

McKinsey Greater China's Apparel, Fashion and Luxury Group

China Luxury Report 2019

How young Chinese consumers
are reshaping global luxury



Introduction

This is the story of how a new generation of Chinese consumers are powering the global luxury market, and the double-edged sword they present to the world's leading luxury brands.

Set to be the engine of global spending on high-end shoes, bags, fashion, jewelry, and watches, China's affluent upper-middle class presents an enticing prospect for the world's designer brands.

Imbued with a confidence to spend underpinned by a lifetime watching new skyscrapers rise in tandem with their family incomes, these consumers are eager to tap luxury as a means of social advancement and self-differentiation.

This is so even in the context of the sharpest slowdown in China's economy since the financial crisis, and with it a slide in demand for discretionary items such as new cars and mobile phones.

At the high end, negative impacts are evident in Hong Kong, where jewelry sales and imports of Swiss watches have slowed, but even in these categories demand remains relatively strong on the mainland.

Indeed, the luxury segment remains robust, amid a continuation of a trend in premiumization that has seen sales of premium cars and premium beer, as well as prestige beauty products, outperform the wider market.

Young Chinese consumers view ownership and affiliation with designer brands as a form of social capital; not just something to wear, but a lifestyle choice that marks them as part of a distinct and exclusive community.

That community is constantly being refreshed via a glittering stream of online content, keeping pace with which demands consumers are "always on," immersed and engaged in a digital world that is nothing short of a way of life.

Research for the 2019 McKinsey China Luxury Report shows that the majority of these young consumers are fresh to market, presenting both a tantalizing opportunity and an implicit imperative for brands to stay current, or risk losing out to more digitally savvy rivals.

What's more, while some fashion houses excel at various aspects of online marketing and commerce, even the most popular luxury brands have yet to establish a comprehensive presence across the digital ecosystem.

Consequently, opportunity abounds as brands seek to engage the attention of consumers in the world's most lucrative and fastest-growing luxury market.



China is winning half the luxury world

Key takeaway 1: Chinese consumers are set to contribute almost two-thirds of global growth in luxury spending

China delivered more than half the global growth in luxury spending between 2012–18, and is expected to deliver 65 percent of the world's additional spending heading into 2025, according to research based on UnionPay transaction data for the 2019 McKinsey China Luxury Report.

In 2018, Chinese consumers at home and abroad spent 770 billion RMB (\$115 billion) on luxury items—equivalent to a third of the global spend—with each luxury-consuming household spending an average of 80,000 RMB per year.

Their outlay is set to almost double to 1.2 trillion RMB by 2025, when 40 percent of the world's spending on luxury goods will be conducted by Chinese consumers (Exhibit 1).

That growth will be primarily driven by an explosion of upper-middle-class households, the population of which will rise at a compound annual growth rate of 28 percent from 2018 to 2025, taking the total number of people in China earning between \$2,600 and \$3,900 per month per household to 350 million. China's affluent class (households earning above \$3,900 per month) will almost triple to 65 million people during the same time period.

The majority of them, about 70 percent in fact, will be doing their luxury spending overseas, a result of an increasing affinity for outbound travel¹ and the price differential resulting from China's import tax regime and brands' own pricing policies. However, that ratio may shift in favor of domestic spending as a result of moves to cut luxury import taxes.

While some luxury brands have posted disappointing results due to weak China demand, the likes of LVMH, the world's largest luxury group, and Switzerland's Richemont, owner of Cartier, reported their China sales accelerated in the final quarter of last year.

This is in keeping with the notion that luxury in China is a winner-takes-all market, a tendency best reflected in the composition of the country's fashion market. As explored in our State of Fashion 2019 report, the vast majority of fashion-industry profit in China is secured by the top 20 percent of companies, creating a polarized market dominated by a subset of “super winners.”

The same can be said for luxury, placing the onus on brands to stay at or near the top of the market or risk sliding into irrelevancy. This demands an aggressive yet flexible approach, particularly as we expect macroeconomic headwinds will eventually take a toll on wealthy Chinese consumers, or at least the value of their assets.

