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MARKETING

Transient consumer behavior cycles, automated tech disrupt Asian marketing strategies

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Image courtesy of Peninsula Hotels

By FORREST CARDAMENIS

SAN FRANCISCO Asia's expedited consumer behavior cycles and adoption of automated technologies creates unfamiliar terrain for Western brands, according to panelists at the Financial Times' Business of Luxury Summit on May 23.

Shopping habits of Europeans tend to mutate slowly, over the course of a decade or more, and handcrafted goods remain a main selling point, but the same values are not so easily applicable in China and Japan. In addition to properly segmenting consumers, tracking rapid changes in behavior and their geographical implications, the rise of technology and automation presents yet another issue that will complicate the ability to tap into Asia's growing consumer base.

"Secondary markets like The RealReal have enormous potential for Asian markets," said Clive Ng, financier. "Millennials are very conscious and very green in terms of process and how things are made, and a lot tend to like secondary markets."

The future of luxury

In China in particular, rapid development over the past few decades has bred distinct micro-generations that are not perfect corollaries to consumers of the same age in the West. Specifically, millennials and Generation Z are clearly demarcated by contrasting behavior.

Adrian Cheng, founder of K11 and executive director of Chow Tai Fook, has found via internal research that consumers born in the 80s and 90s differ dramatically in preference and habits.

Those born in the 1980s crave social recognition, which manifests itself via a strong social presence where everything is shared in a demand for likes. Those born post-1990 are less interested in validation from peers, value more niche or local brands and are more capricious.

Consumers born in the 1990s spend 20 percent more than those born in the 1980s, and those born after 2000, despite their youth, spend 70 percent more than those in the 80s. Overall, each group is less loyal to brands than the previous generation.

Chinese consumers at a Louis Vuitton boutique

Brand loyalty also varies by geography, as China must be viewed more like Europe and less like a single entity. Citizens of first-tier cities Beijing, Shanghai, Guangzhou and Shenzhen are more educated about the different brands and therefore are more likely to mix-and-match rather than by a single sales pitch.

Western brands have long sought these economically advanced, more educated buyers who would spring for a famous logo, but in fact, that activity is more common among citizens of second-tier cities such as Tianjin, Chongqing, Chengdu, Wuhan and Xiamen and in third-tier cities, where consumers are less familiar with the brands and therefore more susceptible to marketing messages.

These distinct patterns of growth are also visible in China's rapid consumer behavior cycles. Mr. Cheng notes that consumer trends manifest over a decade in Europe but in as little as three years in China, a testament to its rapid economic growth in the past 20 years.

As a result, segmenting China by city and province in addition to the consumer's micro-generation and carefully tracking changes these changes, detecting undercurrents in behavior before they fully erupt, can help a brand stay ahead.

Zegna Made in Japan detail

The panel also discussed Japan's embrace of technology and its revival as a luxury hub, the latter of which is spurred by China. Recently, Chinese consumers have helped revive Japan's status as a luxury hub via travel spend, but a survey of K11 VIPs show that around half would stop going to Japan if the exchange rate became less favorable, though the other half would continue due to the history of cultural exchange between the two countries.

Appealing to foreigners is important in Japan, with Isetan Mitsukoshi Holdings president and CEO Hiroshi Ohnishi noting that it is important to differentiate foreigners and Japanese consumers.

"If appeal to foreigners increases too dramatically, the Japanese will be turned off," Mr. Ohnishi said through a translator. "So we need to have a balance between foreigners and Japanese.

"Things that attract foreigners are things like duty-free," he said. "We are trying to have foreigners come to duty-free and have foreigners go to other areas. In terms of products, we are trying to have very attractive products of Japan, Japanese premium products, to show to foreigners so they can purchase those."

Asia in general, and Japan in particular, is ahead in technology, including virtual reality and automated technology, which could reverse the growth that brands expect from the region.

"If you look at the macrotrends, the demographic shift in China is very important, but the issue I focus on is tech," said Martin Ford, author of "Rise of the Robots."

"The idea we are hearing is about disruption from robotics and artificial intelligence (AI), [so] if you believe we are eventually not going to have enough jobs, or jobs are going to be de-skilled, that means fewer consumers, and that means it is harder to justify the idea of perpetual growth," he said. "You may get stagnation or deflation."

Mr. Ohinshi is seeing trials and experiments in Japan with robots that can answer simple inquiries and give information, an innovation that currently has novelty appeal. However, he notes that consumers will always connect with other people first and foremost, and that other humans need to remain visible to foster that connection.

Iris Van Herpen frequently uses 3D printing in her couture collections

Nevertheless, automated technology poses an enormous threat to luxury brands in that it might soon be able to replicate or surpass handmade clothing in terms of products.

Mr. Ford says that the days of a human being scanned so his or her dimensions are sent to a machine, which then produces clothes specifically for that individual are not terribly far off. It will be impossible to distinguish an item made by a human from an item made by a robot.

On the other hand, Mr. Cheng notes that consumers come to K11's museums and workshops to see products being crafted on the spot, and that the production process is an integral part of the appeal, with these products being sold literally as they are finished in some cases. Brands will need to make the human element a visible, integral part of their identity to combat the rise of automation, or else find ways to include automation into a business model without sacrificing its connotations of luxury.

The times they are a-changin'
Automation in fashion is already taking a foothold and raising difficult questions for luxury brands.

While the luxury fashion industry traditionally prides itself on the craftsmanship and handiwork that goes into creating a garment or leather good, it may be starting to warm to the idea of using 3D printing in its production.

At Chanel's haute couture show in July 2015, some of the tweed pieces that were modeled on the runway were created using 3D printing. Having one of the biggest names in high fashion embrace the technology may open the doors for expanded use of 3D printing among luxury labels, which has the possibility of altering the definition and positioning of luxury (see story).

In addition, Chinese consumers are becoming more selective in their purchases, trading up from mass to premium labels as their confidence grows.

A new McKinsey report, "The Modernization of the Chinese Consumer," found that a significant portion of the population would raise their spending on apparel, travel, personal care and other services if their incomes grew. Representing positive news for international companies, the preferred premium brands in categories such as cars, skincare and fashion remain foreign brands (see story).

With China remaining a particular area of growth, brands must make more of an effort to understand the behavior of its consumers.

"I don't think [Chinese consumers] will abandon large luxury brands, but they are much more discerning," Mr. Cheng said. "They will mix match with niche brands.

"Brands need to see China like the European Union," he continued. "It is divided into 700 cities and they asll speak different languages and have localized cultures. They are totally different in how they react, so brands going into Chian need to have monthly or bi-weekly meetings on understanding what the customer wants.

"There is always this undercurrent that is going on, and there will be a tipping point soon. Chinese customers are extremely digital savvy. Brands can't go into China if they don't understand digital."