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Does luxury need Daigous post-pandemic?

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China's \$52 billion Daigou market has been hurt by COVID-19. But with new opportunities presenting themselves, can the industry create a brighter future? Image credit: Shutterstock

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Every Chinese netizen has at least one **Daigou** in their WeChat contacts. These personal shoppers offer easy access to a wide range of overseas products, from snacks to luxury handbags, whether you travel or not.

By circumventing taxes, Daigous open up a world of cross-border shopping and often offer a more enticing price point on luxury goods such as Rolex watches, Gucci shoes and Chanel handbags.

This grey market has grown exponentially in recent years and, in **2019**, it was worth an estimated \$52 billion. Yet, brands have been skeptical about collaborating with Daigous, since they have less control over their image, retail price points and counterfeits.

Before COVID-19, in-store domestic purchases only accounted for **32 percent** of total Chinese luxury expenditure.

As such, most brands relied on international tourism and overseas buyers, which gave the Daigou business an advantage.

However, the pandemic has considerably slowed down this overseas shopping business due to travel **restrictions**, shipping delays, and lower consumer confidence.

Post-pandemic, domestic spending has reached around 75 percent of China's total spending, and some top-tier brands even experienced **double or triple-digit growth** on the mainland.

This market shift was primarily due to a price harmonization from high-end brands for several reasons, chiefly lower import duties on luxury goods and consumer spending repatriation built on stricter control of the grey market, beginning in **2018**.

Consequently, Daigou market shares have drastically declined as more citizens started shopping in stores. One Florence, Italy-based Daigou, XiaoQi, told *Jing Daily*: "My business saw a decrease in mainland China customers since the pandemic began. With deliveries delayed, local customers were unsatisfied about waiting more than half a month to receive goods."

Therefore, post-pandemic consumer spending habits shifted, with many buying luxury as a **self-reward** and less as gifts.

Meanwhile, many retail tactics, including **in-store experiences**, became an essential part of the purchasing process, such as VIP receptions, VIC [very-important customer] birthday celebrations in boutiques, exclusive collection previews and pop-up store events. These events and additional competition from direct luxury channels further weakened the allure of personal shoppers.

Nonetheless, *Jing Daily* has analyzed the competitive advantages Daigous do have in this aggressive, post-pandemic landscape.

Despite the current landscape, Daigous still offer advantages

Interestingly, the current scenario can present several advantages for direct retailers to make Daigous important vehicles for luxury brands.

Overseas shoppers hold longstanding and unique relationships with high-spending power consumers and have continued to give them work despite the challenges from COVID-19.

XiaoQi, who has been working as a Daigou for three years, explains the benefits of the industry.

"Firstly, the merchandise allocated to China is less than European and US markets," Mr. XiaoQi said. "As an example, the demand in China for iconic Herms bags is very high. But the supply in local stores is limited."

As such, many consumers cannot find their desired products at their local boutiques.

"Second, we often receive first notice when products arrive in-store and have pre-access to them," Mr. XiaoQi said.

Therefore, some sales associates rely on Daigous to enhance their sales performance, so they grant them VIP discounts and access to exclusive collections. And, given their expertise, Daigous can easily spot the products selling well and tailor new offers to their clients.

And finally, the **demand for luxury in lower-tier cities** is quickly rising, too, yet heritage brands' reach is often limited to more developed regions.

Thus, Daigous have perfectly filled the gap by offering local shoppers international luxury products at home.

Indeed, the convenience of overseas agents strongly appeals to **first-time purchasers** who desperately need those services.

As domestic shopping increases, Daigous services have pivoted

With borders closed and international travel banned, Daigous are facing challenges retaining their usefulness to local customers.

However, duty-free shopping offers a bright spot for surrogate shoppers. Now, instead of traveling abroad for fashion tourism, they travel domestically.

By offering 10 percent to 25 percent lower prices on fashion and lifestyle goods than the mainland, destinations such as **Hainan** have enabled these professionals to keep operating. And in the luxury beauty sector, this price difference jumped to 40 percent.

In 2020, the island's total sales of duty-free goods reached **\$4.26 billion**. Data from **South Korean** tax-free retailers indicates that Chinese Daigous may have accounted for over half of those sales.



Chinese consumers enjoy duty-free shopping at the airport in Sanya, Hainan's southernmost city. Image courtesy of China Duty Free Group

Aside from exclusive items, the lure of a bargain is always high on citizens' shopping lists.

"Discounts remain a great attraction for most of our clients," Mr. XiaoQi said. And as more cities are expected to be included in the **duty-free** zone, according to China's 14th Five-Year Plan, we should expect more growth in this sector and more people choosing personal shopping services.

Services desired by Gen Z and millennial collectors

Scarcity in the market excites many young fashion collectors, and this generation has shown a greater inclination for designer editions and cross-brand collaborations.

According to **Bain & Co.**'s 2020 report, limited-edition products account for at least one-third of Daigou consumption today. In this niche, the margins are far more lucrative.

Clients are often willing to pay double or even triple the price to acquire exclusive products from Daigous, who have the channels to access this exclusive inventory.

Mr. XiaoQi confirms that the price is less relevant when it comes to limited-edition or sold-out products. "For example, we can sell Supreme, ASSC, or exclusive collaboration pieces at higher prices than retail."

AJ x Dior sneakers, Bottega Veneta boots and Fear of God sweaters are among some of the most desired items. But with **Tmall**'s 2020 data showing a 400 percent increase in purchases via Gen Zers, hard-to-buy luxury products atop Gen Z and millennial wishlists could be a key growth segment for Daigous.

Satisfying the needs of top-tier, ultra-luxury consumers

The waitlist for Hermès is long and can often stretch up to six years for a Birkin or a Kelly. And if you do not have transaction records with the brand, many sales associates will not even put you on the list.

Therefore, if you want to cut the line, the next best thing is to buy it second-hand or through an overseas shopper.

By accumulating many transactions after shopping for others, Daigous often hold VVIC status [very, very important customers]. As such, they have priority access to new products upon arrival and can skip any waiting list. They may not have discounts, but these ultra-luxury customers are less worried about paying extra fees, as the prices of these bags on second-hand platforms are often double or triple the retail price.

Whether they are needed for price convenience or hard-to-buy pieces, Daigous have built an extended network of customers and are especially good at tapping into lower-tier city markets.

There are many areas where Daigou can pivot toward in the future: More will be using online channels such as livestreaming, and some may come up with **KOC** collaborations.

While luxury and Daigous have a checkered history together, as many brands fear these shoppers, the two sectors could easily collaborate.

Overseas shoppers often prolong retail journeys through their relationships with a community of influencers. In fact, a closer collaboration between the two may help luxury gain more control over its **\$52 billion** grey market.

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