been impacted and is expected to take some time to recover as well.

Once this phase passes, however, a second phase is expected to kick in when travel truly resumes. COVID-19 has irrevocably impacted the shopping patterns of Chinese consumers, and an immediate rebound in spending and return to old habits is unlikely. However, an adjustment in the proportion of domestic and international luxury spending can be expected – although it is hard to say for certain how much incremental growth brands will achieve abroad, especially as consumers have gotten used to shopping domestically over the past three years.

The challenge here is for brands to ensure that the shortfall in revenues they experience domestically can be re-captured overseas. “One way for brands to do this is to accept that losing domestic sales is inevitable, and start looking at things from a top P&L perspective instead of just being focused on the local P&L,” says Jacques Roizen, Managing Director, Consulting at DLG (Digital Luxury Group). He elaborates that brands can consider stepping up their service offering by local retail teams to help support this transition, such as having sales associates taking the initiative to set up store appointments for VIP customers in overseas boutiques upon learning of their travel plans, instead of seeing it as a loss of local revenue.

“



Chinese consumers play a critical role in the luxury industry. As they continue to become leading connoisseurs in everything related to luxury lifestyles, and with affinity for all things British luxury, we look forward to welcoming them back to London and the UK in 2023.

Charlotte Keesing

Director, Walpole

”

³⁶ China pushes vaccines as retreat from ‘zero-Covid’ turns messy, Reuters, 16 December 2022, <https://www.reuters.com/world/china/china-urges-vaccines-vulnerable-zero-covid-exit-turns-messy-2022-12-15/>

Chapter 4: Takeaways and implications



This report has provided a background to the Chinese economy and in particular the luxury market. Through extensive interviews with executives in the industry and a consumer survey, Chinese luxury consumers have been segmented into seven distinct personas and a forecast on how consumers will evolve in the future has been provided. Based on the research, the following takeaways can be drawn:



Seize opportunities in megacities and emerging ones

China's large-scale urbanisation has helped to increase the country's luxury consumption, with rising levels of affluence and access to luxury brands changing purchasing habits. The retail sales of consumer goods in three urban clusters – the Yangtze River Delta, the Pearl River Delta and the Beijing-Tianjin-Hebei Rim – accounted for more than 43 percent of the country's total consumption in 2021³⁷. As regional development and technological advancements continue, luxury brands should continue to target consumers in these large megacities and gain a full understanding of their preferences and needs:



Consumers living in megacities place a great importance on the luxury experience. Good quality and high service levels are a prerequisite to purchase. But it is also important to offer a unique experience, for example exclusive afternoon tea sets in a brand's in-store cafe.



Consumers living in megacities are also experiencing a shift in their attitudes towards everyday life. They are likely to be in pursuit of a 'good life' – elevating everyday experiences from home cooking (buying better ingredients and cookware) to domestic travel (luxury staycations and 'glamping'). Luxury brands should therefore look to create and elevate everyday experiences to capitalise on this growing trend.



Growth opportunities are not restricted to Tier 1 cities. Brands should expand their reach into lower tier cities as these locations are increasingly catching up in terms of their luxury spending. With higher disposable incomes due to lower living expenses, consumers are likely to spend more on luxury goods.



³⁷ National Bureau of Statistics



Understand 'me' vs 'we' mindset

Chinese luxury consumers are trending towards a more individualistic mindset. The rise of e-commerce platforms has shifted decision-making power from the family to the individual. Luxury Connoisseurs, for example, purchase luxury goods to showcase their unique style and personality. Companies will need to improve their customer segmentation ability to understand the different consumer personas – especially on digital platforms – to better target this growing individualistic mindset. Product customisation is also another direction that luxury brands can explore. Retail brands, including luxury and non-luxury, are increasingly offering customisation services to attract customers who want to have tailor-made products that showcase their uniqueness and personality.

Recent trends indicate that the collectivist mindset has expanded to the recognition and identity of being Chinese, giving rise to the Cultural Resonators – those who purchase products that resonate with local or Chinese culture. Furthermore, environmental initiatives and increased education have allowed Chinese consumers to shift their attitude from focusing on themselves to wondering how their actions are affecting the world. Brands are advised to create products that are more of a form of social currency and help pursue the greater good.



Use technology to create more relevant retail interactions

Technology and digitalisation are playing an increasingly important role in luxury retail. The trade interviews for this study revealed many instances of brands increasingly leveraging innovation to enhance customer experiences, engagement and even boost conversions. Technologies such as augmented reality mainly provided value during the COVID-19 pandemic when people were unable to have face to face contact. The survey also shows that half of respondents do not necessarily understand how these new technologies have elevated their shopping experiences. Luxury brands must therefore create a much more relevant digital shopping experience and environment to remain competitive, especially among younger generations.



Capitalise on the Gen Z opportunity

Gen Z is the first generation of digitally-native consumers, living the entirety of their lives connected to digital devices and able to access more information than any generation preceding them. Gen Z consumers are interested in brands that align with their values and ideals. They are also the main drivers of the 'new luxury' movement, built on values like trust and loyalty.

The increasing proportion of luxury purchases accounted for by Gen Z suggests that luxury brands have to learn more about this generation, in particular to understand the differences within this generation depending on their location (Hong Kong, Tier 1 and Tier 2 cities) as well as their unique values. Brands should capitalise on the trend of sustainable luxury at affordable prices, including increased collaborations with more accessible mid-market brands.



