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Why China will become the driving force of luxury

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Since China's population and its projected economic growth will outpace the United States and Europe's, its increase in global luxury consumption seems inevitable. Image credit: Balenciaga, Haitong Zheng

By [Daniel Langer](#)

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The European Union and the United States have a combined population of around 780 million with an aging demographic. China is home to a much younger 1.4 billion consumers and has a higher annual population growth than the U.S. and Europe combined.

While the average income per capita in China is still significantly lower than in the U.S. or Europe, it is catching up fast, and more than 100 million new Chinese luxury consumers will enter the market over the next decade.

Several luxury market analysts are estimating that the percentage of Chinese consumers making global luxury purchases will jump from 40 to 50 percent over the next 10 years. And since China's population numbers and its projected economic growth will outpace both the U.S. and Europe's, the country's increase in global luxury consumption seems inevitable.

But today, it is not clear where these consumers will buy their luxury.

Traditionally, a significant amount of Chinese luxury purchases have been made outside of China. Consumers have valid reasons for this: A **Gucci** bag bought in a Gucci store in Italy may seem more authentic than one purchased in Shanghai, while buying a **Herms** belt in Paris carries a different memory than shopping for one in Beijing.

Luxury goods are typically cheaper outside of China due to a combination of exchange rates and taxes, which entices Chinese citizens to combine a memorable vacation with a luxury shopping spree that saves them significant money.

If these effects stay in place, the desire to purchase luxury goods outside of China should return once travel resumes.

However, many Chinese consumers have begun to buy domestically over the past few months because of significant travel disruptions.

New terms started popping up around March, such as "revenge spending," which describes a consumer's desire to boost their mood by splurging on luxury goods post-lockdown.

Some of these luxury buying behavioral changes are expected to remain since habits form over time, and there is no end in sight to the world's travel restrictions.

Meanwhile, fears about buying counterfeit items inside China have decreased, which was another good reason for Chinese consumers to buy luxury outside of their country.

Global luxury brands are now on the clock, but too many of them have yet to find success in China because they have posted poor sales performances, wasted cash, and could not connect with Chinese customers. Many are lost when trying to plan for success in China, particularly smaller brands.

It is a recipe for disaster that starts when brands underestimate the sophistication of Chinese consumers at all entry points.

Too many managers still think of China as an emerging economy with consumers who are desperate to snag any Western brand they can find. But the reality is much different.

If a company fails to tell its brand story to Chinese consumers in a relevant way, consumers will not care, they will not pay attention, and they definitely will not buy.

China currently has the youngest, most digitally savvy and most discerning luxury market in the world.

Since the country's consumers trust key opinion leaders (KOLs) more than brands, they will follow their advice.

So if their KOLs are not promoting a brand, China's consumers will not even notice it. Social shopping is not just one reality there it is the only reality.

Maneuvering a Western brand through this foreign social media and shopping environment is challenging, to say the least.

Most Western brands fail at it sooner or later, but in a market that will soon make up over half of all global luxury purchases, failing is no longer an option.

When it comes to China, luxury brands need to think more holistically by seamlessly combining their strategy, positioning and story across all digital and physical brand experiences and through the most relevant products.

Too many companies are still ignoring local preferences, customs, materials and shopping traditions.

I will never forget the CEO of a European beauty brand who asked his Chinese team why they could not celebrate New Year's at the same time as everyone else. Cultural sensitivity is crucial, especially in China, and it must inform all aspects of the brand.

Chinese consumers are sure to change the luxury market forever. But the recent emergence of Chinese luxury brands across many categories, from cars to wine, will put even more pressure on Western brands. Those that are not China-ready will be forced out even faster than before.

Before COVID-19, many luxury brands remained skeptical about needing to transform digitally.

Now, amid the pandemic, many of these brands have had to let staff go and close their doors, sometimes forever. Do not let your brand's China unpreparedness be the reason it disappears.

The writing is on the wall: To win over Chinese customers, a brand has to go all in.

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