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How long can duty-free prop up China's luxury market?

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Ecommerce and duty-free have been unexpected beneficiaries of the disruption caused by COVID-19. Global luxury should be quick to get on board. Image credit: CDF Mall's Weibo

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Luxury ecommerce and duty-free shopping have been unexpected beneficiaries of the disruption caused by COVID-19, despite the temporary closures of stores in Sanya. To that end, *The Moodie Davitt Report* also mentions the temporary closure of the CDF Mall, HTDF and CNSC stores in Sanya.

Meanwhile, the *South China Morning Post* highlights that it is the "dual circulation" economic strategy and pandemic-related travel restrictions that are behind the luxury ecommerce and duty-free boost: stuck at home, Chinese shoppers are going online to satisfy their luxury needs. In particular, the tropical island of Hainan and other mainland duty-free areas have registered strong sales.

These consumer spending trends also illustrate a spike in daily consumption for the middle class, according to the 2021 White Paper on the New Middle Class released by Wu Xiaobo Channel. The research shows that 34 percent of the group spent more than \$15,690 (10,000 RMB) monthly a 10 percent increase from 2020.

But despite these unprecedented uplifts, the *South China Morning Post* rightfully acknowledges that "overall consumption remains soft in China."

Major headwinds such as the country's **slower economic growth**, factory-gate inflation, rolling COVID-19 lockdowns and the property crackdown will force consumers to adjust their spending.

Most luxury brands have fine-tuned their strategy here, and are well-prepared for the worst. But there are European labels that still need to double down on the opportunity presented by duty-free.

Moreover, the duty-free industry needs to address this great consumer shift and understand the habits and attitudes of its new customers.

Under normal circumstances, business and international travelers would represent the core market. These have now been replaced by an audience that is **younger**, luxury-savvy and digital.

Daxue Consulting reports that 52.38 percent of outbound tourists at duty-free stores are women. The majority of shoppers live in tier-1 (48.6 percent) and tier-2 (41.6 percent) cities and are "upper middle-income citizens who are willing to spend money while traveling to seek high-quality experiences."

Inevitably, this demographic demands more than just good prices and convenience.

To stand out, companies need to upgrade the shopping experience and build immersive commerce. This means creating value for instance, introducing **new delivery** and **pick-up methods**, or engaging the customer through live-streaming and AI-powered retail experiences. And giving them something new moving past skincare, cosmetics and small leather goods.

Naturally, this implies adjustments to their education and marketing strategy as well.

Considering that the annual tax-free shopping quota was raised to just under \$16,000 (100,000 RMB) per person, luxury brands should feel emboldened to try big-ticket items such as diamond jewelry and home appliances.

DeBeers Forevermark has understood the trend.

Last November, it inaugurated its first flagship store in the CDFG shopping complex at Haikou Mova Mall, while luxury jewelry outfits Tasaki and Messika followed suit with stores at the Sanya International Duty Free Shopping Complex in Haitang Bay in December 2021, as mentioned by *The Moodie Davitt Report*.

Richemont-owned **Van Cleef & Arpels** also announced the opening of its own door there. And more are on the way in light of the current sanctions against President Vladimir Putin's Russia, Russian fine jewelry brands and diamond and gems designers are expected to unveil flagship boutiques in China's duty-free malls.

The trajectory is clear, and global luxury should be quick to get on board.

From urban shopping centers to new generations of consumers, there is a world beyond the airport.

Foreseeably, in the post-pandemic scenario, when Chinese customers will return to outbound trips and travel retail and duty-free shopping will cross borders and move beyond the domestic market, luxury brands will be forced to transition faster to new customer engagement models.

Naturally, this implies transforming duty-free stores into experiential galleries that attract customers through immersive and memorable experiences.

As such, luxury brands will use emerging tech to customize products directly in-store, co-create unique objects in partnership with stakeholders and provide personalized recommendations based on consumers' preferences. Evidently, these processes will help luxury labels boost sales of new product assortments.

In this retail reality, whenever a shopper browses or buys a lipstick, the store's AR digital mirror will recommend the luxury outfit and leather accessory that complements the lipstick.

Against this backdrop, duty-free shops and designer flagships will be forced to stock more than just fragrances, cosmetics and entry-level luxury products. Because of this, duty-free stores will become veritable experience centers where customers come to enjoy exclusive events, test products, discover entertainment options and shop securely.

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