

# CHINA AND CHINESE CUSTOMERS IN GLOBAL LUXURY GOODS MARKET

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BAIN & COMPANY 



# PERSONAL LUXURY GOODS MARKET 2016E: CONSOLIDATING IN THE NEW ERA

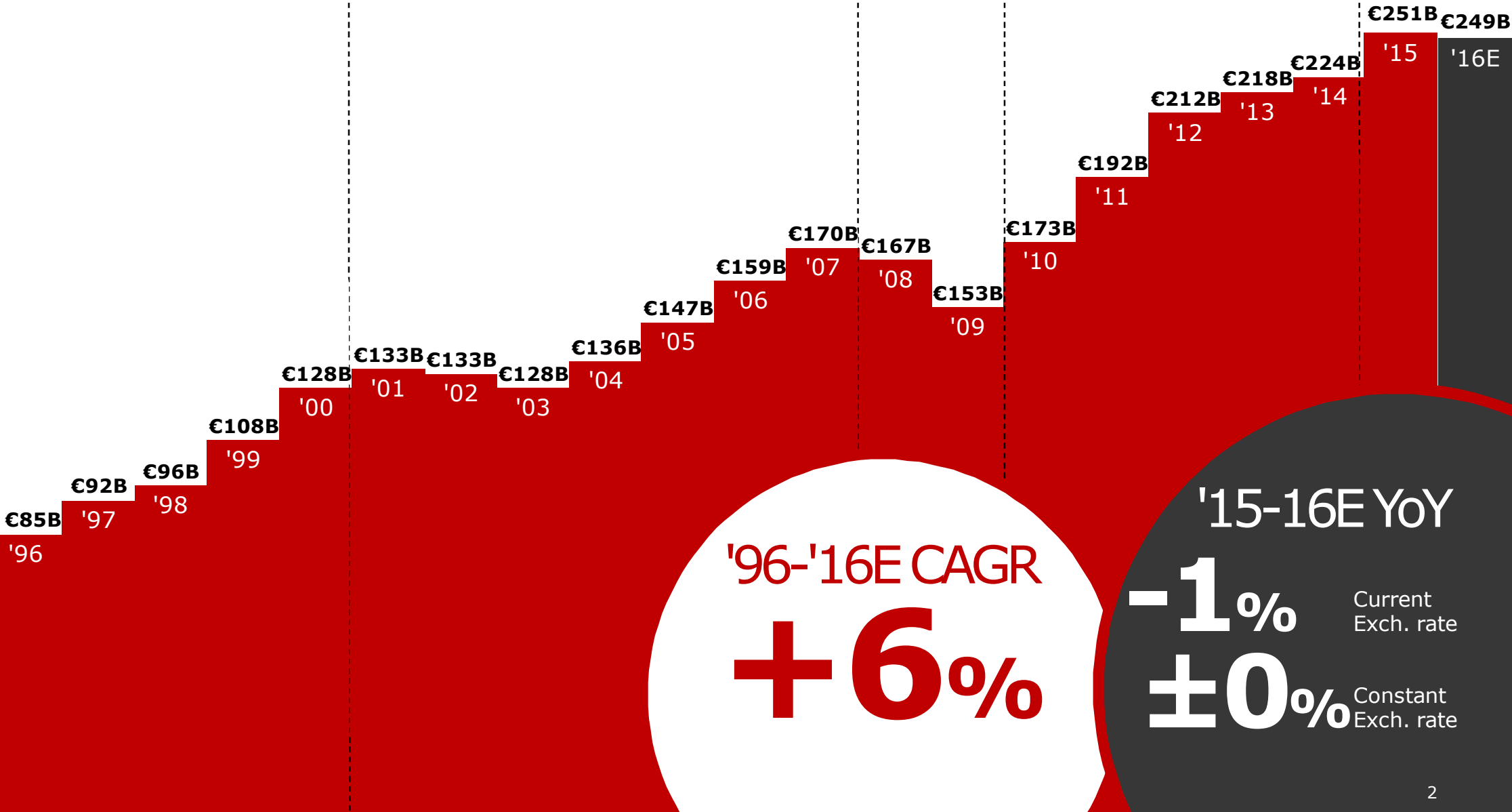
**SORTIE DU  
TEMPLE**

**DEMOCRATIZATION**

**CRISIS**

**CHINESE  
BULIMIA**

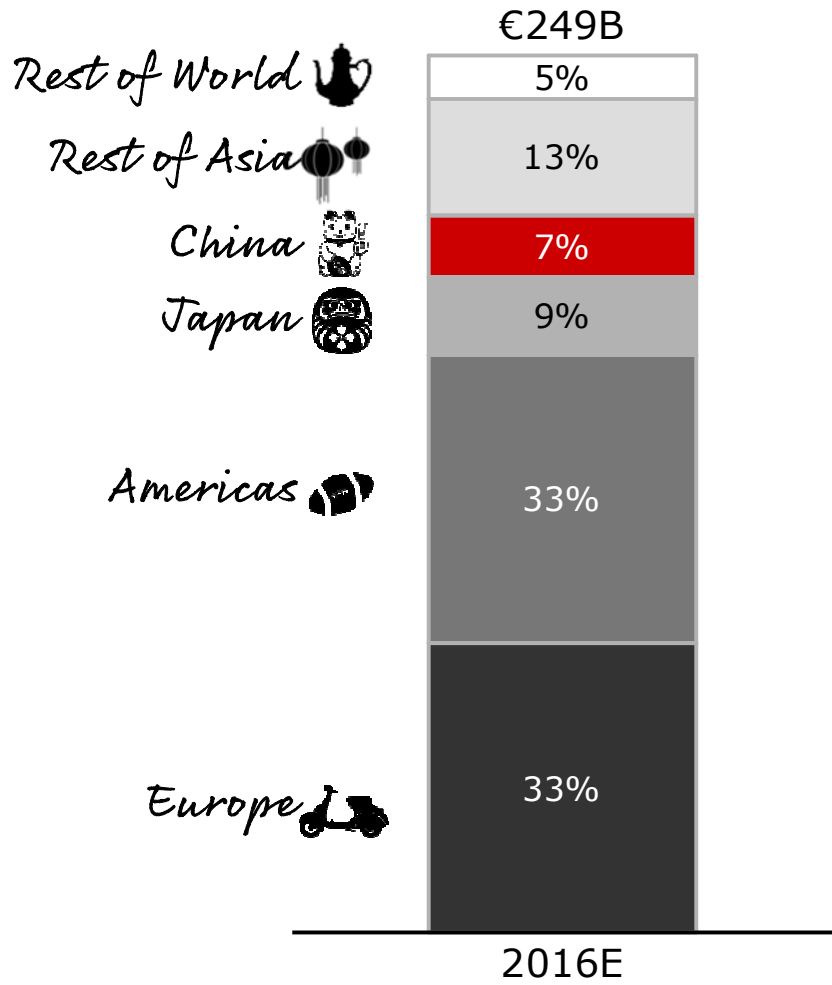
**NEW  
NORMAL**



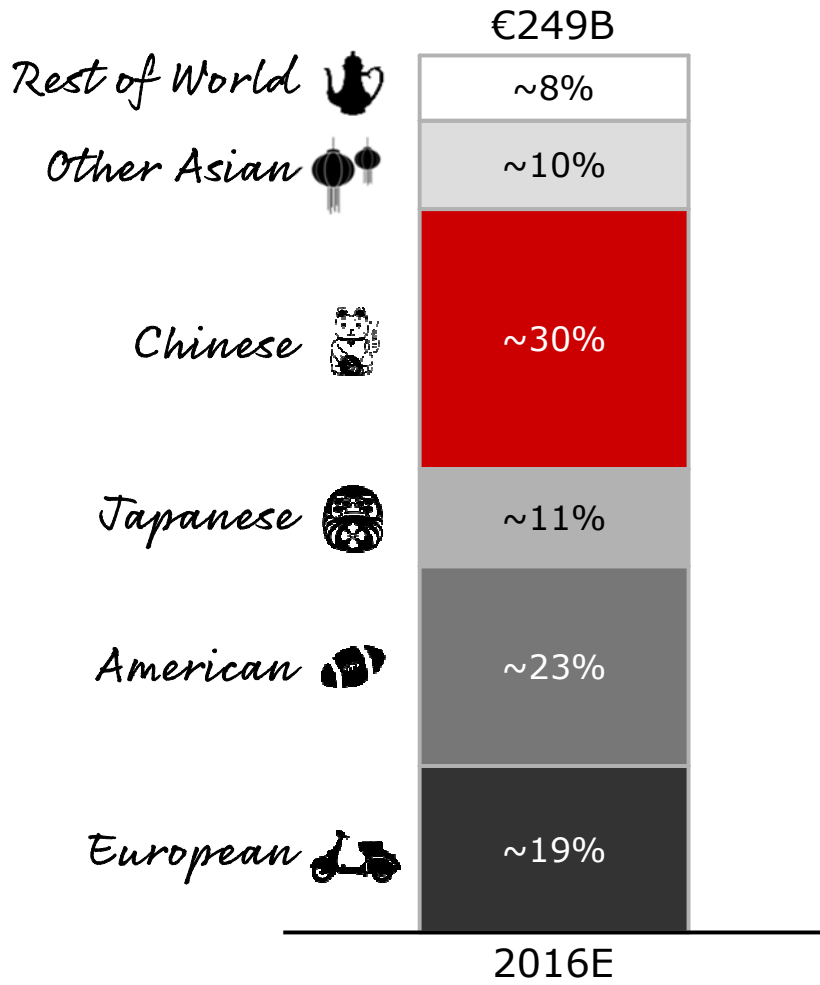
# CHINA REPRESENTS 7% OF THE GLOBAL MARKET, BUT CHINESE ARE ALREADY ~30% OF LUXURY CONSUMERS

