

RETAIL

5 emerging cities in China luxury brands cannot overlook

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Jing Daily lists five emerging, non-top-tier cities with large amounts of high-net-worth individuals and explains their economic and cultural attributes. Image credit: Hankyu's Weibo

By **Wenzhuo Wu**

Lower-tier cities in China are a promising market for luxury brands dedicated to staying in the country, and this year's Double 11 Shopping Festival confirmed that.

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When Tmall kicked off sales between Nov. 1 and 3, the number of luxury buyers in smaller cities grew by **nearly 50 percent**, year-on-year. Meanwhile, shoppers from close to 400 different cities placed orders on **Tmall's Luxury Pavilion**.

This trend first emerged at last year's Double 11 Festival, but "this year was another watershed moment," according to James Yang, a partner at Bain & Company.

Mr. Yang also went so far as to predict that this sector's growth would "continue for several years to come."

However, the economic and demographic landscape shaping today's luxury consumption outside Tier-1 cities is more complicated than many global players realize. Therefore, most of their strategies in these emerging markets must be distinct from those implemented in mature Tier-1 cities.

"Lower-tier cities have their own local cultures, which differ from the top-tier cities," said Sonja Prokopec, LVMH-chaired professor of luxury brand management at the ESSEC Business School Asia Pacific, to *Jing Daily*.

"Consumers, in general, are looking for more localized content and more personalization, so a generalized strategy for a market as a whole would not work."

In particular, the "invisible rich person" has become a crucial consumer segment in emerging markets. This demographic, recently defined by a white paper co-released by Tencent and NielsenIQ, is a non-Tier-1 city resident who owns both high disposable income and leisure time.

But, compared to consumers in top-tier cities, young shoppers in lower-tier cities have fewer concerns about living costs and savings issues.

More importantly, with an overseas education background and living experience, many have the strong desire to maintain or increase their quality of life after they return to their hometowns.

Below, *Jing Daily* has listed five emerging, non-top-tier cities that host large amounts of high-net-worth individuals and explained the economic and cultural attributes motivating their booming consumption patterns.

Ningbo

Ancient Ningbo was the largest coastal city in China. And though its handling capacity has since been affected by other harbors, it still showcases a potent economy.

Ningbo's GDP over the past three quarters ranked 12th among domestic cities, exceeding 1 trillion RMB. The per capita disposable income of Ningbo residents is even more remarkable, hitting \$8,042 (51,404 RMB), which is \$1,047 (6,692 RMB) more than Zhejiang province's average number.

In particular, the city seems to have gathered high-net-worth households before the pandemic outbreak.

According to the 2019 Hurun Wealth Report, Ningbo ranked 7th on the list of ultra-high-net households with a net worth of at least \$15.6 million (100 million RMB). And with the opening of the luxury department store Hankyu owned by Japanese retail giant H2O Retailing discerning luxury houses such as Maison Margiela and Berluti have decided to make their first foray into this city.

Suzhou

Suzhou is a city administratively divided under Jiangsu Province and located west of Shanghai. Thanks to the city's strong tech and manufacturing industries, its economic volume is more developed than many other provincial capitals, including Nanjing.

Over the past three quarters this year, Suzhou's GDP was recorded at \$251.4 billion (1.6 trillion RMB), with a 15.4 percent growth rate, year-on-year.

In addition to Suzhou's strong economic numbers, cultural heritage is another attraction for the city.

With its quaint gardens and waterside architecture, the home of Wu regional culture has retained a layered cultural heritage, including traditions such as the Kun Opera.

The conveniently-located and vibrant city has lured many graduates from Jiangsu province looking for a lifestyle between the top-tier city hustle and a sleepy hometown vibe. Yet this city is still underrepresented by many luxury brands and premium retailers, given that it is geographically so close to Shanghai.

Xi'an

In 2020, Xi'an's GDP achieved a growth of 5.2 percent a total amount of about \$16 billion (102 billion RMB) becoming the first city in Northwest China with a GDP exceeding one trillion RMB.

Though the number was nothing exciting compared to developed coastal cities, **Xi'an** holds a crucial position in the inner area of China. Also, the region was the capital of several ruling dynasties and a trade center in ancient China, attracting millions of history buffs.

Besides Xi'an's cultural heritage, the city's business potential has lured nimble local players. SKP, which topped China's shopping mall revenue ranking, unveiled its second location in the city in 2018.

As reported by local media Beijing Business Daily, Xi'an SKP mall achieved revenue growth of 36 percent in 2020, which was even higher than its mall in Beijing, with a 36-percent increase. It has also been rumored that a second SKP-S SKP's sister department store featuring experiential retail will be unveiled in Xi'an.

Shenyang

Shenyang, the capital and largest city in China's northeast Liaoning Province, suddenly became a star in the country's luxury market in the early 2010s, as many A-list names decided to expand their footprints into Northeast China.

However, with the government's growing anti-corruption efforts and increasing difficulties with the area's economy, Shenyang's luxury market was negatively affected, as it had become heavily dependent on business gift-giving.

Still, the unique consumer mentality in Shenyang and the Northeast area as a whole consistently fuels well-known

luxury houses and hard luxury revenues.

The city's luxury shoppers with strong buying power tend to purchase goods to showcase their status and wealth rather than connect with brand values or heritage.

Also of importance: Around 50 percent of luxury consumption in Shenyang comes from consumers in surrounding cities, including Liaoyang, Anshan and Fushun, according to local research.

Wuhan

Among the cities in Central China (a loosely defined geographical zone that consists of many cultures and includes the provinces Henan, Hubei, Hunan and Jiangxi), **Wuhan** has an incomparable geographic and economic advantage because it is a shipping center at the Middle Yangtze River.

Meanwhile, the capital of Hubei Province is a popular destination with a substantial influx of domestic travelers post-pandemic.

As reported by state media, the city welcomed more travelers (21.2 million) than any other in the country, beating out many Tier-1 locations like Beijing, Shanghai, and Guangzhou, during China's National Day Holiday (also known as Golden Week).

Central China is a crucial economic area because it connects to all other parts of the mainland.

Additionally, Wuhan hosts hundreds of colleges and universities, including top names such as Wuhan University and Huazhong University of Science and Technology.

The city's rich educational resources attract Gen Z students and high-net-world individuals alike. And today, both have become primary drivers of luxury consumption in this region's top commercial and cultural hub.

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