

RESEARCH

Key takeaways from McKinsey's Chinese Luxury Consumers 2019 report

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Despite the current economic uncertainty, McKinsey is confident about the pivotal role that Chinese luxury shoppers will continue to play in the global luxury market going forward. Image credit: McKinsey

By [Yiling Pan](#)

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China's luxury spending sees no sign of cooling down in the coming years, McKinsey & Company stated in a new report.

The management consultancy predicted that Chinese shoppers both at home and abroad would spend approximately \$180 billion (1.2 trillion renminbi) on luxury goods by 2025, accounting for 40 percent of the worldwide consumption.

The forecast nearly doubled the country's current spending, which stood at \$115 billion in 2018.

Winner take all?

The global consultancy's report, titled "[How young Chinese consumers are reshaping global luxury](#)," looks at habits and behaviors of the world's most significant luxury consumers.

Despite the current economic uncertainty, McKinsey is confident about the pivotal role that China will continue to play in the global luxury market going forward.

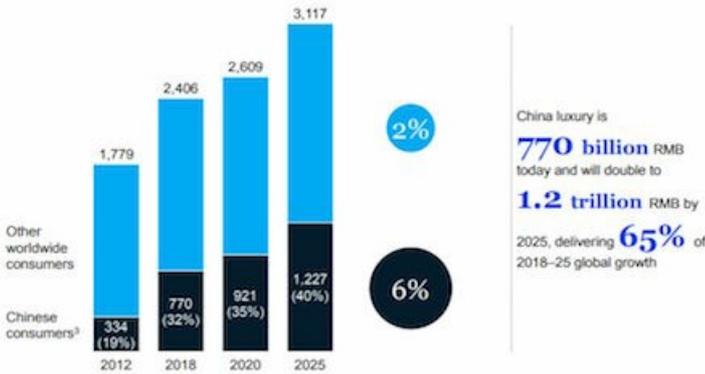
The country's rising [upper-middle-class](#) households, according to the report, is the backbone of the growth, stating that 350 million people in China will earn between \$2,600 and \$3,900 per month per household by 2025.

Exhibit 1

China is winning half of the luxury world.

Global personal luxury goods¹ market evolution
RMB² billion

2020–25 compound
annual growth rate



¹Ready to wear, accessories, watches and jewelry, and beauty.
²Fixed exchange rate of €1 = 7.3 RMB.
³Both domestic and overseas spending.
 SOURCE: China Luxury Report 2019; China Luxury Report 2017

China is winning half of the luxury world. Source: China Luxury Report 2019, 2017

With a slew of luxury brands from LVMH to Kering to Hermès delivering their latest earnings results in recent weeks, there is a growing concern that luxury in China has become a winner-takes-all market.

"You see strong brands getting stronger, and not-so-strong brands getting weaker," said Daniel Zipser, senior partner of McKinsey, as well as one of the major authors of the report.

"[But] I do think there is an opportunity for brands that are not as big and as strong in the China market to turn around and to accelerate their growth," he said. "The reason is that Chinese luxury consumers today are very diverse."

Mr. Zipser highlighted the younger generations millennials and Gen Z the segment that he considered looking for diversity in their choice of brands and having a strong desire for experimentation.

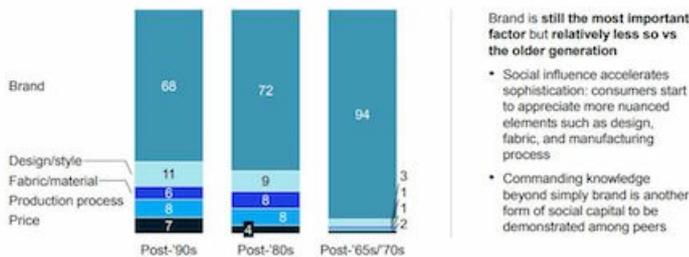
"To young generations, brands are important, but not as important as to the older generations," he said. "Just come with right strategies and engage this segment in digital means, there is an opportunity for brands that are not that strong today to actually change pace and track, and to become a success tomorrow."

Below, *Jing Daily* summarized four major takeaways from the report:

Exhibit 4

Brand is important, but relatively less so among young consumers.

Top reason for last luxury purchase by generation
% of respondents who selected reason as no. 1 contributing factor



Brand is still the most important factor but relatively less so vs the older generation

- Social influence accelerates sophistication: consumers start to appreciate more nuanced elements such as design, fabric, and manufacturing process
- Commanding knowledge beyond simply brand is another form of social capital to be demonstrated among peers

Participants ranked these 5 reasons as a contributing factor for their most recent purchase
 Note: Figures may not sum to 100%, because of rounding.
 SOURCE: China Luxury Report 2019

Brand is important, but relatively less so among consumers. Source: China Luxury Report 2019

Chinese shoppers are both well informed and new

To a certain extent, the McKinsey report challenges the current "sophistication" discourse about Chinese luxury shoppers, pointing out that a large segment of luxury consumers are new to this type of consumerism.

McKinsey's survey indicates 50 percent of the Chinese post-90s generation and over 30 percent of the post-80s respondents only made their first luxury purchase last year.

For the older generations such as the post-65s and the post-70s group, it is true as well. Fewer than 50 percent of them bought their first designer piece less than three years ago, the report said.

"It is not contradictory," Mr. Zipser said. "You do have consumers who are actually sophisticated, who have been to luxury stores and gained information through social media."

"The interesting part," he said, "is it is the first time Chinese consumers reaching the affordability to actually making the purchases of luxury."