## GLOBAL PERSONAL LUXURY GOODS MARKET (2016E|€B)

### BY REGION



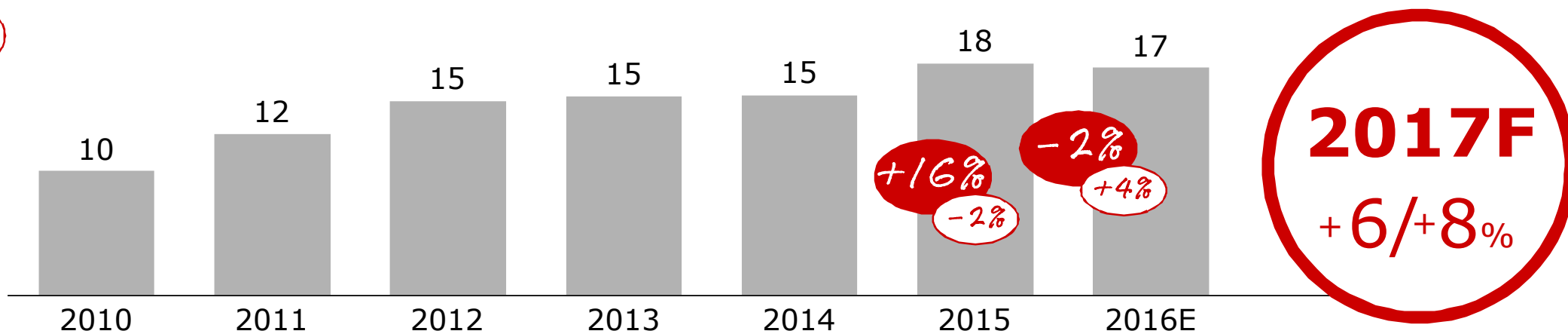
### BY CONSUMER NATIONALITY



# LUXURY IN CHINA HAS DEVELOPED IMPORTANTLY, MORE RECENTLY SHOWING MORE **MATURE DYNAMICS**

## MAINLAND CHINA PERSONAL LUXURY GOODS MARKET (2009-2016E|€B)

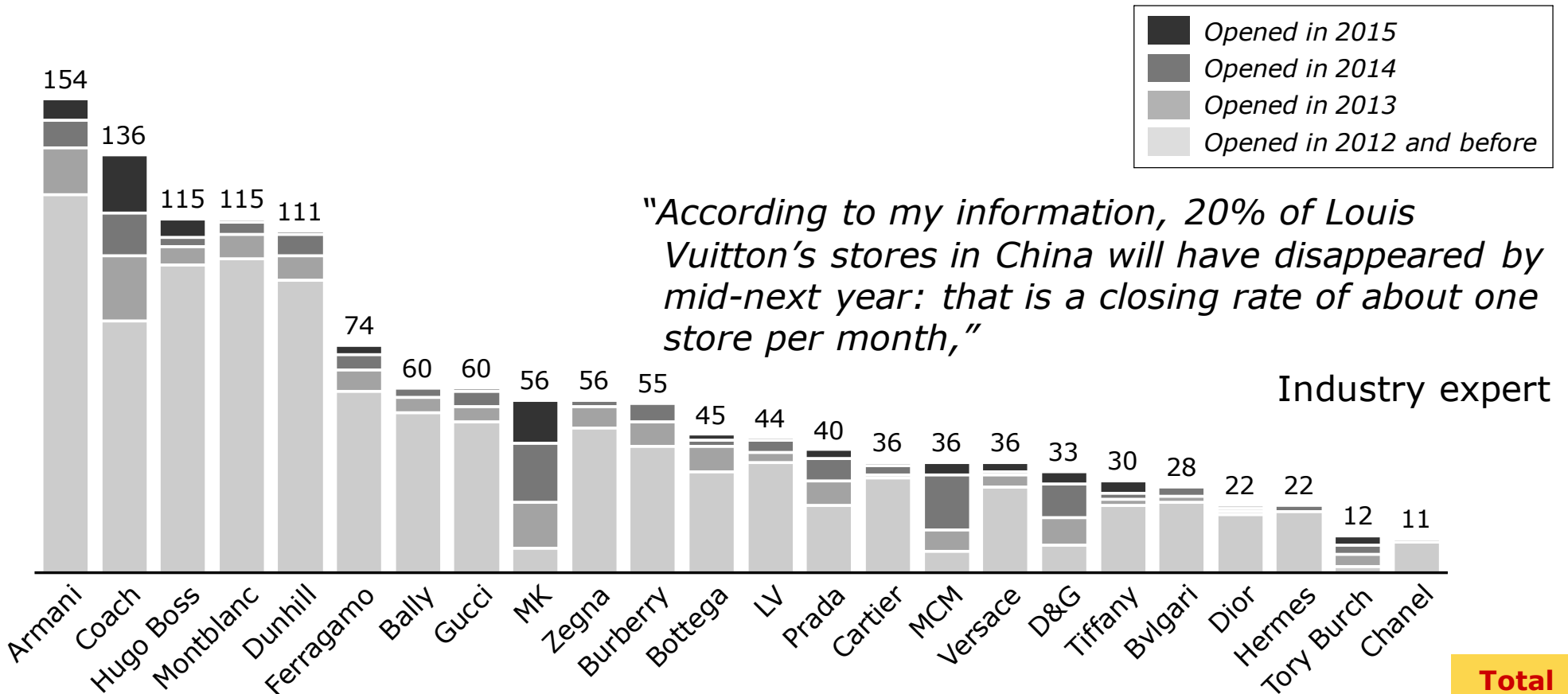
@K



- Chinese providing **robust impulse to Mainland China**, experiencing rebound with **healthier local consumption after years of stagnation**
  - **Government actively and successfully stimulating 'proper' domestic consumption fighting grey market** and increasing **customs controls to limit foreign shopping**
  - Locals **increasingly preferring** to buy luxury **in home market** mostly driven by **lower price differentials**, although they are still **often on the 20-30% range**
  - **Increasing relevance of Chinese middle class**, which is on average **travelling less abroad vs. current Chinese consumer base**
  - However, wealthy Chinese luxury consumers are **still travelling and buying much abroad**, also because **luxury goods shopping experience** at home is **less satisfying** if compared with their luxury experiences **overseas** (more limited product assortment, more basic in-store experience and quality of customer service)

