

COMMERCE

Two words clarify Chinese consumers, claims Shanghai Tang founder

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Value Retail promotional image

By JEN KING

MONTE-CARLO, Monaco – According to a panelist at Financial Times' Business of Luxury Summit June 9, brands entering or maintaining a retail presence in China should know two words: Shenzhen and diagou.

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The "China: Crisis, consolidation and the new consumer" panel opened with remarks from Sir David Tang, who suggests that knowing the aforementioned words, Shenzhen, a populous boarder city between Hong Kong and the Mainland, and diagou, a verb meaning "to buy on behalf of," brands can better understand the "economic miracle" of China. Indeed, the recent anti-corruption and anti-extravagance campaigns put forth by the Chinese government paired with change in consumer behavior has hammered the luxury market.

"We always hear of the DNA of brands, but I think its high times we think of the DNA of a country of operation," said Sir David Tang, KBE, founder of [Shanghai Tang](#), Hong Kong.

"That's why I think that understanding Shenzhen is understanding the market conditions of business, which is clearly as important as the product itself," he said.

"How much purely due diligence do companies, even big ones, do about the way in which China works and understanding the social consequences of it before they go in and open up their shops?"

DNA level

To place China in a context within the luxury market, Financial Times' Beijing bureau chief, Jamil Anderlini, who acted as the panel moderator, showed the growth of the market in the past 15 years.

In 2000, Chinese consumers made up 2 percent of the global luxury market, now the demographic makes up 30 percent. Sir Tang added that 40 million Mainlanders go to Hong Kong each year to buy goods to bring back across the boarder to sell as diagou agents.

Now, the changing retail climate has altered potential in the market, especially for luxury brands.

For instance, FT's Mr. Anderlini explained that a Swiss watch brand's CEO told him that out of 100 watches sold before anti-corruption, 65 went to China. Now, that same ratio is 25 of every 100 timepieces are intended for Chinese consumers.



Shenzhen skyline

But, despite these changes, are Mainland Chinese still buying at home? Yes, but Sir Tang suggests that it will be less and it will become much less due to high taxes, that often equal 100 percent more for a product than the price in its country of origin.

China has a consumer set, aged 25 to 40, that is exploding, estimated to be more than 310 million in 5 years time, double the population of the entire United States. This growing demographic is increasingly younger, more energetic and digital with a deep understanding of pricing and a strong desire for discounts.

Essentially, Chinese consumers want to own luxury goods, but they expect maximum value. To possess luxury goods, many Mainland Chinese consumers rely on diagou agents to serve as the point person.

Discounted

During the panel portion of the session, the conversation worked its way back to the idea of Chinese consumers expecting steep discounts. Understanding the shopping motivations and wants of consumers can ease entrance and maintain relevancy in the Chinese market.

For example, French fashion house Chanel was the first to align global pricing for its signature handbags, an action that allows the brand to move toward ecommerce.

As of April 8, the fashion house created equal pricing for three of its handbags which has significantly raise the prices in certain regions and drop them in others. The harmonization also allows Chanel to move toward ecommerce actions and has likely increased home country purchases among many Asian clients ([see story](#)).

Also, as a response to the rise in the Swiss franc, watchmaker Tag Heuer leveled out its global prices.

The brand announced that it will abstain from raising its prices in Europe, Japan or Singapore in March. Keeping pricing consistent on an international base enables consumers to feel comfortable buying at home rather than abroad ([see story](#)).

But, not all of the panelists were convinced that this is the appropriate solution to increase purchases at home while meeting consumer demand.

"All of luxury tried to announce they have discounts – but does not solve the problem," said Jiang Shan, CEO and founder of Prowon Consulting.

"I think the malls now have young people, girls, inside and I think the brands should develop their own system to make sure all of the consumer has a perfect experience," he said. "If you see how they take care of customers, it's amazing."

Final Take

Jen King, lead reporter on Luxury Daily, New York

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