



BUSINESS RESOURCE CHINA

China Hi-End Retail: conference report

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Prospects for luxury brands in China remain healthy, driven by the young and wealthy and also an opportunity to shape consumer perception.

China has had a bumper year 2008 for retail sales, but the signs of global economic slowdown are starting to be felt across the retail sector, including luxury, prompting newly established event organiser Oppland Media to stage its first **China Hi-End Retail** conference in Shanghai last month.

The event attracted more than 150 participants eager to hear from market research, human resources, real estate, interior designer, logistics and technology companies how to survive the retail downturn and **adapt to an evolving luxury market**.



Times Square, Dalian



Plaza 66, Shanghai



Joyce, Shanghai

With 415,000 dollar millionaires at the end of 2007, **China is the fourth largest wealthy consumer market in the world**. The poor performance of the Chinese stock market last year - it lost two-thirds of its value - will have wiped out much of this wealth, but according to most speakers, the prospects for luxury brands in China are healthy.

By 2015, the number of **wealthy consumer households will more than double**, growing much faster than in most other large countries according to McKinsey & Company. Knowing the demographic and purchasing habits of China's rich is essential for luxury brands wanting to establish themselves in the country, for they are unique. For example, **China is the only market where men consume more luxury than women** and has the youngest rich in the world.

"What makes the rich in China stand out is their youth," said Vinay Dixit, senior director of Asia consumer centres at McKinsey & Company. Some 80% are between 18 and 44 years old, making **wealthy consumers in China significantly younger than their foreign peers** and also other Chinese consumers.

The perception of what a luxury brand is, however, remains unclear. More than half (55%) of Chinese consumers started consuming luxury goods during the past four years only, according to McKinsey. Brands such as Nike and adidas which are considered mainstream in the West are **considered luxurious** in China.

Consumer expectations around luxury goods are still evolving. As a result, **companies are in a position to shape consumer perception and behaviour** and have greater flexibility to do so.

China is no longer a single, homogenous market for luxury and is showing **increasing signs of segmentation and differentiation**. Market research

About the event

The inaugural China Hi-End Retail 2009 conference took place May 26-27 in Shanghai. The 2010 conference is scheduled for May 13-14, also in Shanghai.

[www.chinahiendretail.c...](http://www.chinahiendretail.com)

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companies have identified four broad segments, ranging from the "established rich" or connoisseur, to the "independent women" and from "youth" to "flashy and enthusiastic".

Across the board, **luxury is used as a primary social statement**. For example, 64% of Chinese think **luxury brands denote success** while only 1% of Chinese think it denotes superficiality. This emphasis on social statement explains why the visual nature of a brand remains very important in the market - prominent logos, distinctive add-ons and colours all contribute to brand recognition.

Staying accessible is crucial in such a young and upwardly mobile market. Affordable accessories and sub-brands such as D&G Junior or Versus Versace have proved very popular, as have innovative or surprising luxury products such as Louis Vuitton's distinctive mahjong set.

Yet regardless of how affordable and innovative brands are, what will make them difference in the Chinese market is ultimately the shopping experience itself. As buying behaviors are shifting from needs-based to aspirational purchasing, **Chinese consumers are becoming more demanding in terms of store experience**. The youth segment, especially, is less forgiving than their parents. According to the IBM China Shopper Advocacy Study 2009, Chinese consumers will leave a retailer after an average 2.9 negative experiences but young consumers will leave after 2.7 negative experiences. Older consumers are more tolerant will wait until they experience 3.1 negative experiences before switching brands.

The internet and other access to information means that **China's consumers are well informed**, and sometimes know more about a brand or a product than sales assistant, which makes this time in retail more challenging.

"Memorable and pleasurable experiences foster an emotional connection to the brand," said Yolanda Wang, business development executive for retail industry, IBM Greater China Group, who believes shoppers can contribute to a brand's success if they turn into brand advocates. According to Wang, **89% of consumers trust other consumers somewhat or completely**. However, advocacy is low in China: 13% of customers would actually recommend a brand, compared to 38% advocacy in the US. "Real advocates spend 10% more and are likely to increase spending over time," she added.

Technology, such as data-mining (which digs information stored about a customer and quickly retrieves it), can help advocacy by creating sustainable differentiation, according to Wang. Information such as the customer's birthday, purchasing habits and expectations enables retailers to provide a better service at the store level but also online. Online experience counts too," warns Wang. "Operations such as promotions, online sales and direct marketing, should be carefully monitored too. **Every interaction is an opportunity to destroy or improve the emotional connection.**"