

MARKETING

## The challenge of Chinese lower-tier cities for luxury brands

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*Compared to their higher-tier city counterparts, luxury consumers in lower-tier cities are interested less in bling and more in longevity and reliability. Image credit: Shutterstock*

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The Bain & Altagamma **November 2020 report** paints a bleak picture. One where the global luxury industry may contract by one-fifth in 2020 due to the ongoing COVID-19 crisis, and another where it may take up to three years to recover to pre-COVID-19 levels.

However, it also reports that Chinese consumers will account for almost half of global spending on luxury goods by 2025. Needless to say, getting to know the Chinese consumer is vital for any luxury brand's success.

On the whole, most global luxury brands market their products in large emerging markets such as China with a homogenous strategy that assumes consumers are the same across the country. This is a mistake.

**Chinese consumers** living in higher- and lower-tier cities differ significantly in their luxury consumption motivations and buying preferences.

Here are some insights into the differences between the two and what luxury brands should be focused on when marketing to lower-tier city **consumers**.

The growth of luxury in lower-tier cities

Lower-tier cities in China that you may or may not have heard of such as Fuzhou, Hefei and Weifang, among others, are now considered new growth engines for luxury brands, but the majority of consumer research largely focuses on Tier-1 cities such as **Shanghai, Beijing** and Guangzhou.

For example, a report by **Luxe Digital** shows that 45 percent of Chinese consumers in lower-tier cities were interested in purchasing luxury goods, versus 37 percent in Tier-1 cities. It is also projected that more than 500 new **shopping malls** will be built in lower-tier cities in **China by 2025**.

Many people, however, assume that consumers in these markets are collectivist and so will follow the popular trends. But research shows that such assumptions do not operationalize similarly across the higher- and lower-tier cities of China.

The differences in uniqueness motivation among higher- and lower-tier cities

Due to high brand recognition, luxury goods are used by Chinese consumers to affirm distinctiveness, express individual characteristics and as social credit.

Driven by such snob motivation, these consumers continuously notice the behavior of significant others.

If significant others are involved in similar consumption, consumers driven by this motivation will shun such goods and search for other unique alternatives as negative network externalities take effect.

These individuals want to disassociate themselves from the masses and establish a different self-image and social image to demonstrate their uniqueness.

These negative network effects significantly influence Chinese Tier-1 city-based consumers in their purchase intentions for **luxury goods**. However, they do not influence Chinese lower-tier consumers nearly as much.

The differences can be attributed to the need to distinguish oneself among significant others, based on the economic and cultural developments in recent decades across China.

Since the 1980s, Tier-1 cities have been steadily involved in global trade, and with unequal and rapidly increasing economic development. Consumers in Tier-1 cities have a greater urge to differentiate themselves from others.

Meanwhile, consumers in lower-tier cities have only recently been exposed to global trends, their lives having largely been driven by socialist and egalitarian cultural doctrine the network effects are comparatively weak to their Tier-1 city counterparts.

Further, research shows a greater preference for functional products among rural Chinese consumers with no identification of favorite products or history-sharing products with personal and social meanings.

Thus, due to the cultural and economic disparities that underpin intra-country differences, using the same strategy for higher- and lower-tier cities may backfire for **luxury brands**.

The differences in popularity motivation among higher- and lower-tier cities

It is assumed that the more popular a product is, the more Chinese people will buy it. However, this kind of bandwagon effect may only work with the growing materialism and vanity among young Chinese consumers in Tier-1 cities.

Coupled with the collectivist nature of society this may direct consumer preference towards luxury products that are highly admired and approved by their significant others.

However, for consumers in lower-tier cities, there appears to be a significant preference towards a more subtle functionality in their luxury purchases.

Consumers in lower-tier cities are interested in luxury goods that clearly demonstrate a quality of material and craftsmanship and product performance aspects such as longevity and reliability.

Thus, a popularity-driven strategy alone that does not consider functionality aspect will falter in lower-tier cities.

A common thread

What ties these markets together? Mainly it is the conspicuous aspects of luxury symbolism that are influential across Chinese higher- and lower-tier cities, demonstrating that luxury brands can be a signal of wealth and achievement and could help achieve status among significant others is a powerful driver across the entire Chinese market.

Given this, companies need to evolve with their marketing strategies in these large **emerging markets** of luxury.

A one-size-fits-all approach will not work in China.

For instance, an exclusivity-focused strategy may work in Chinese top-tier markets, but it is bound to fail in lower-tier markets. In these markets, companies will have to focus more on functionality of the product as a major differentiator.

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