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China's \$43.5B Daigou business: What is next after the government crackdown?

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The Chinese government's crackdown on *Daigou*, or professional shoppers, may dampen luxury sales attributed to China. Image credit: Luxury Society

By Jiaqi Luo

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The launch of China's new ecommerce law, coupled with the Sept. 28 *Daigou* crackdown at the Pudong International Airport in Shanghai, has stirred up uncertainty in the global luxury industry. In fact, **LVMH share prices reportedly fell in early October** due to fears of a slowdown in Chinese spending.

Earlier in October, Luxury Society attended the live seminar "Reinterpreting the 300-billion [renminbi, or RMB, about \$43.5 billion] *Daigou* market" hosted by Tencent media.

During a debate, luxury ecommerce platform OFashion's CEO Xiao Yu and N5 Venture Capital's founder Xiao Yiwei shared their insights on how luxury buying will likely evolve in the post-*Daigou* era.

According to Xiao Yu, the estimated Chinese luxury spending in 2018 is **600 billion RMB (\$87 billion)** and *Daigou* purchases account for half of that, making it an estimated 300-billion RMB industry.

Without *Daigou*, what is the next best alternative for Chinese consumers looking to buy authentic luxury goods at lower prices?

First, let us revisit the Sept. 28 daigou crackdown in Shanghai's Pudong airport and take a look at how China's 300-billion RMB *Daigou* industry is in danger.

What happened during the Daigou crackdown

Sept. 28, 2018 marked an important date in the history of Chinese luxury consumption.

In Shanghai Pudong airport, all passengers returning from Seoul, South Korea, were stopped by Chinese customs for baggage inspection.

Seoul has been a classic shopping destination for *Daigous* to obtain global brands at a discount. More than 100 passengers from same Seoul-Shanghai flight were found guilty of illegal imports.



Chinese customs officials on Sept. 28, 2018 examining Daigou bags at Shanghai's Pudong airport after a flight from Seoul, South Korea. Image credit: Sohu via Luxury Society

It was every *Daigou*'s living nightmare. One of them relayed the unfolding events through WeChat text messages. Screenshots of this message thread eventually made its way online. The messages read,

"In the line to pay my fine"

"I was live streaming in duty free shop during the day, but live streaming fine payment during the night (face palm emoji)"



A Daigou's WeChat record of the Sept. 28, 2018 crackdown got popular online. Image credit: Sohu via Luxury Society

Whether as a full-time profession or simply a hobby, the *Daigou* business is one based on relationships.

In fact, the first clients of most *Daigous* are generally from his or her own social network.

Since *Daigous* operate in a legal gray area and rely solely on private transactions, customers often have a hard time verifying the authenticity of their purchases.

Needless to say, seeking redress in the case of fraud is difficult or near impossible.

Within the last decade or so, *Daigous* have become rather ubiquitous.

Chinese netizens often joke on social media that "everyone has a *Daigou* friend on his/her WeChat," or "*Daigou* is our generation's best marketing guru."

Rumors of *Daigous* making a minimum of \$100,000 a year and buying houses while still in college flood the Internet, making the *Daigou* profession both a mysterious and highly coveted one in China.

On Sept. 28, however, this all came to a screeching halt.

Within a night, the image of *Daigous* as self-made businessmen was reduced to that of illegal importers.

Chinese luxury consumers have changed

The *Daigou* business flourished in China largely because of strong domestic demand for global luxury products. This demand is quickly changing.

During the seminar, OFashion's CEO Xiao Yu offered his observations on shifting consumer tastes by analyzing the purchase data of its platform's 3 million active buyers. Here are our major takeaways.

1. *Chinese consumers love buying "hits"*

The biggest difference between luxury consumers from China and those from mature markets is that Chinese consumers prefer mainstream "hit" items, while mature market consumers also buy a brand's long-tail (niche) products.

2. *Entry-level luxury sells best*

Out of all the luxury product categories, entry-level items with a price range of 2,000-5,000RMB (\$430-\$730) exhibit the strongest sales performance.

3. Consumer tastes have diversified

While Chinese consumers concentrated their research on highly famous luxury brands in the past, they are now much more receptive to niche brands.

Bestselling product styles have also shifted from traditional classics such as the Salvatore Ferragamo ballet flat to streetwear brands.

Additionally, Chinese consumers are now searching more for domestic brands compared to four years ago, when most searches were about established global brands.

4. The lipstick effect does not quite apply in China

Considered an entry-level luxury product, lipsticks have been selling like hot cakes in the Chinese market recently.

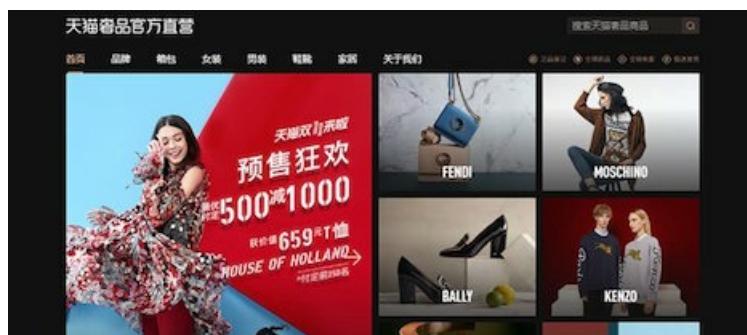
While the "lipstick effect" a global economic theory that postulates the correlation between beauty product sales and economic downturns may hold true in many markets, industry professionals have stressed that it might not necessarily be the case in China.

While China might be in the midst of a lipstick craze, experts have noted that lifestyle brands that are inspiring, soulful and fun can still rise to the top of the market quickly.

How platforms can rise to the challenge

Now with the individual *Daigou* business in danger, it is time for luxury cross-border platforms to shine.

As the live seminar's two speakers noted, inefficiency is still a huge pain point in the cross-border industry. That said, cross-border solutions aiming to improve efficiency would likely to grow fast.



Tmall Luxury Direct page. Image credit: Luxury Society

As the luxury buying business faces tightening controls by regulators, consumers are turning to professional buyers, reliable platforms or buyer's platforms a combination of the former two.

Besides established luxury ecommerce platforms such as Tmall Global, JD's Toplife, Secoo and VIP, platforms that specialize in serving professional buyers are booming, too.

Tmall Global's Luxury Direct has turned buyers into consultants and made fashion-consulting service a selling point.

The platform's "About" page reads, "Our buying team takes orders straight from fashion weeks and selects products from brand official showrooms all across Europe."

OFashion's application "Buyer Box" targets professional buyers and has a CRM system for users to personalize a client's order.



Ofashion's BuyerBox application. Image credit: Luxury Society

THE RISE OF these cross-border buying and selling platforms comes at a welcome time and provides consumers with more choices.

But the degree to which they will be able to overcome logistical issues and eventually gain traction in the market remains to be seen.



Jiaqi Luo

Born and raised in Shenzhen, China, Jiaqi Luo moved to Milan, Italy, in 2017 after studying art history in the United States. She writes about Chinese millennials' luxury consumption and evolving taste. As a member of China's post-1990s generation, she also covers how luxury marketing reflects social changes.

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