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China's luxury market remains resilient, domestic spending expected to grow

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Gen Z shoppers gather information differently than others, with the top sources being entirely online. Image credit: Bain & Company

By NORA HOWE

Thriving despite the effects of the COVID-19 pandemic, the global luxury market in China has nearly doubled this year and is expected to continue growing through 2025.

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Due to early lockdowns and restrictions to global travel, Chinese consumers were pushed to spend on domestic luxury contributing to the country's impressive rebound, according to a joint research report by [Bain & Company](#) and [Tmall Luxury Division](#). While the global luxury market decreased by 23 percent this year, mainland China's increased from 11 percent last year to 20 percent in 2020 due to four main engines of growth: repatriation, millennials and Gen Z, digitalization and Hainan Island.

"One of the most exciting trends to come out of the luxury market in 2020 has been the ways that brands have actively developed and strengthened their connections to consumers both online and offline," said Chris Tung, chief marketing officer of [Alibaba Group](#), in a statement. "Chinese luxury consumers are digitally native, highly sophisticated and expect an elevated shopping experience.

"Global luxury brands have embraced new digital tools such as livestreaming for consumer education or product presentation."

Engines of growth

China's luxury market has been seeing an increase in repatriation since 2015, due to a reduction in import duties, stricter controls over gray markets and brands' price harmonization. With the addition of pandemic-related travel restrictions, mainland China's portion of global luxury purchases reached a peak of nearly 75 percent this year.

There were variations in growth across categories, with leather goods and jewelry leading the way at a rate of about 70 percent to 80 percent, ready-to-wear clothing and shoes growing about 40 percent to 50 percent and high-end watch purchases increasing by about 20 percent.



Regardless of the potential for short-term changes, the momentum of China's luxury goods market is poised to continue. Image credit: Bain & Company

Millennial and Gen Z consumers are fueling growth in the luxury sector and continue to exert powerful influence over brands' increased digitization. These groups of young consumers contribute significantly to the growth of China's luxury market.

Of the 757 million annual active consumers who shop on Alibaba retail marketplaces, the majority are millennials and Gen Z.

Though young, Gen Z is comprised of savvy consumers of luxury who make their first luxury purchases at age 20, place greater emphasis on the "pursuit of fashion" as a reason for purchasing luxury goods and show less preference for the "classics" and a greater preference for designer editions and cross-brand collaborations.

Tmall data shows that Gen Z's purchase of luxury collaborations and limited editions grew 300 to 400 percent between January and October.

Although Gen Z is quickly on the rise, millennials continue to form the core of a rapidly expanding online luxury consumer base, representing more than 70 percent of Tmall's luxury fashion and lifestyle market.

In terms of ecommerce, China's annual luxury online penetration increased from about 13 percent in 2019 to 23 percent in 2020, as the pandemic drove up online luxury sales by about 150 percent. The luxury fashion and lifestyle category, which started from a small base, has grown by more than 100 percent in the first 10 months of 2020, and online penetration will increase from about 5 percent in 2019 to about 7 percent in 2020.



The luxury goods market in mainland China will likely achieve 48% growth in 2020, reaching nearly RMB 346 billion. Image credit: Bain & Company

Driven by COVID-19 travel restrictions, Hainan's duty-free sales surged 98 percent in the first 10 months of 2020. Total sales reached 21 billion Chinese yuan, or \$3.2 billion at the current exchange rate.

Luxury brands view Hainan as an opportunity not only because it offers a short-term alternative to duty-free shopping in traditional destinations like Hong Kong and South Korea, but also because it is part of the government's plan to keep Chinese consumption in mainland China. However, they have reservations about Hainan's highly commercial and transactional shopping environment, which leaves consumers queuing for hours outside stores.

They hope that new premium shopping malls will be developed over the next few years, in time to be ready when the whole island becomes duty-free.

Looking to the future, Bain and Tmall anticipate a number of trends: brands will spend the next year trying to convince consumers to shop domestically; Gen Z and millennial consumers will continue spending on luxury; consumers will increase their share of online luxury shopping; the Hainan duty-free shopping model will contribute to repatriation and the development of a domestic duty-free channel.

Recovery and growth

Nearly a year after the COVID-19 outbreak began in China, the world's largest luxury market continues to recover and experience substantial growth.

During a Luxury Consumer Outlook 2021 webinar hosted by [Agility Research & Strategy](#), managing director Amrita Banta shared what the luxury sector can expect from high-net-worth individuals across Asia. While international travel remains restricted, those budgets have been diverted to luxury goods purchases, particularly in beauty, jewelry, automotive and consumer technology.

Markets in Asia including Korea, Taiwan and Japan are doing well due to managing spread of the coronavirus and having large domestic markets for luxury goods.

Well-known iconic and trusted luxury brands saw the quickest recoveries, according to Ms. Banta and some brands even appear to be facing shortages because goods are selling out faster than pre-pandemic ([see story](#)).

Additionally, lower-tier cities in China 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. According to a report by [Luxe Digital](#), 45 percent of Chinese consumers in lower-tier cities were interested in purchasing luxury goods, versus 37 percent in Tier-1 cities.

The report also projected that more than 500 new shopping malls will be built in these cities in China by 2025 ([see story](#)).

While physical retail remains valuable, digitalization is the key to reaching Chinese affluents.

"Luxury brands view ecommerce not just as a sales channel but increasingly and more importantly as a marketing channelone that can raise consumer awareness, enhance brand equity and recruit new consumers," said Luna Wang, head of Tmall Luxury Division, Alibaba Group, in a statement. "Brands have a range of online tools to tell

their story and delight luxury consumers including product customization, limited-edition products, consumer insights, livestreams, and the connection of online and offline marketing."

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