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## Is luxury rental a boom or bust economy in China?

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*The rise of the sharing economy for rented fashion is a recent phenomenon with significant market potential. But how can brands approach this trend? Image credit: The Lauren Look*

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Do you want access to a designer handbag? That is not a problem. Chinese consumers can rent selected luxury labels from online rental platforms for a fraction of their retail prices.

The rise of the sharing economy for rented fashion is a recent phenomenon in China, and its market potential is significant. In fact, according to Bain & Company, rentals could account for **10 percent of luxury brand revenues** by 2030.

Presently, the United States remains a leading market for rental fashion. Rent the Runway, founded in 2009, recently debuted on the NASDAQ stock market with a \$1.4 billion valuation. However, China is catching up, and a growing number of startups are competing for leverage in this market opportunity.

For example, MS Paris, founded in 2015, uses the catchy slogan "Own Less. Live More" to promote its service. It is a niche player, but it continues to develop a market presence and is increasingly gaining traction with younger consumers, who have reassessed their consumption patterns.

But will luxury rental really become a game-changer in China? *Jing Daily* has outlined five reasons why the luxury industry needs to get serious about a generation that prefers renting to owning its luxury.

Sharing is the new normal

The sharing economy has been firmly established in China, as data released by the State Information Center reported proved its transaction volume in 2020 was up to an astonishing \$528 billion (3.38 trillion yuan).

Consumers are already familiar with an array of daily sharing services that also offer the option of a luxury upgrade.

For example, DiDi Luxe provides a luxury chauffeur service. And unlike those in many other countries, China's consumers tend to embrace new sharing experiences within the luxury domain, including apparel, handbags, watches, and jewelry.

"Used" is the new "new"

A cultural shift in the perception of "used" luxury with Chinese consumers has created new market spaces, notably in the adoption of **resale luxury**. The resale market in China may still be in its infancy, but the growing success of resale platforms has ensured credibility for rental and subscription models.

Moreover, there are signs that Chinese consumers are becoming more appreciative of used luxury. Kering's repair hub in Shanghai will recondition 25,000 items in 2021, a 25 percent jump over 2020.

#### Access

First-time buyers may have the aspirations but often lack the financial means to acquire higher-value luxury items. The high **debt-to-income ratio of millennials** is also creating additional pressures.

Rental luxury widens access to a growing and younger luxury audience.

A recent report from BCG and Tencent found that 50 percent of China's luxury consumers were born after 1990. When barriers to ownership get lowered, it allows price-conscious consumers to climb up the luxury ladder.

#### Newness

A Kering study found that only 6 percent of Chinese shoppers kept their luxury goods for more than 10 years, compared to 31 percent of consumers in the U.S.

The whole concept of "newness" is a driver of luxury consumption in China, and a subscription rental service can provide variety targeted to a "fashionista" population.

Interestingly, the Institute of Positive Fashion Circular Fashion Ecosystem Project reported that 37 percent of a United Kingdom sample of 2,080 so-called "high intensity" shoppers use clothing rental services.

#### Sustainability

Sustainable consumption is increasingly on the minds of Chinese consumers. According to the PwC 2021 Global Consumer Insights Survey China report, 72 percent of respondents buy from companies that are conscious and supportive of protecting the ecological environment.

However, a lack of sustainable options was also cited as a barrier to sustainable consumption. That puts the rental luxury business model in the frame for consumers who wish to support the development of an actual circular economy.

#### U.S. experience

In the U.S., some luxury brands have launched rental initiatives to amplify and intensify relationships with customers.

For example, the #BreitlingSelect rental service allows U.S. subscribers to choose three different watches over 12 months with an option to purchase one of the watches. The rental service will soon expand to European markets, as well.

Similarly, Ralph Lauren's rental service, **The Lauren Look**, enables subscribers to receive unlimited monthly box exchanges for a flat fee with the option to purchase items.

The Lauren Look only ships to U.S. addresses, but expansion is planned in other markets.

"We are working on it," said a customer service agent.

China may still be under the luxury rental radar, but the U.S. experience shows how rental luxury has the potential to disrupt and transform the luxury market.

#### Market tribulations

Yet, market failures also highlight the challenges of managing the bottom line with this business model.

For example, U.S. luxury fashion rental platform Armarium went out of business in March 2020. And in China, YCloset, which had received funding from Alibaba Innovation Ventures, SoftBank China and Sequoia China, closed in the summer of 2021.

However, these market failures should not hold back luxury players.

In June 2021, Kering acquired a stake in the U.K. handbag rental service Cocoon, indicating that the potential of luxury rental needs to be reassessed within a longer-term timeframe.

For instance, Rent the Runway's recent net losses equaled \$171 million over 2020. Yet, this drop was likely a reaction to COVID-19.

A post-COVID economy will surely speed up its business. In this case, best practices will be critical for market success, whether in the U.S., China or elsewhere.

Nonetheless, luxury players need to judiciously plan and execute a rental business strategy for the fast-changing Chinese market. Because, let us face it: it is time for the luxury industry to get ahead on consumer trends.

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