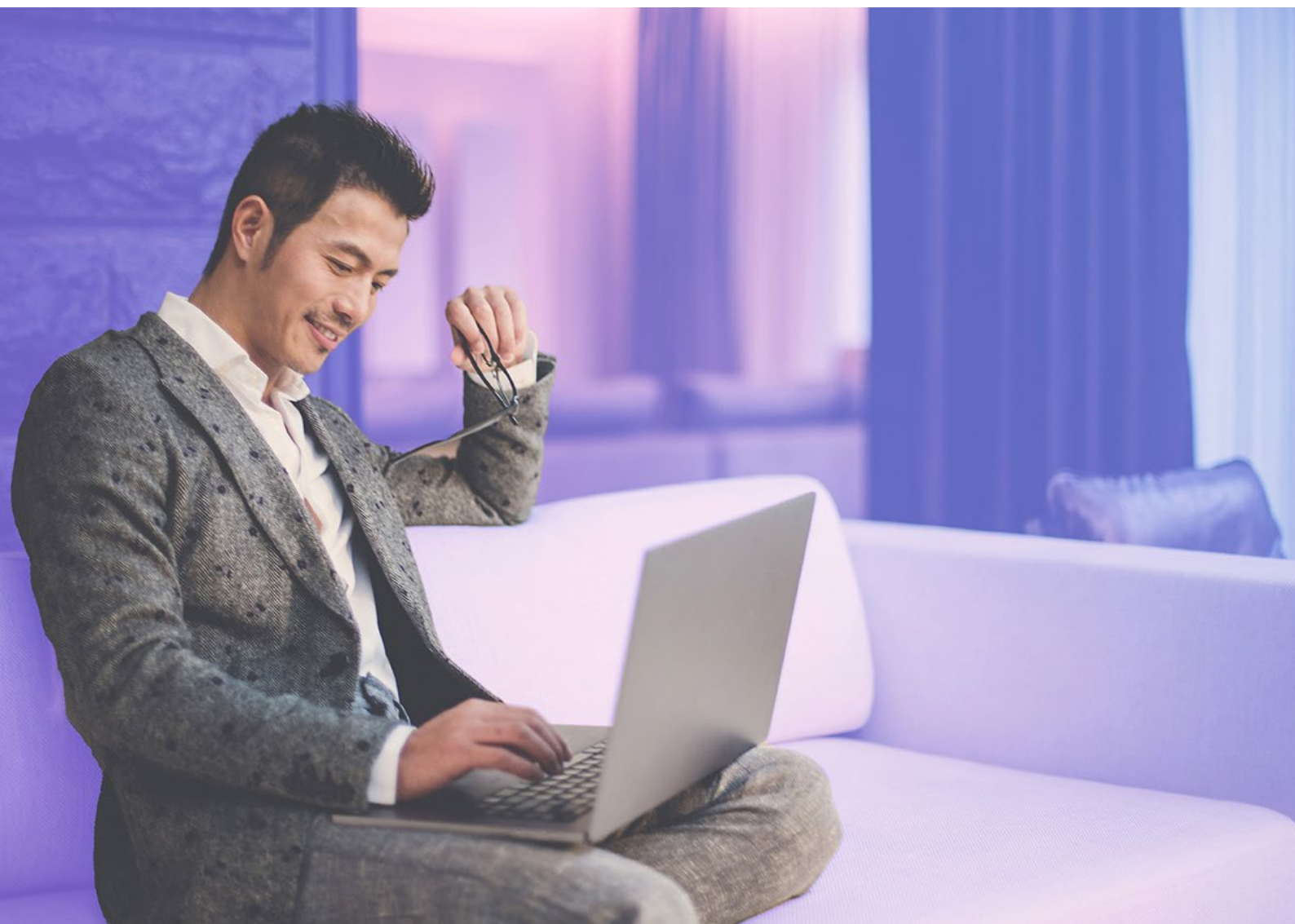
Tap into the 'new luxury' concept

As a result of socio-economic changes in China, stakeholders recognise the rise of a new paradigm for luxury. Besides emphasising conventional features such as authenticity and excellence, the 'new luxury' concept adds new elements to the equation such as functionality, integrity, sustainability and innovation. This new paradigm poses both new challenges and opportunities for brands willing to be among the first movers in this fast-evolving space.



Understand the emerging personas

The emerging personas identified in this study are Cultural Resonators and Luxury Investors. While still focussing on high quality products, Cultural Resonators require brands to have respect for their culture, but also to embed elements of Chinese culture in their discourse and products. Luxury Investors seek brands that will increase in value over time, so product features influencing their purchase decisions would be a high level of quality, craftsmanship, strong branding, limited editions and unique designs.



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About DLG (Digital Luxury Group)

DLG (Digital Luxury Group) is an international agency with offices in Geneva, Shanghai and New York that offers social media, e-commerce, CRM, consulting and creative services to luxury brands. It has developed a unique expertise in defining and implementing impactful digital strategies that target sophisticated consumers through a combination of technological know-how, creativity and luxury savoir-faire.

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About the Sales and Marketing Consulting Unit (SMCU), Department of Marketing, City University of Hong Kong



Launched by the Department of Marketing of the City University of Hong Kong in 2021, the Sales and Marketing Consulting Unit (SMCU) is a unique avenue for both global and local businesses across different sectors to leverage on researchers' expertise and for academics to work on real business problems concerning Chinese and Asian markets.

The SMCU is an integrated platform for high-quality research and knowledge transfer and constitutes an innovation hub for applied sales and marketing research, where scholars closely collaborate with professionals to discuss the current state-of-the-art in sales and marketing strategies and provide cutting-edge solutions through research initiatives, executive education, and consulting services.

The SMCU also provides exchange opportunities such as the annual Marketing Exchange Forum, conferences, seminar series, reports, and networking events to bridge the world of business and academia.

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