# CHINA HAS BEEN THE KEY EXPANSION REGION AFTER 2009 FOR BRANDS, NOW RE-ASSESSING THEIR PRESENCE

## ESTIMATED NUMBER OF RETAIL STORES FOR SELECTED BRANDS (2015)

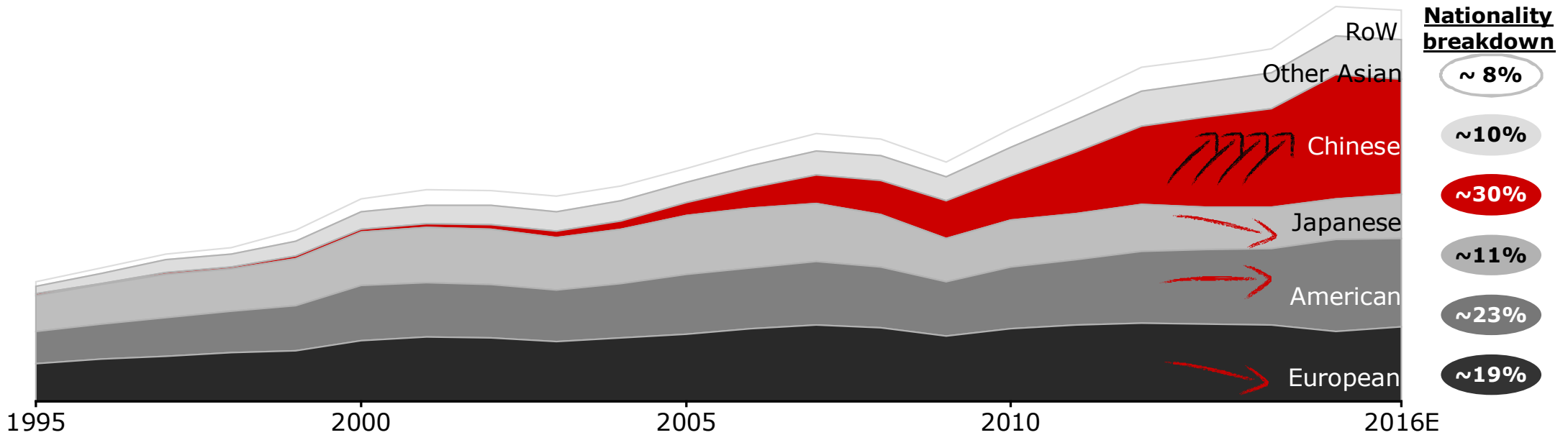


2015 opened	7	19	6	1	1	3	0	1	14	0	0	2	1	3	1	4	3	4	4	0	1	0	3	0	<b>Total</b>	<b>78</b>
2015 closed	4	3	11	0	5	2	3	5	1	4	2	6	4	0	2	1	1	0	0	1	2	1	0	0	<b>Total</b>	<b>58</b>

**THE AVERAGE NET STORE OPENING PER BRAND WENT FROM 6,7 IN 2013 DOWN TO 3,3 IN 2015**

# CHINESE PROVIDING NEW IMPULSE AFTER '09, OFFSETTING A SLOWDOWN OF MATURE MARKETS' CONSUMERS...

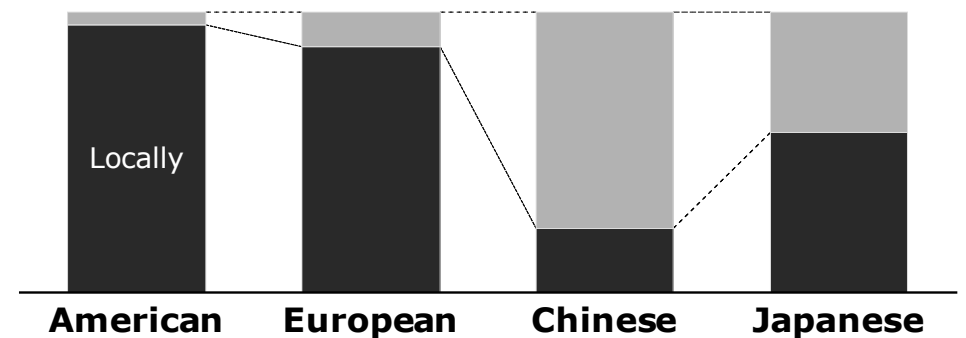
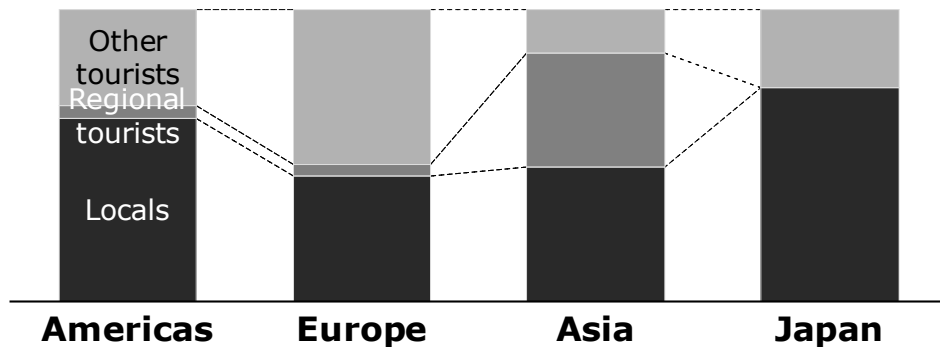
## GLOBAL PERSONAL LUXURY GOODS BY CONSUMER NATIONALITY (€B)



## GLOBAL PERSONAL LUXURY GOODS SPENDING PATTERNS BY MARKET

*Luxury goods are bought by...*

*Luxury shopping is done...*

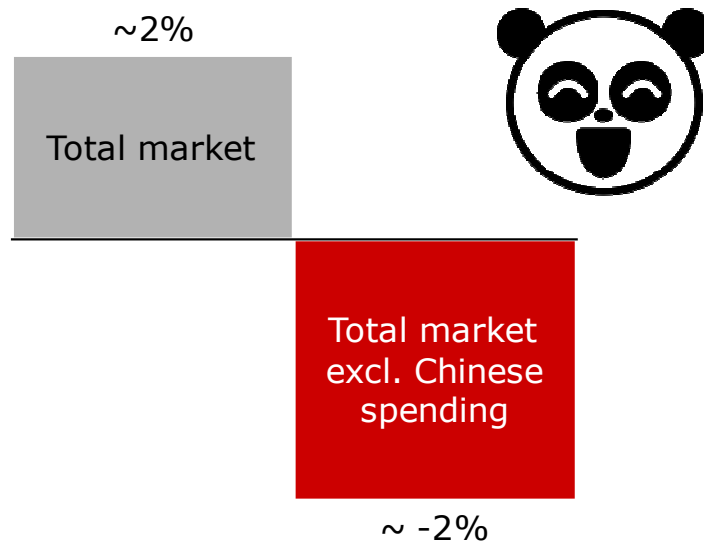


# ...BEING THE UNIQUE MARKET GROWTH DRIVER, RECENTLY REBOUNDED AFTER SLOW DOWN AND INCREASINGLY LOCAL

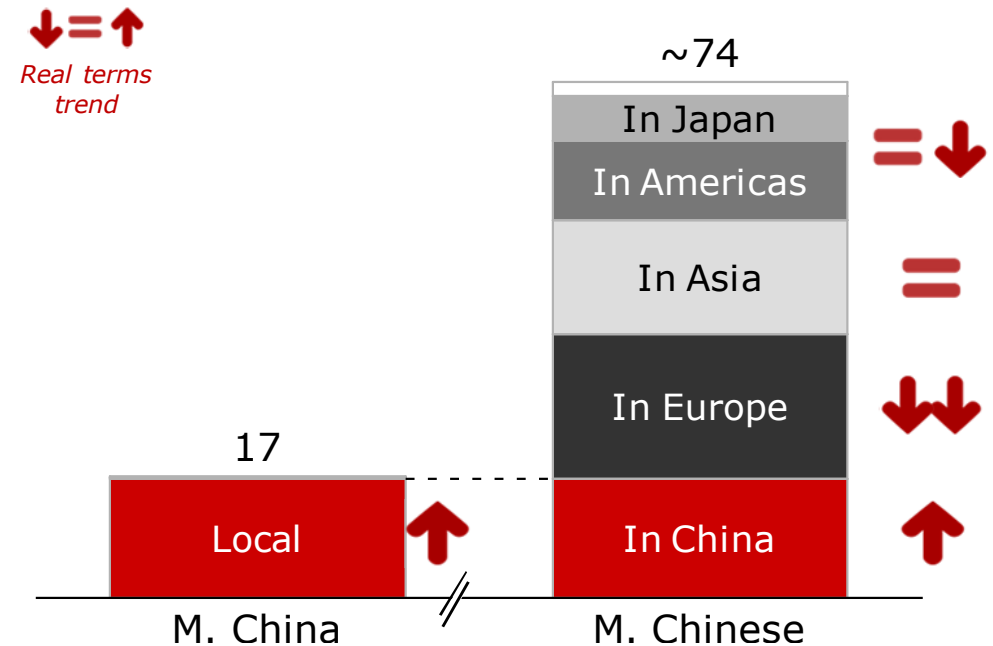
## GLOBAL PERSONAL LUXURY GOODS BY CONSUMER NATIONALITY (€B)

