Luxury Daily®
The News and Intelligence You Need on Luxury

RETAIL

Luxury brands: Do not worry about China worry about your game

October 26, 2021

The middle class in China is expected to double by 2040, adding a significant amount of luxury customers to the market. Image credit: Louis Vuitton

By Daniel Langer

Reading the recent headlines from China, which include a crackdown on celebrities and fan culture, a recent KOL backlash surrounding Rolls-Royce, an activist boycott of the Beijing Winter Olympics and the country's GDP slowdown over the past quarter, I can see why the future of its meteoric luxury market growth might look shaky.

In fact, some commentators have stated that luxury brands should brace for the worst.

I always recommend separating the market's noise from its direction.

While some headwinds are real and may impact the development of certain luxury brands over the short term, the long-term prospects of China remain intact.

It is worth remembering that, over the last decade, there have been numerous occasions when the Chinese luxury market got written off only to emerge stronger than ever.

So, to assuage fears, let us take a closer look at the country's long-term opportunities.

First, there is urbanization. China now has 16 cities with more than 10 million inhabitants each. In contrast, the United States has zero with New York reaching 8.8 million while Europe has three and India six.

Shockingly, some of these Chinese megacities hold economic power comparable to entire countries. Shanghai, for example, has the same GDP as Belgium, and Guangzhou's economic output rivals Denmark.

These megacities grew, urbanized and developed faster over the past 20 years than in any other area in the world.

Meanwhile, if we look at the number of skyscrapers, China leads the world in absolute numbers and new developments, with 56 projects completed in 2020 versus only 10 in the U.S. This unprecedented dynamic is going to fuel economic growth for years, if not decades, to come.

But it is not just the sheer size and dynamics of China's cities that are remarkable, but also its rapid increase of quality of life.

Out of the 100 most livable cities in *The Economist's* recent ranking, 10 are in China, including Suzhou, Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin. That points to a remarkable development over the past two decades not just in population growth but also in quality-of-life growth. These factors often get underestimated when judging the prospects of luxury markets.

With household incomes between $15,000 and $75,000, the middle class in China is expected to double by 2040, adding a significant amount of luxury customers to the market. Many analysts just look at the current market size when considering short-term development, but omit future and more fundamental market growth prospects.

Once travel and quarantine restrictions ease, we can expect many Chinese to travel abroad again and spend money on luxury brands in South Korea, France, Italy or the U.S., to name a few popular destinations.

However, the stellar growth of Hainan, with its huge duty-free exemptions, will negate some of this lost luxury revenue, and we can expect other developing duty-free regions to fuel China's local luxury growth prospects.

And with the growing importance of Chinese Gen Z customers, luxury should get a further push over the next decade, as this is the wealthiest, most optimistic and the most consumption-oriented generation to ever enter the market.

Chinese Gen Zers never experienced a crisis and are much more willing to spend than previous generations. However and this should worry incumbent luxury brands more Gen Zers have a different set of expectations.

First, they love technology, so luxury brands will have to come up with more technologically-based solutions.

Louis Vuitton's recent entrance into the earphone, smartwatch and loudspeaker markets should stand as the first indicator of this shift in expectations.

Tesla's success has widely come from Gen Zers and young millennials, who want a "tech" car rather than a traditional car and it has completely changed the dynamics of the premium car market. And Volonic's recent launch into the luxury tech space, which Robb Report characterized as a "new wireless charging station that costs as much as your smartphone and it may be worth it," is yet another indicator that the luxury landscape is leaning strongly towards tech.

Second, they are much more open to domestic luxury brands, independent of the category.

Even in cars, the success of Nio shows that Chinese premium and luxury brands are not just a far-away possibility anymore they are a reality. Hence, competition in luxury will heat up dramatically, and Chinese luxury brands will gain enormous traction by 2030. I would not be surprised if two of the top 10 luxury brands in 2030 are Chinese and maybe half by 2040.

Third, the dynamics in the development of Chinese social media platforms are unprecedented.

Most Western brands have struggled to keep up with China's speed of change. Therefore, they risk falling behind the few brands leading in this space.

With China owning an almost 50 percent ecommerce share and now that most purchase decisions up to 95 percent moving online today, falling behind can risk a company's future.

Meanwhile, even seemingly simple tasks, such as choosing the correct key opinion leader, can mess up a brand reputation, as the recent Rolls-Royce example underlines.

So what can we conclude from all this?

I would say that luxury brands should worry less about China's long-term market prospects and more about creating relevant market propositions for Chinese consumers. And that means addressing brand fundamentals, strategies, portfolios and pricing. And for digital, their mindsets must shift from playing the game for the sake of it to playing to win.

Now is no time for complacency. Winners will not be determined by short-term market noise, but by decisive action. In other words: Do not worry about China worry about your game.

Daniel Langer is CEO of luxury, lifestyle and consumer brand strategy firm quit, and the professor of luxury strategy and extreme value creation at Pepperdine University in Malibu, California. He consults some of the leading luxury *brands in the world, is the author of several luxury management books, a global keynote speaker, and holds luxury master classes in Europe, United States and Asia. Follow @drlanger*

Published with permission from Jing Daily. Adapted for clarity and style.