

MARKETING

WeChat Luxury Index 2021: From social to commerce

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The overall growth rate of luxury brands' WeChat communities in China rose by 44 percent in 2020, up from 2019's 37 percent, per a new report released by DLG (Digital Luxury Group) and JINGdigital. Image credit: Yusuke Hinata

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With the global luxury market clouded in uncertainty, many luxury brands chose to look East in 2020.

As the only luxury market in the world functioning at a semi-normal capacity, international brands naturally began to step up their investments in China last year. This, coupled with the ongoing growth and evolution of the Chinese digital landscape, created a robust environment for brands' online activities in the market to thrive.

A report by Bain estimates that **China's online luxury penetration in 2020 is expected to grow by 153 percent compared to the previous years**, accounting for 23 percent of total consumption.

It is worth noting that unlike in Western markets, Chinese consumers are purchasing luxury goods not only on brand-owned Web sites and third-party marketplaces such as Tmall and JD.com, but also social channels including WeChat, Douyin and Weibo that have rolled out their own ecommerce offerings as well.

Social platforms are rapidly evolving and develop more functions that span even more touch points along the consumer journey, causing the digital ecosystem in China to become increasingly fragmented.

While WeChat remains the most ubiquitous digital platform, user behavior on the platform are starting to change and brands are finding it increasingly challenging to engage their communities.

The latest 2021 WeChat Luxury Index report by DLG (Digital Luxury Group) and JINGdigital delves into these issues based on an in-depth study of the WeChat Official Accounts of 33 luxury brands from January to December 2020.

Still growing

According to the report, the overall growth rate of luxury brands' WeChat communities rose by 44 percent in 2020, up from 2019's 37 percent. This rise likely stems from the influx of brands ramping up their investments in the Chinese market, as well as on local digital platforms.

While an increase in media investment has been observed, growth was largely fueled organically much like in 2019

highlighting the continued importance of such channels. This indicates that brands should pay more attention to these channels, instead of banking too much on paid advertising.

Of these organic channels, QR codes and search remain the two most pivotal in terms of recruitment, accounting for 63.18 per cent of the total growth. The third-most significant channel was WeChat Ads, which brought in 15.07 per cent of new followers acquired.

However, it should be noted that followers recruited through paid channels typically demonstrate the lowest retention rate.

The unfollow rate of those recruited through WeChat Ads was at 32.07 percent in 2020, meaning that one in three newly-recruited fans went on to unfollow the brand account. This significantly impacts the returns of investment for brands on this channel, and is something to be taken into consideration.

"It is important for brands to develop stronger recruitment strategies around their organic channels," said Mario Juarez, SCRM and data strategist at DLG (Digital Luxury Group).

Mr. Juarez said that while search is directly linked to brand equity and harder to impact, QR codes are something that brands can easily leverage.

"Beyond adding recruitment QR codes at the end of articles or in offline stores, brands should think about utilizing it in other creative scenarios such as in campaigns or surveys, and developing user journeys that will guide customers in discovering the brand," Mr. Juarez said.

WeChat as an information center

WeChat may be a top instant messaging tool with more than 1.225 billion monthly active users, but the bulk of user interactions on brand Official Accounts 73-plus percent are centered on menu clicks. This is something that has remained fairly consistent from year to year.

Also, this suggests that users tend to only interact with brands when they have a query or are searching for specific types of information. In contrast, post interactions only make up about 10 percent of all user actions.

So while engagement rates within articles have decreased slightly from 10.89 percent in 2019 to 9.56 percent this year, this is not something that brands should be overly concerned with as the bulk of user interactions with the brands do not take place on this front.

"This is also why brands need to be less caught up with traditional social media engagement metrics and evaluating their success on WeChat based on the comments, shares or WOWs they get in articles," said Pablo Mauron, partner and managing director for China at DLG (Digital Luxury Group).

"Content is essential, but it is a smaller part of how consumers are interacting with brands on the platform," he said.

"Brands should also work on developing their service offering, such as social CRM programs where there is clearly still a lot of room for growth customer service chat options and e-commerce."

Leveraging social commerce

The total gross merchandise value (GMV) generated by **WeChat Mini Programs grew by more than 100 percent year-over-year in 2020**, and is estimated to surpass 1.6 trillion RMB in 2020, rivalling JD.com and Pinduoduo.

However, unlike major marketplaces such as Tmall, the way that brands operate their ecommerce on WeChat must take into account WeChat's primary social function.

As a result, brands do not always follow the model of traditional ecommerce sites or their official sites when building up their ecommerce Mini Program storefronts.

While some brands do present their complete product ranges on WeChat, others choose to launch pop-up stores, available for a limited time in tandem with brand campaigns and important marketing milestones (e.g., Chinese Valentine's Day, Lunar New Year).

There are, of course, many creative ways to go about this Danish jeweler Pandora's gifting Mini Program for Chinese Valentine's Day last year demonstrated just that.

During the campaign period, Pandora users were able to purchase gifts for their loved ones and customize gift messages accordingly.

In addition, to simplify the gifting process, Pandora consumers could also share a link with the recipient through the Mini Program and have him or her fill in details such as the delivery address, and size required without revealing details about the gift.

The commerce opportunity on WeChat is significant, now even more so given the broadening of traffic options to Mini Programs.

Weibo and RED now allow traffic redirection from their platforms to WeChat Mini Programs.

Another new function that brands can leverage is sending SMS messages containing Mini Program links to redirect customers to WeChat.

"By embedding Mini Program links in SMS messages, brands can further enrich their consumer marketing efforts and drive an additional layer of traffic to their WeChat Official Accounts," said Kai Hong, CEO of JINGdigital.

"Through this, they will also be able to better nurture and activate prospects, directing them seamlessly to purchase as well," he said.

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