### 2012-2016E EVOLUTION

CAGR '12-'16E @K



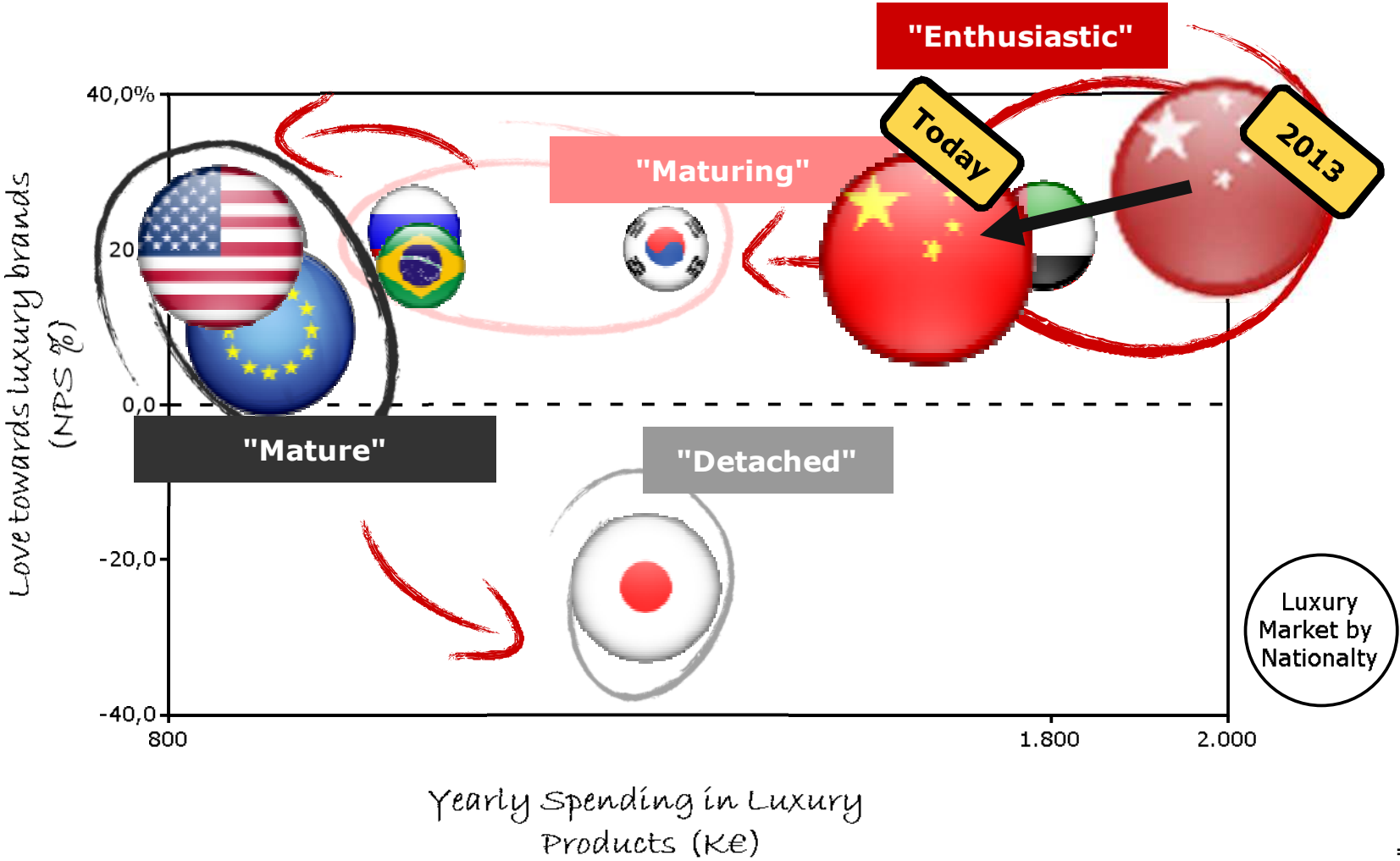
### M. CHINA VS. M. CHINESE GLOBAL SPENDING (2016E|€B)



- **Total** personal luxury goods **market slightly contracting** in the **2012-16E** period if **excluding** spending of **Chinese consumers**
- **Chinese consumers' spending reduction in 2016** has led to global market stagnation, but **resurgence** is ongoing in **2017** with **healthier local consumption** providing **robust impulse to Mainland China**

# OVER THE COURSE OF ONLY A FEW YEARS THE **CHINESE CONSUMER** HAS UNDERGONE A **PROCESS OF MATURATION**

## LUXURY CONSUMERS PROFILE BY NATIONALITY



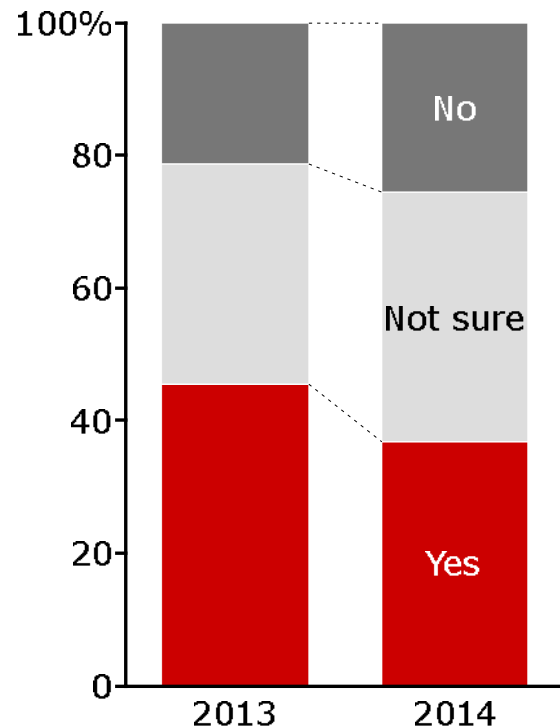
**ILLUSTRATIVE**



# CHINESE CONSUMERS HAVE BECOME MORE OPINIONATED AND DEMANDING WHEN IT COMES TO PRODUCTS & STYLE...

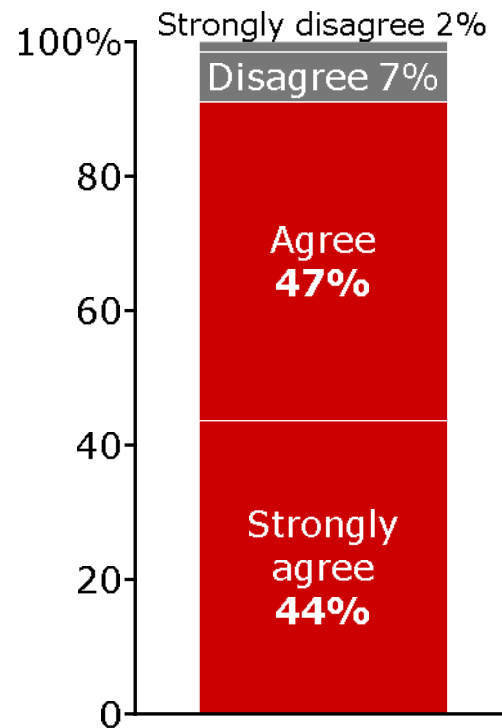
*"Will you purchase products with visible logos in the future?"*

% of mentions



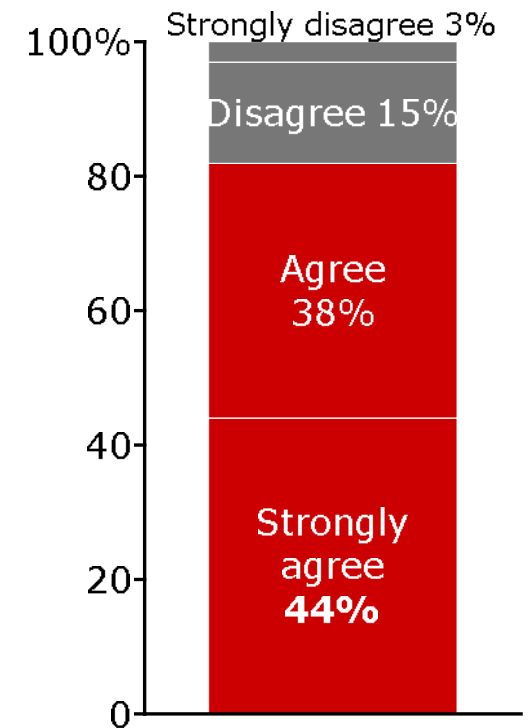
*"In the next three years, you tend to buy more fashionable luxury brands with more design elements."*

