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How to attract entry-level luxury buyers in China

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Luxury brands that make the shift down-market will be highly rewarded. Image credit: Shutterstock

By Adina-Laura Achim

Making a down-market shift might seem like an unexpected transformation for the luxury industry, but it is what today's modern brands are doing. That is because brands that target entry-level luxury buyers will see a boost in revenues and profit margins, stacking the odds in their favor.

Nevertheless, some luxury retailers feel that the rewards are only short-lived and, ultimately, thriving in the mass market can imply reputational risks, overexposure and financial losses.

According to certain luxury executives, heritage brands that move further into off-price retail will suffer because of the affiliation with customers who are often perceived as non-conventional luxury buyers.

Indeed, launching capsule collections aimed at entry-level luxury buyers can antagonize core consumers who will eventually stop signaling their status and privileged identity through that particular brand.

The democratization of luxury has blossomed in an age when consumers seek novelty ahead of extravagance and affinity instead of superiority.

The new consumer wants to belong to a global community, not a restrictive ecosystem, which is why successful luxury brands and digital-first retailers are rewriting the rules of engagement by reaching out to new consumer segments.

This venture has proven to be an effective local strategy in markets such as China and India where entry-level luxury buyers represent a multi-billion market opportunity.

In "Deluxe: How Luxury Lost Its Luster," Dana Thomas argues that brand-name accessories of questionable quality are now being designed for the mass market instead of being crafted for the moneyed, global elite, and this trickle-down effect has reshaped the whole industry.

Today, modern luxury brands understand that "price-conscious shoppers are struggling to reconcile the price of luxury products with their real value, while ecommerce and tourism have exposed major differences in pricing

around the world," according to Claudia D'Arpizio, partner at Bain & Co.

Since crafting products of debatable quality and stamping logos on them is easier than investing in artisans and specialized ateliers, it is not surprising that craftsmanship has been sacrificed on the altar of profit. And, broadly speaking, China is the ideal market in which to implement this technique.

In a McKinsey report titled "China Luxury Report 2019: How young Chinese consumers are reshaping global luxury," the authors argue that China's "affluent upper-middle-class presents an enticing prospect for the world's designer brands."

Furthermore, McKinsey highlights that the bulk of these young consumers "are fresh to market," and they "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."

Given that this consumer base represents a prime opportunity for growth, let us look at some marketing strategies to attract and better sell to them.

Differentiating with finesse

Just because a luxury buyer is not a billionaire or a top executive, but a teenager investing in his first branded accessory, his needs or rising expectations should not be ignored.

It also goes without saying that the pre-purchase experience is as important as the after-care service offered by a luxury brand.

However, there is no unique solution for all cases, and differentiating with finesse is the key to success.

The segregation between different consumer segments starts from the get-go, and smart marketers understand that entry-level luxury buyers will look for product lines that have their own identity and strengths.

Therefore, diffusion lines such as D&G from Dolce & Gabbana or O Oscar from Oscar de la Renta that are crafted from lower-quality fabrics and sold at less expensive prices are doomed to fail.

Cutting corners and presenting cheap knockoffs of outdated designs does not work anymore.

Young Chinese consumers are product-knowledgeable and understand the unique characteristics of a luxury brand. Hence, they demand transparency and innovation.

In conclusion, retailers operating in China have to become authentic and genuine voices that communicate the company's ideology, strengths and core values without engaging in artificial practices.

Specifically, brands such as Louis Vuitton, Gucci, Burberry and Valentino have all reshaped the marketing dynamics by engaging Chinese users at every touch point. Their marketing campaigns express novelty, transparency and uniquely personal experiences.

The power of first impressions

In Blink: The Power of Thinking Without Thinking, Malcolm Gladwell says, "buyers make most decisions by relying on their two-second first impressions based on stored memories, images and feelings."

Indeed, appearances matter. And they do even more in the digital age when managing reputation management is becoming even trickier.

Various online scandals and boycotts shaped 2019, proving that Chinese consumers no longer tolerate missteps, stereotyping and controversies.

Chinese buyers have thrown various luxury brands in veritable existential crisis (e.g. Versace) while others (e.g. Dolce & Gabbana) have yet to be "resurrected."

Accessibility kills the brand

"Make your product accessible," is such an overused buzz phrase. And it does not go well with luxury consumption, nor an industry that thrives on scarcity and confinement.

Instead of making products more accessible, retailers should go to extremes to become more restrictive and exclusive.

In fact, limited-edition designer collaborations and capsule collections are having their most glorious moment.

The Louis Vuitton and Supreme collaboration sold out immediately in stores around the world.

On the other end of the spectrum, luxury-mass collaborations are booming in the country.

The Uniqlo x KAWS collection and the H&M x Moschino collaboration (2018) created hysteria among young Chinese consumers.

Usually, such limited-edition capsule collections are retailed at higher prices and bring in better margins for brands.

Since there is an increased desire for these products, it is worth noting that brands can justify the pricing strategy for limited edition collections.

Sensory branding
Seducing the consumer through elaborate sensory experiences is highly profitable.

On a general note, entry-level luxury buyers are younger and less experienced, hence, they relate to brands on an emotional level.

While experienced luxury buyers make more deliberate decisions, younger consumers have a more visceral and subconscious response to brands and marketing.

Therefore, buyers new to luxury can be engaged with sensory-led branding.

For instance, Nike has found that adding scents to its retail stores, "increased intent to purchase by 80 percent," while a different study shows that the smell of fresh-brewed coffee at a gas station increased coffee sales by 300 percent.

ALL IN ALL, in 2020 we expect to see a greater number of luxury players rethinking their expansion strategy and incorporating the midsize segment into their global tactics.

A perfect example in this direction is the automotive industry, where European brands such as Mercedes Benz, Audi and BMW have been competing for years against each other in the luxury segment just to recalibrate their efforts and start investing in the midsize segment.

Unsurprisingly, China as the largest automotive industry in the world measured by automobile production, has become the principal focus of European automobile manufacturers.

On the whole, luxury brands that make the shift down-market will be highly rewarded. Especially in a time when they can move with growing ease as possible competition is still relatively low.

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