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China recalibrated: Why luxury must consider changing their global game

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labels should consider expanding to regions like the Middle East and Africa to achieve a more balanced global revenue structure. Image credit: Shutterstock

By Daniel Langer

We are in times of massive disruption and change. And now the time has come for the luxury industry to recalibrate and work on a Plan B to reduce the over-dependence on the Chinese market.

China has seen an unprecedented rise to the top over the last two decades, making it the largest economy in the world by purchasing power parity.

For the luxury industry, the country has become its most important market with the highest growth rates over the last decade.

For some high-end brands, stores in Shanghai, Beijing and Guangzhou are among the best in terms of revenue generated.

China's Gen Z consumers have an incredible appetite for luxury and are now among the most sophisticated customers in the world, while Chinese VICs (Very Important Clients) have become crucial for many houses in the jewelry, fashion and watch industries.

Given the continuous growth of the middle class, I have been a consistent proponent in many of my Future of Luxury columns for *Jing Daily* that the growth prospects in the Chinese market are promising in the long run.

However, taking into consideration the combination of economic slowdown through zero-COVID and drastic lockdown measures, a dramatically low birth rate because of the previous one-child policy, a rapidly aging population, and the potential for geopolitical risk, I am now adjusting my outlook and recommend brands consider a recalibration of sorts.

The war in Ukraine, sanctions and subsequent exit of practically all luxury brands from Russia within weeks has shown that there are no guarantees when it comes to world politics. While many were able to offset the exit from Russia given their limited footprint there, China is different.

For many luxury brands the Chinese market accounts for 40 or 50 percent, or even higher shares of revenue. China is by far their number one market.

Given the massive impact of COVID lockdowns that some of the larger brands could only in part offset through the strong rebound of tourist-related sales in Europe and North America, the luxury industry already has got a taste of what may come.

For instance, in a potentially escalating geopolitical situation that could involve sanctions, tariffs and rapidly changing customer desirability for Western brands as a sign of domestic support, many of the top luxury brands could lose significant sales volumes literally overnight. We have already seen hints of this amid the Xinjiang cotton crisis.

While this may be a worst-case scenario, it needs to be taken into account.

Even without an escalation, there is already a massive "China chic" trend toward local luxury brands across all categories and many Western brands are already feeling the pain. It shows that especially younger Chinese customers, the trendsetting Gen Zers, are now willing to change the focus of their desire from Western to local brands.

Therefore, a recalibration is, in my view, necessary. This does not mean abandoning China but having mitigation strategies ready. This needs to include an expansion of the footprint of brands in North America and Europe and regions such as the Middle East, India and Africa.

Without deemphasizing the footprint in China, luxury brands should try to achieve a more balanced global revenue structure. And they need to be prepared for massive supply chain disruptions in case of, for instance, a major escalation in geopolitical relations since many components and materials are sourced in China. Without a Plan B, this could end in catastrophe for many brands.

This is an op-ed article that reflects the views of the author and does not necessarily represent the views of Jing Daily.

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