% of responses



*"Compared with traditional big names you tend to buy more emerging luxury brands in next three years"*

% of responses

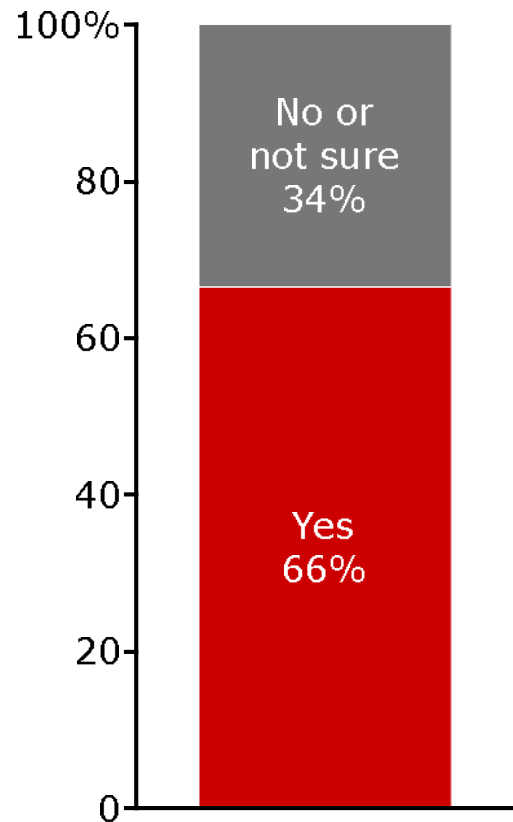


**CHINESE CONSUMERS OPTING FOR MORE UNDERSTATED AND NICHE PRODUCTS AND BRANDS, OFTEN PREFERRING CATEGORY SPECIALISTS**

# ... QUESTIONING THE LUXURY EQUATION AS THEY SHIFT TO OFF-PRICE

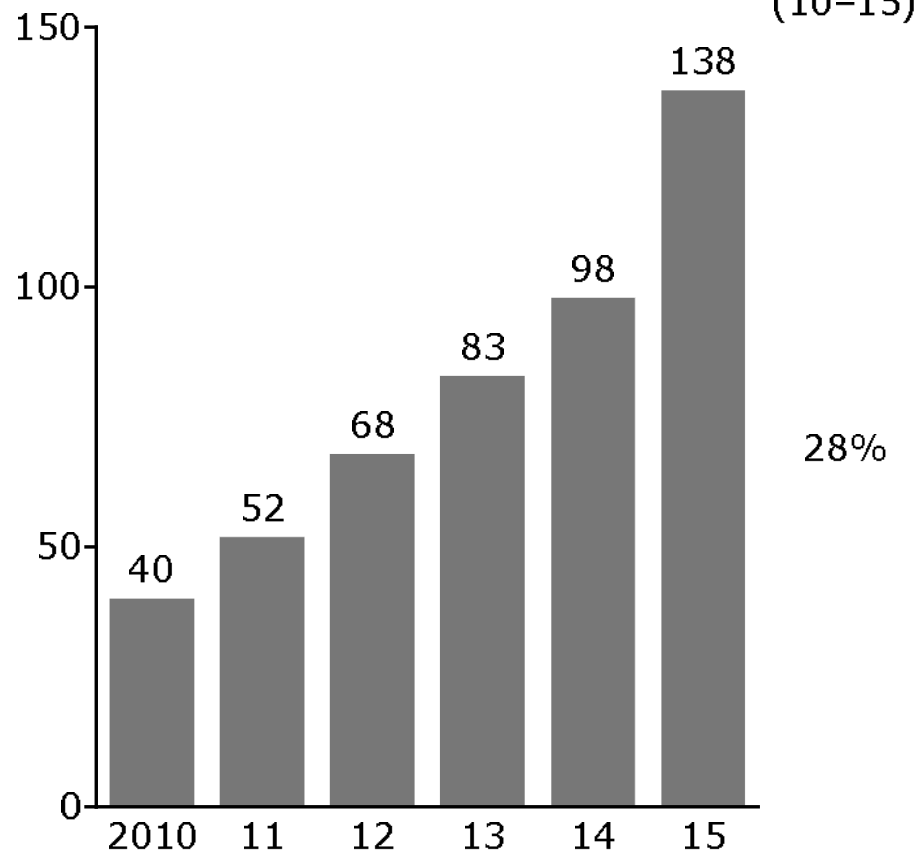
*"Will you increase your spending on luxury in outlets next year?"*

% of responses



## OUTLETS EXPANDING THEIR FOOTPRINTS

Number of outlet malls in China



## HIGHLIGHTS

- Outlet malls were **initially limited to mature markets** but have now started to **grow in China** to:
  - Intercept a more **value conscious consumer**
  - Compensate for **struggling full-price retail business**
  - **Destock the vast retail networks of stores** they have been opening
- However, there is some concern over the long-term growth outlook due to **cannibalization of full price sales**

# 7 KEY SEGMENTS TO DESCRIBE WORLDWIDE LUXURY CONSUMERS



**Conservative**

*I buy it safe*



**Opinionated**

*I know it!*



**Disillusioned**

*I'm so over it!*



**Hedonist**

*I love it!*



**Omnivore**

*I want it all!*



**Wannabe**

*I desire it!*

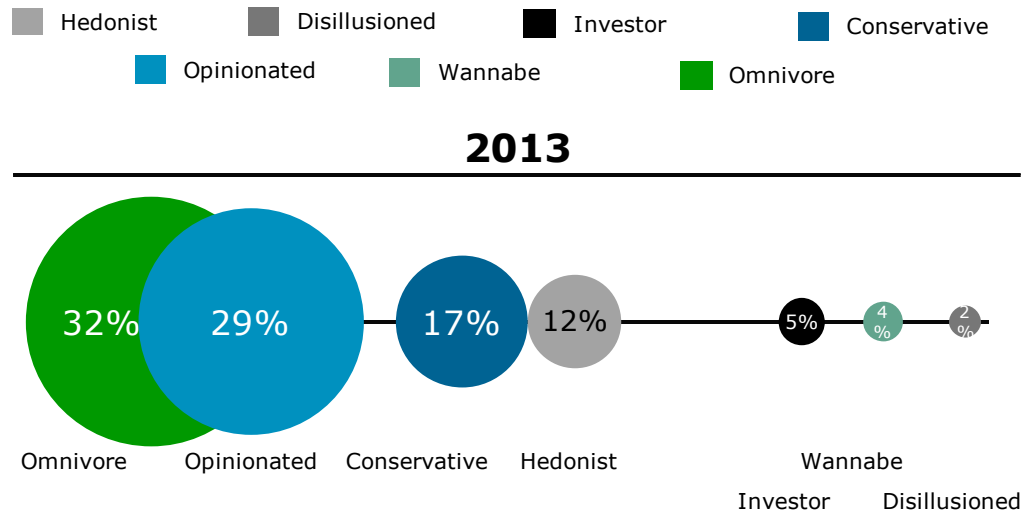


**Investor**

*It's worthy?  
I buy it!*

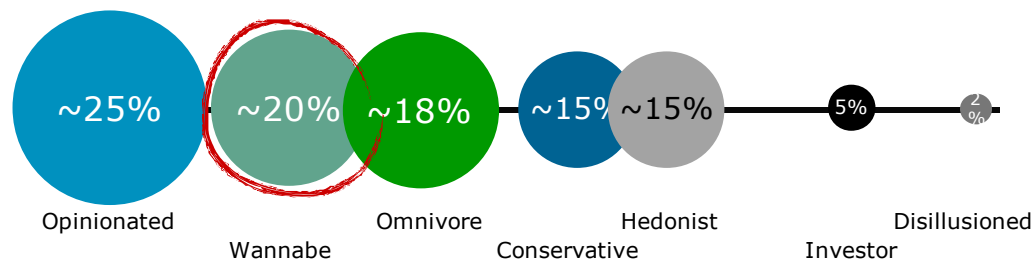
# CHINESE CONSUMER PROFILE **FAST EVOLVING**, ALSO THANKS TO **NEW WAVE OF CONSUMERS**

## Luxury consumers by cluster



**2020F**

**ILLUSTRATIVE**



'13-'20 trend



## Consumer and consumption patterns evolution

- **Omnivore consumers**, key original cluster **strongly losing share**, both due to **sophistication** (evolution towards Opinionated profile) and to **limited 'new blood'**
- **Opinionated becoming the first cluster**, growing thanks to the new wealthy and intercepting some of the old *Omnivore*
- **Wannabe major discontinuity element**, passing from second-last to second cluster and characterized by the **highest growth**, **propelled by the booming middle class**



