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MARKETING

Access, comparable pricing can spur emerging market buying

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Luxury in India just got less expensive. Image credit: Jimmy Choo

By SARAH JONES

HONG KONG Both Chinese and Indian consumers are price- and currency-conscious in their spending, which impacts both where and what they buy.

During a panel discussion at The New York Times International Luxury Conference on Nov. 12, speakers noted that consumers from these emerging markets are facing economic and tax shifts that have the potential to impact their consumption habits. Before buying, these shoppers compare prices, looking for not only the best quality for their luxury but also the best deal.

"Emerging market consumersare very sharp in doing price comparing," said Darshan Mehta, president and CEO of Reliance Brands. "And...the brands that have actually done this price reset, are already finding the results of increased domestic consumption."

Emerging economics

China today accounts for about 35 percent of luxury purchases, and the market is expected to make up 45 percent of the global luxury business by 2025.

While some Chinese consumers are pulling back their spending on luxury, there are also segments of the population that are growing their purchases of high-end goods.

One category that has seen a reduction is cars, but Jing Ulrich, managing director and vice chairman for Asia-Pacific at JPMorgan Chase, said that this sector's slowing is not indicative of the overall Chinese market. She partly attributes this change to the sharing economy, as consumers consider whether they actually need to own a car if ride sharing services are readily available.

Ride sharing services such as Didi are making it less necessary to buy a car. Image credit: Didi

Chinese consumers partly make their purchasing decisions based on price, as they seek out the best possible deal in regards to currency and tax rates. Along with influencing how they shop at home, this leads them to choose where to travel.

For instance, when the Turkish lira fell in value, Chinese consumers flocked to the nation to shop.

If the yuan weakens, it may put a damper on Chinese shopping tourism to destinations such as Hong Kong.

The Chinese stock market is in the midst of volatility, but government moves are aiming to curb further fluctuation. For instance, tax cuts have been implemented and more investment is going to private businesses, many of which are owned by consumers who are luxury buyers.

Yuan Ding, vice president, dean, professor of accounting and Cathay Capital chair in accounting at CEIBS, spoke of the effect that capital control is having on purchases, including overseas real estate. Some consumers have gotten around this by teaming with others to buy property abroad.

Mr. Ding's outlook on China is optimistic, partly due to the size of the market. China is additionally poised to overtake the United States in consumption in the near future.

Chinese actor Li Bingbing for Gucci. Image credit: Gucci

He also sees this size shift having an impact on the origin of influence. While luxury has largely been driven by the United States and Europe, he sees the potential for adaptation.

Similarly to China, India is a market that is driven by price. A recent government move to a goods and services tax could make luxury goods less expensive in the nation than they are in Europe, according to Reliance Brands' Mr. Mehta.

A number of brands have also worked to make their pricing comparable to costs in other nations, further boosting at-home spending.

However, shopping tourism is still big among Indian consumers.

Trade trends

China is set to grow its imports from other countries. In a recent speech, president Xi Jinping announced plans to increase its incoming products to $30 trillion and services to $10 trillion.

From left, Jing Ulrich, Nader Mousavizadeh, Darshan Mehta and Yuan Ding with moderator Keith Bradsher. Image credit: C.K. Man for The New York Times

Moderator Keith Bradsher noted that the leader seemed to be waiting for an upcoming meeting with President Trump to make any major policy changes.

Despite positive results and earnings for luxury groups and brands in the first half of the year, recently stocks have been dropping as investors panic.

Many investors are extremely worried in regards to the United States-China trade war, especially as Chinese affluents' luxury consumption remains the main growth driver for the luxury business. The Savigny Luxury Index for September shows that luxury companies are continuing to invest into Chinese territory, but tensions between the U.S. and China are concerning investors (see story).

Despite a power shift in the House of Representatives following the United States election on Nov. 6, trade experts do not expect the new Congress to rein in President Trump's ability to continue his tariff battle with China.

While the House of Representatives has had a Republican majority in recent years, it will now be controlled by Democrats, as the party picked up more than 30 seats in the midterm elections. During a panel at the Apparel Importers Trade & Transportation Conference on Nov. 7, an executive from the United States Fashion Industry Association said that while the House of Representatives is unlikely to repeal the president's tariffs, there could be hearings and other push back from the legislative body (see story).

Nader Mousavizadeh, cofounder and co-CEO of Macro Advisory Partners, noted that the U.S. is aiming to shift the trade balance with China. It is still unclear what the relationship between the two countries will look like.

"We're not going towards economic cold war, but a new equilibrium," Mr. Mousavizadeh said.