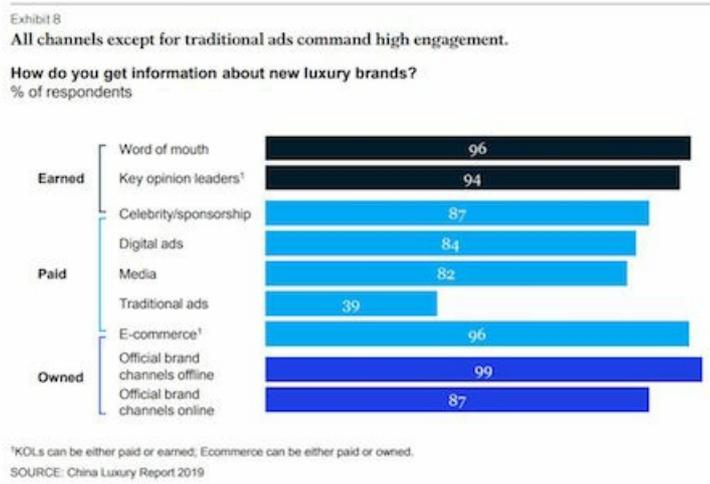
The takeaway for brands, therefore, is "don't try to fool Chinese consumers," Mr. Zipser added.

It is equally important for brands to understand how this finding is going to shape and affect their overarching strategies from product design, retail, to marketing and branding.

Chinese consumers are trend-driven

Chinese consumers' heavy reliance on digital media to receive information on luxury and fashion makes their shopping decisions trend-driven.

"These new luxury consumers are influenced more by what is happening right now, leaving ample room for brands with the right strategy to shape their tastes," McKinsey's report stated.



All channels except for traditional ads command high engagement. Source: China Luxury Report 2019

This explains why "It" bags, shoes and clothes abound in the Chinese market.

A great number of customers, who are not as sophisticated and discerning as their Western counterparts, are hugely influenced by what celebrities, fashion key opinion leaders (KOLs) and brands say and recommend via social media.

An example used by McKinsey to illustrate this point is how Chanel promoted its Gabrielle bag in China.

The brand first hired **Yang Mi**, one of China's top actresses and who represented brands including Estée Lauder, Michael Kors, and Stuart Weitzman to pose for the campaign, which stirred widespread public interest and then collaborated with KOLs such as Mr. Bags to push the campaign message to its targeted audience.

Luxury shopping activities bring social capital

The underlying social nature of luxury shopping is particularly important to Chinese shoppers, the McKinsey report said.

Young Chinese consumers view ownership and affiliation with designer brands as a form of social capital not just something to wear, but a lifestyle choice that marks them as part of a distinct and exclusive community.

McKinsey also noted nearly 70 percent of post-90s consumers who they surveyed said purchasing luxury goods was a way to make them feel distinct from others.

The overwhelmingly social nature of luxury consumption in China also made consumers become more aware and appreciative for **craftsmanship**, the report said.

Younger consumers, in particular, tend to value design, fabric and the production process.

Sales associates = personal stylists to young Chinese shoppers

McKinsey further notes Chinese shoppers' expectation on brands' sales associates edge higher, as they look for personalization and customization from their interaction with luxury brands.

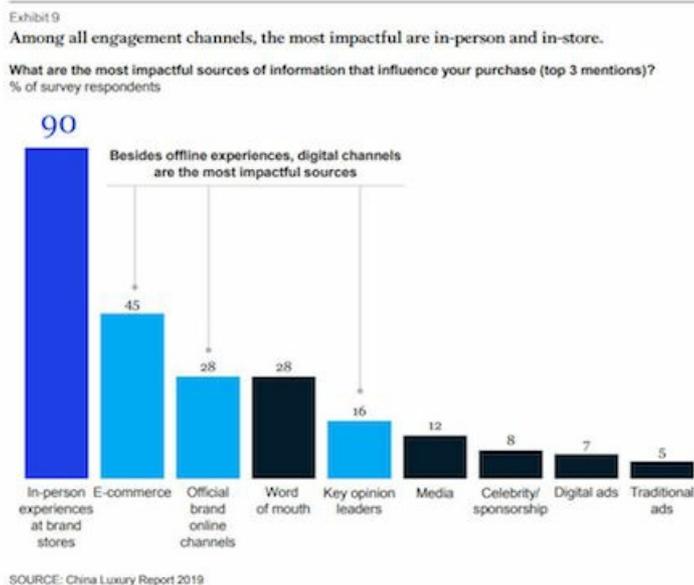
The report states, "In keeping with young Chinese consumers' susceptibility to in-store influence, sales staff play a critical role in providing purchase advice and suggestions, including in the form of WeChat messages."

For about half of post-'80s/'90s consumers that McKinsey surveyed, they believed that the sales staff should provide not only regular updates on product information, but also much more.

This younger generation expects a personalized service approach, from helping pick out accessories based on an intimate knowledge of the customer's personality or their previous purchases or preferences to being able to help them get into fashion shows or parties more as a friend than merely a salesperson.

Additionally, the sales staff is an important pillar in building a seamless, omnichannel shopping experience for consumers, the report says.

Despite digital and ecommerce becoming an indisputable part of luxury brands nowadays, offline shopping settings bricks-and-mortar stores still hold a crucial role in determining customers' shopping decisions.



Among all engagement channels, the most impactful are in-person and in-store. Source: China Luxury Report 2019

OVERALL, CHINESE CONSUMERS bode well for global luxury consumption in the coming years.

Chinese consumers and global luxury brands will continue to shape and reshape each other.

It is also highly likely that the current successful big-name brands such as Herms, Louis Vuitton, Dior and Gucci will continue to stay on top as they do not make any fatal mistakes such as **Dolce & Gabbana** did.

[Please click here to download McKinsey's "China Luxury Report 2019" in its entirety](#)

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