- **Overall less 'bulimic' approach** to consumption of luxury goods - **reduction of Omnivore**
- **More discerning consumers** purchasing also other brands (premium or local ones) and other categories (e.g. experiential luxury, art) - **growth of Opinionated**
- **Lower spending per capita** and more focused on Accessible brands - **boom of Wannabe**

# THIS PROCESS OF MATURATION HAS BEEN "FORCED" BY MULTIPLE ENDOGENOUS AND EXOGENOUS FACTORS

## 1 OVER-EXPOSURE TO LUXURY

- **Most luxury brands** heavily **invested** in the Chinese market in the last 10-15 years, opening **extensive store networks**, thus **their presence in China** quickly went **from being the novelty** to the **being the norm**
- **Luxury exposure** has **turned omnivore Chinese consumers** into more **confident, discerning and opinionated luxury connoisseurs**, now with a real **thirst for newness**

## 2 DIGITAL AND MOBILE PROLIFERATION

- **Digitalization** has **disrupted the retail industry**, and especially **China** has rapidly become the **most advanced retail e-commerce market in the world**, characterized by a **strong *mobile-first* purchase pattern**
- **Luxury goods** impacted **at a lower scale until now**, but online is forecasted to become **the preferred way to shop for many new consumers**, especially in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities

## 3 SHIFT TO EXPERIENTIAL LUXURY

- **Changes in social norms** together with the **"moralization" campaign** have started to **discourage the purchase and display of luxury goods** as social enablers
- Following the lead of mature markets, also **Chinese consumers have started to shift spending from luxury goods** to luxury **"experiences"** (i.e. **high end travel, hospitality and F&B**)

1

# AFTER ~10 YEARS OF COMPULSIVE SHOPPING OF ICONIC PRODUCTS, CHINESE CUSTOMER IS LOOKING FOR SOMETHING NEW AND UNIQUE

*"In the past **80% of sales** come from **carry-over products**, especially in China where consumers have **worked through their wish list of iconic and "socially-enabling" products**. Now that most of the list has been ticked-off they are craving for something new but equally compelling"*

Executive, absolute luxury brand



The 2.55 today and its re-edition



Birkin, Kelly and Alma bags



Coco Chanel with her 2.55 first launched in 1955

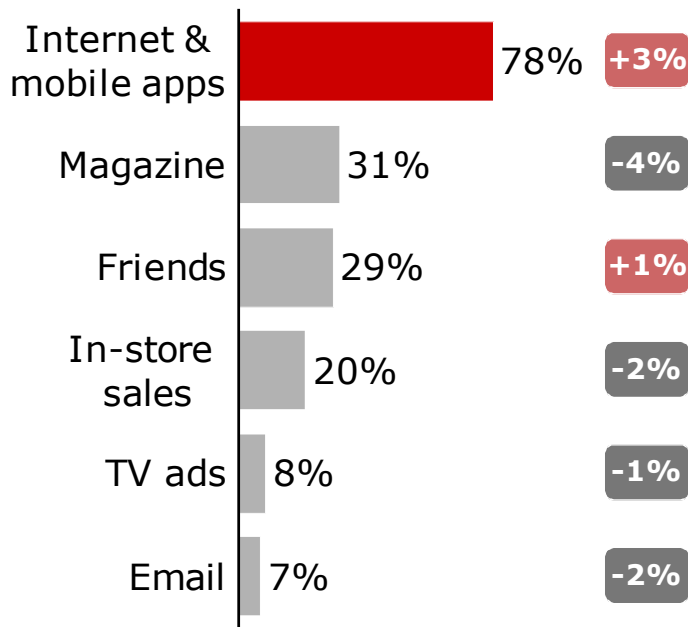
# DIGITAL INCREASING IMPORTANCE FOR CHINESE CONSUMER ENGAGEMENT & SALES IN LUXURY GOODS...

## CONSUMER ENGAGEMENT

*"Where do you normally get information on luxury goods?"*

% of respondents

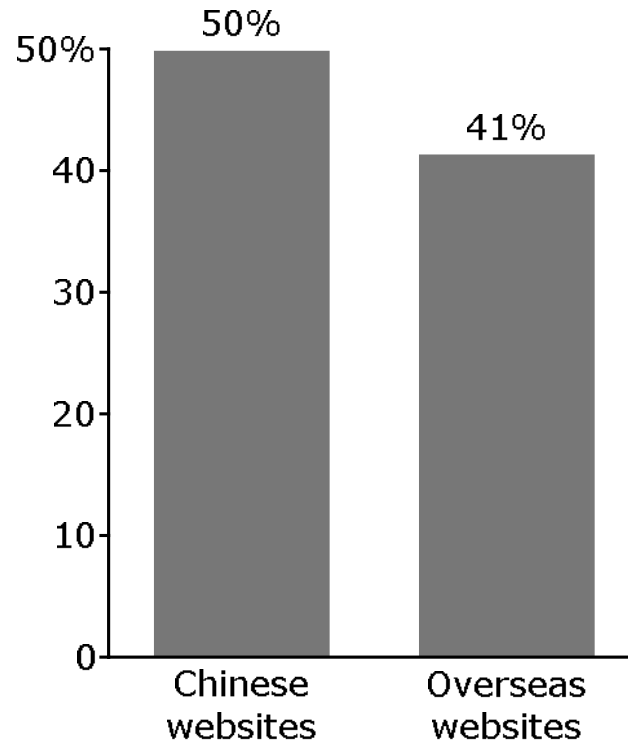
VS 2014



## E-COMMERCE SHOPPING

*"Has your online spending on luxury goods increased vs last year?"*

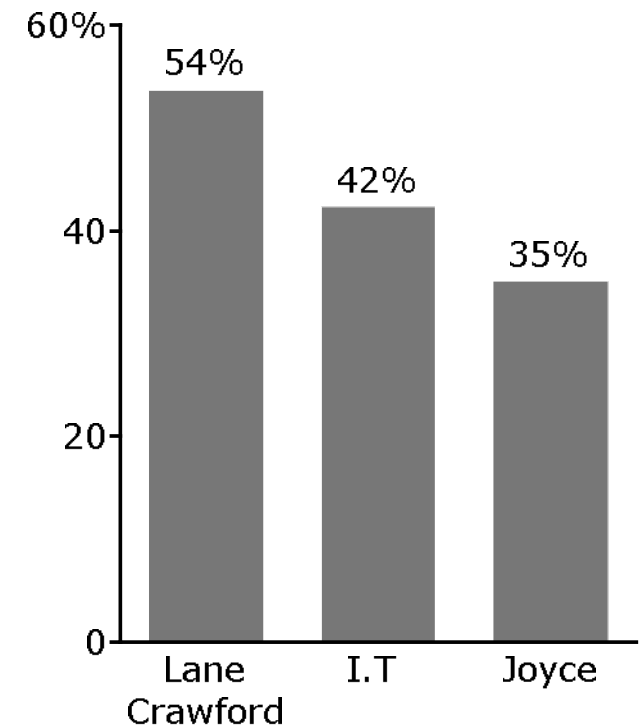
% of "yes" for increased spending



## BRAND AGGREGATOR SHOPPING

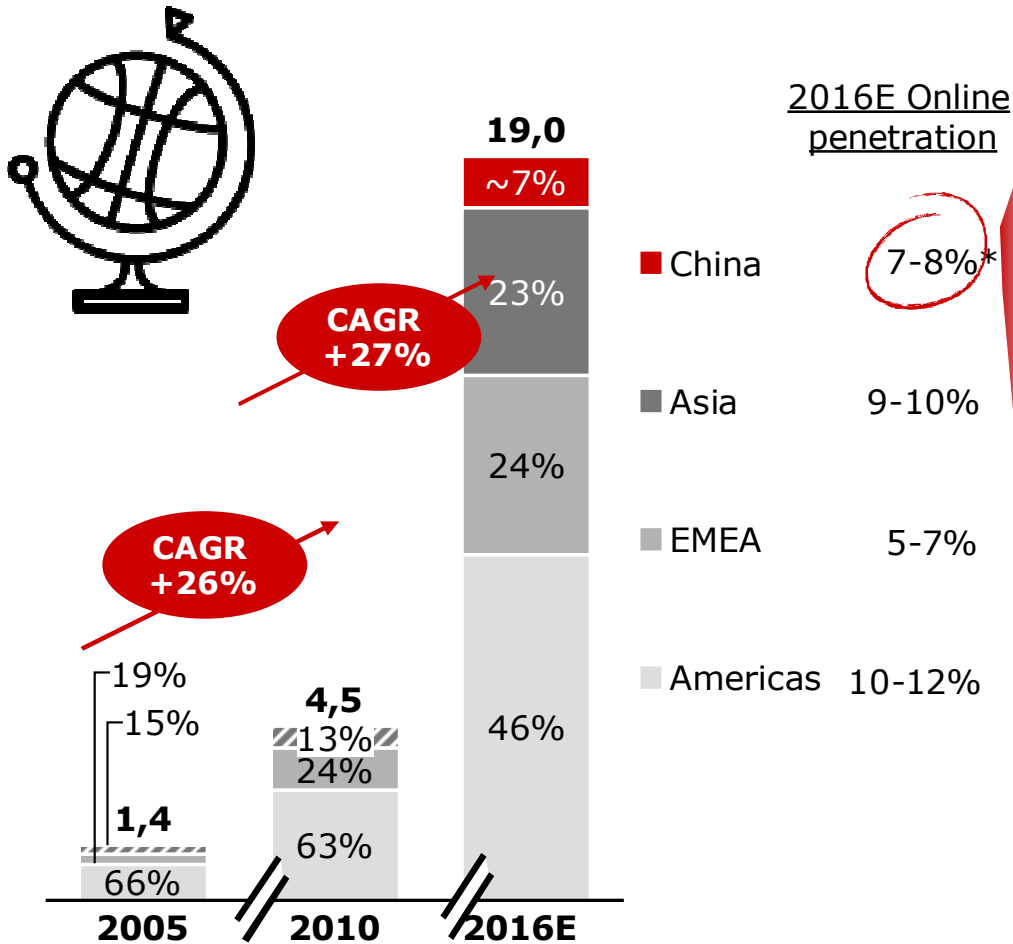
*"Have you purchased items in these luxury department stores/brand retailers?"*

% of mentions



# ...AND EXPECTED TO **KEEP GROWING** SHOWING A HUGE **UNTAPPED POTENTIAL**

## ONLINE PERSONAL LUXURY GOODS MARKET BY GEOGRAPHY (2005-2016E | €B)



- **China online market in general** is much more developed vs. global average and **m-commerce** is progressively **becoming the standard** with a crucial role of **mobile payment methods**
- However, **online penetration in luxury goods** in China is only **~7-8%\*** in line with **global average**, showing a **huge untapped potential**
- **Luxury brick and mortar penetration is forecasted to decline in favour of online**, since the country's size and the increasing dissatisfaction deriving from traditional retail experience will make **e-commerce the preferred way to shop for many new consumers**, especially in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities

\*official channels



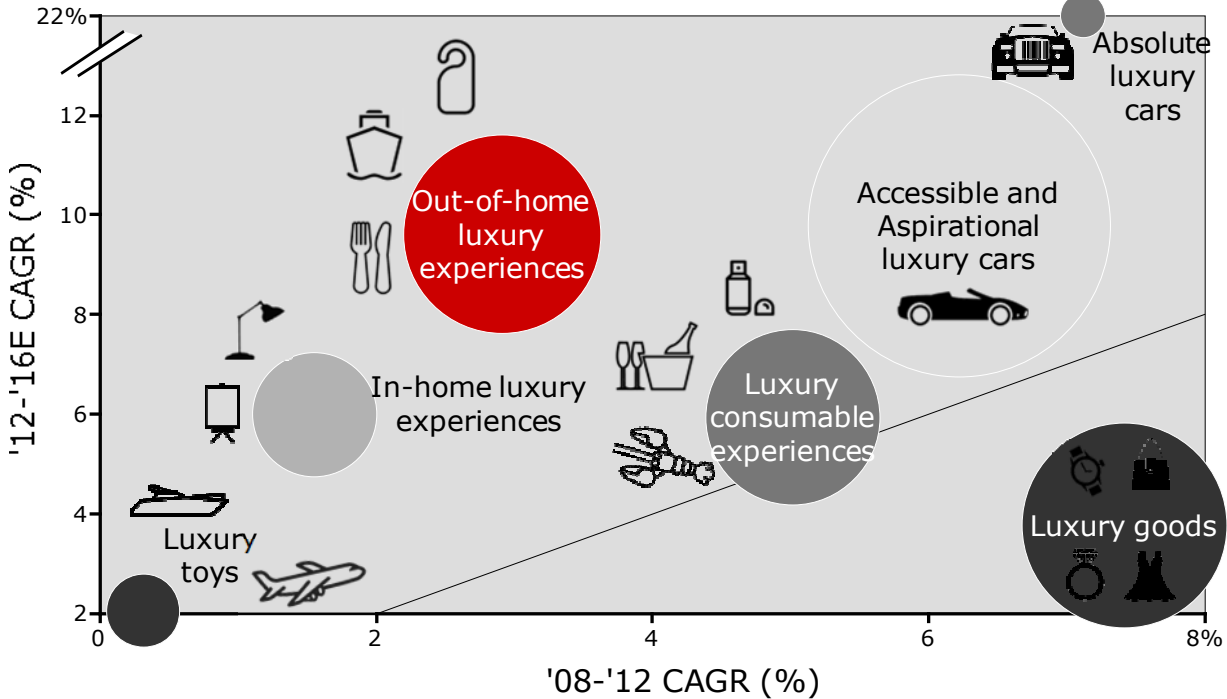
# EXPERIENCE GAINING TRACTION OVER PRODUCT IN GLOBAL LUXURY MARKETS...

## GLOBAL LUXURY GOODS MARKETS BY TYPE (2008-2016E|€B)

**In-home luxury experiences** accelerating on both **high quality design and art**, the latter increasingly legitimated as alternative investment

**Luxury toys** less dynamic than top cars, still waiting to surf the **Chinese wave** on **Yachts and Jets**

**Out-of-home luxury experiences** gaining traction benefiting from the **growth of luxury travellers** and **increasing self-indulgence**



**Luxury Cars** consistently **top performing segment**, especially on the **Absolute segment**, fostered by the **Chinese market** growth **despite recent deceleration**

**Luxury goods** **slowing down** in recent years after being the fastest growing category

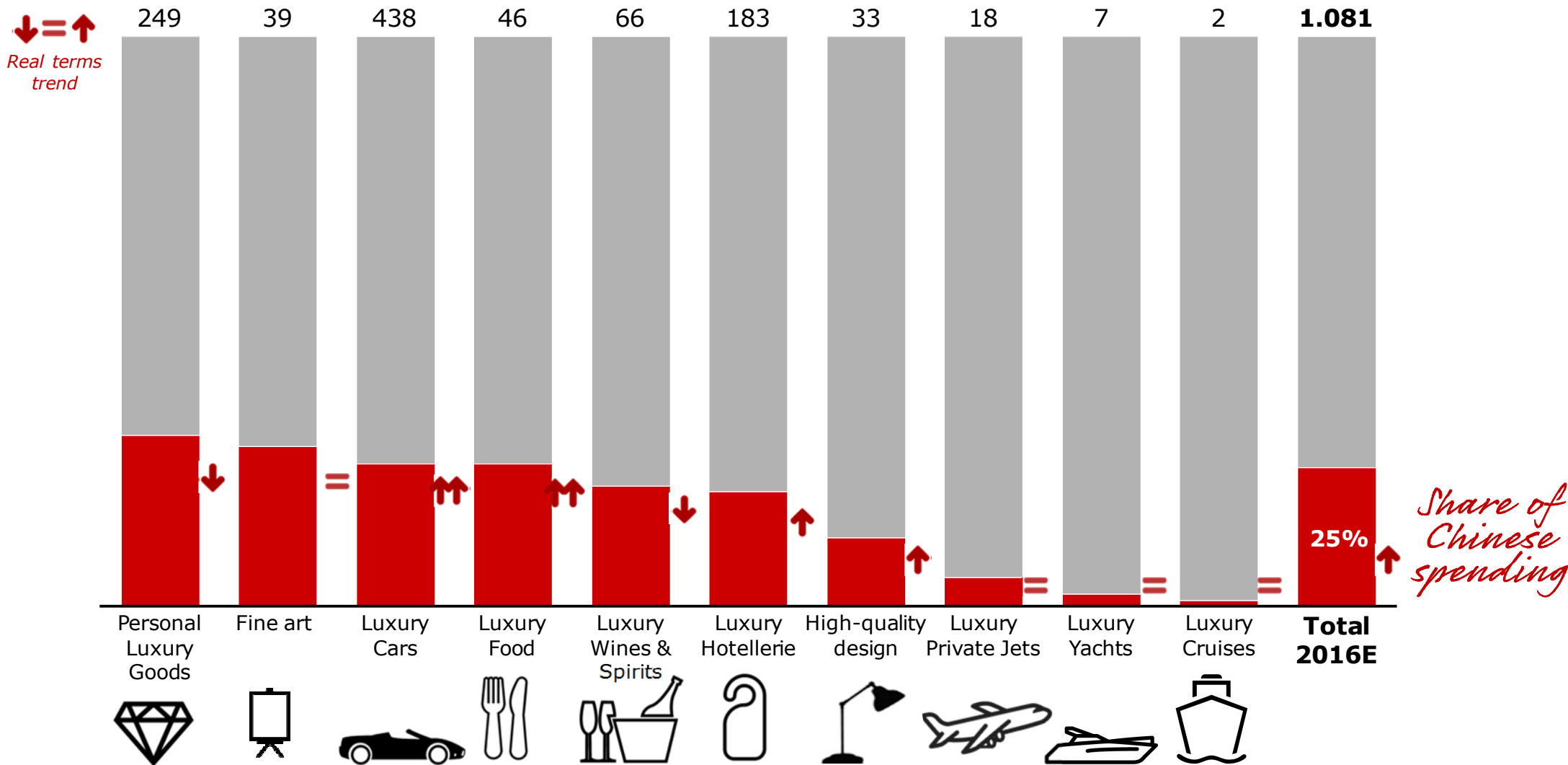
**Luxury consumable experiences** consistently positive fostered by luxury consumers redirecting their spend toward new and more **personal high-end cocooning**

Note: Out-of-home luxury experiences include hotels, cruises and restaurants, luxury toys includes private jets, yachts and Absolute cars, luxury consumable experiences include beauty, wines & spirits and food & beverage, in-home luxury experiences including high quality design and fine art

3

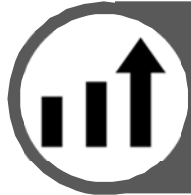
# ...AND CHINESE CONSUMERS ARE THE KEY TARGET FOR FASHION/LUXURY PLAYERS ACROSS ALL CATEGORIES

## CHINESE PENETRATION OF GLOBAL LUXURY GOODS MARKETS (2016E|€B)



# CHINESE LUXURY CONSUMERS WILL EVOLVE AND CONTINUE TO DRIVE FUTURE GROWTH...

## POSITIVE MACROECONOMIC & DEMOGRAPHIC FUNDAMENTALS...



CONSUMER EXPENDITURE EXPECTED TO KEEP GROWING

- Despite the **recent slowdown** in China's economic growth, **consumption** is expected to grow in line with **growing population** (+32M people by 2030) and by an overall **GDP increase**

## ...WITHIN AN EVOLVING SOCIO-DEMOGRAPHIC PICTURE



NEW WAVE OF YOUNGER MILLENNIAL CONSUMERS  
*(consumers of 25-30ys the prevailing group in next 3-5ys)*

- A **younger** and more **sophisticated** generation of **educated, travelers** and **tech-savvy** consumer, with markedly different tastes and consumption habits will dominate the market
  - Chinese luxury consumers are **already younger** than their European and American counterparts (avg. 33 years)



GROWING URBAN MIDDLE CLASS  
*(5x growth rate vs. total population)*

- **Enlarging luxury customer base** especially at the **bottom of the wealth pyramid** and in **secondary cities**
  - **Value-for-money** becoming a key purchasing driver due to slow down in Chinese urban disposable income, benefitting both **lower-end brands & entry price items**



WORKING WOMEN CATCHING UP  
*(today already counting for 3/5 of market)*

- **Women** have become and will **continue to be** an **important rising consumer base** in the Chinese luxury goods market as they are **catching up with men** in the **workplace**
  - Women's self consumption trend will drive **different performance of categories**



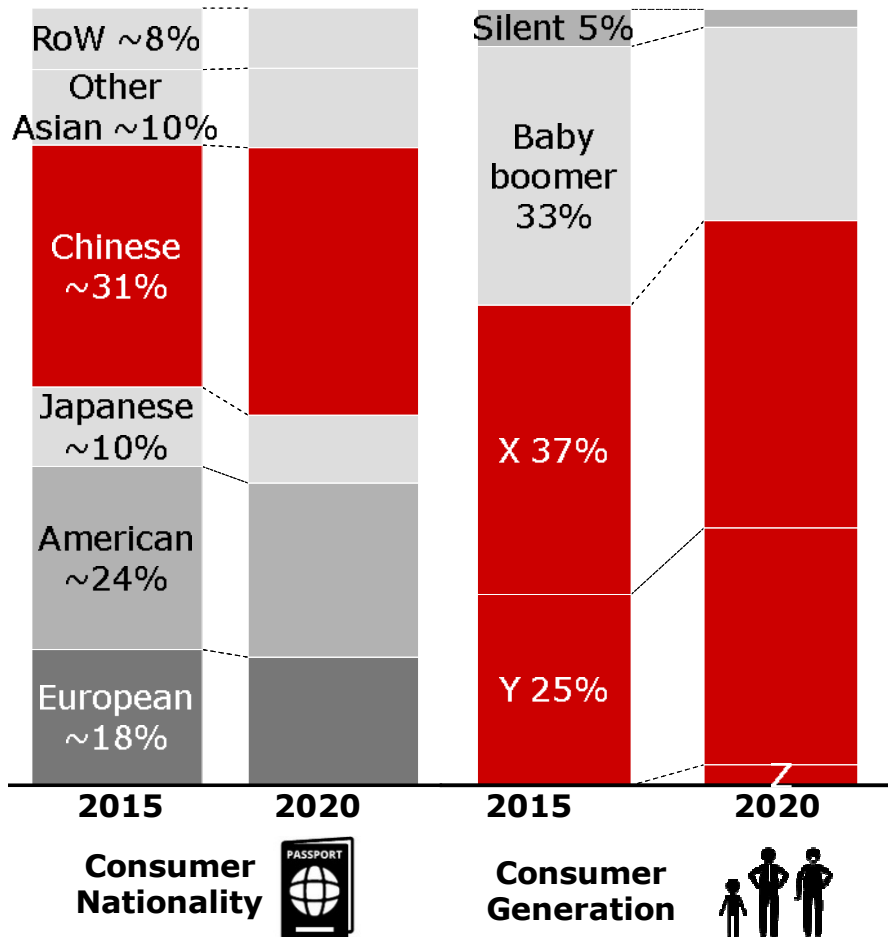
INCREASING "INDIVIDUALISM"  
*(traditional family loosing 5 pp share by 2030)*

- Shift toward more **private, personal purchases** and **increasing spending** on **lifestyle** and **experiential categories**
- **Growing** interest for **real estate investments**

**STRONG CONSUMER BASE EXPANSION AT THE BASE OF THE PYRAMID VS. MORE MATURE HIGH SPENDERS HARDER TO WIN**

# ...ENLARGING THE CUSTOMER BASE WITH YOUNGER AND MORE OPINIONATED CONSUMER

## LUXURY CONSUMERS GROWTH FORECAST BY NATIONALITY AND GENERATION



50M+  
New consumers

ca. 3/4 of total  
Generations X Y Z

- Luxury market **mainly boosted** by **Generation Y** and **Generation X**
- **Generation Y market value** almost entirely **driven** by the **Chinese middle class**
- **Generation X** benefitting from a **higher luxury spending** due to changing consumption habits across regions
- **Generation Z approaching the market**, although still representing a **very small share in 2020**

**YOUNGER (AND MORE OPINIONATED) CHINESE CONSUMERS WILL BE EVER MORE RELEVANT TO THE GROWTH OF THE LUXURY MARKET**

**BAIN & COMPANY** 

*People, Passion, Results!*

## **CLAUDIA D'ARPIZIO, PARTNER** BAIN & COMPANY LUXURY GOODS VERTICAL



Claudia has spent 23 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is also the lead author of Bain's annual Luxury Study, one of the most cited sources of market information in the luxury industry.

In 2009, Claudia was also recognized as one of the 'Top 25 Consultants in the World' by Consulting Magazine.

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## **FEDERICA LEVATO, PARTNER** BAIN & COMPANY LUXURY GOODS VERTICAL



Over the last 12 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, marketing and communication, and more.

Alongside Claudia D'Arpizio, Federica is the co-author of Bain's annual Luxury Study, one of the most cited sources of market information in the luxury industry.