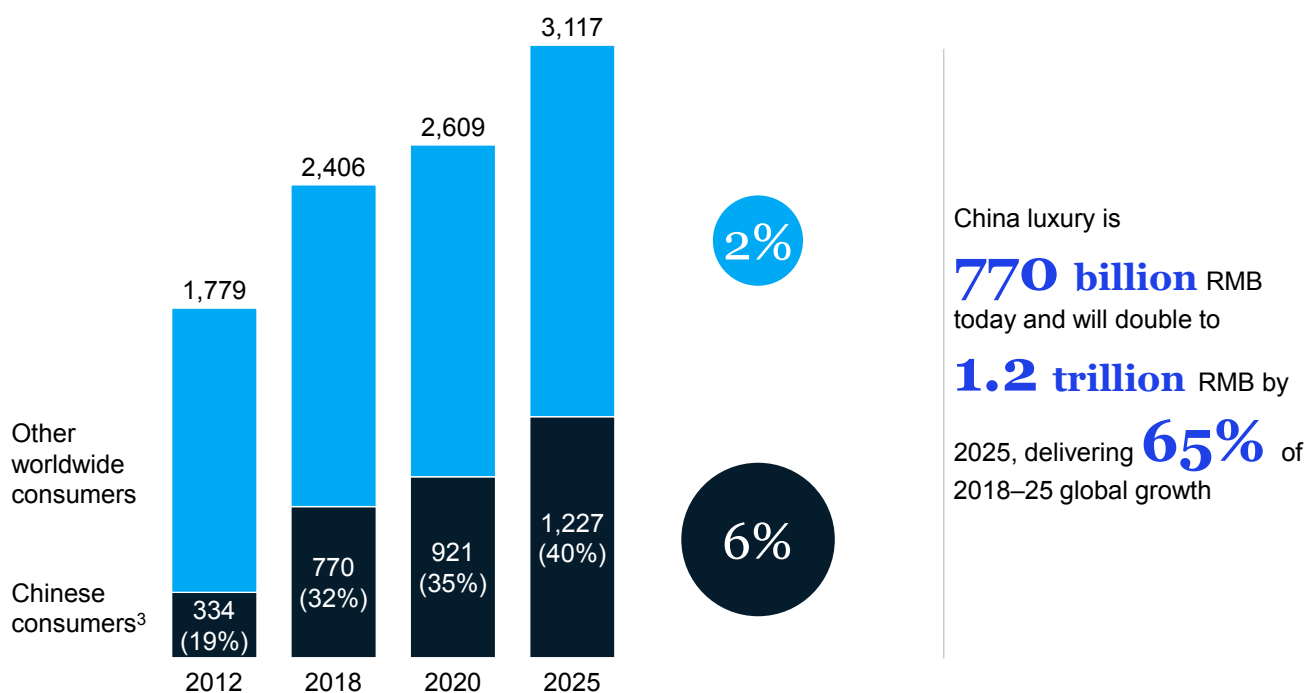
¹ Our *Chinese tourists: Dispelling the myths* report suggests Chinese travelers will make 160 million outbound trips each year by 2020, with spending tipped to grow 6.1 percent over the next couple of years.

Exhibit 1

China is winning half of the luxury world.

Global personal luxury goods¹ market evolution
RMB² billion

2020–25 compound
annual growth rate



¹Ready to wear, accessories, watches and jewelry, and beauty.

²Fixed exchange rate of €1 = 7.3 RMB.

³Both domestic and overseas spending.

SOURCE: China Luxury Report 2019; China Luxury Report 2017

China's young luxury consumers

Key takeaway 2: The post-'80s/'90s generations, many new to luxury, power the Chinese market

China's post-'80s (born in the 1980s) generation, who broadly map to Generation Y, are the driving force of the country's luxury appetite.

Consisting of 10.2 million luxury consumers, they accounted for more than half the total spending on luxury by Chinese consumers in 2018 (Exhibit 2).

Having grown up in step with China's emergence as a global superpower, they are the primary beneficiaries of the economy's rapid and unbroken growth, and spend an average of 41,000 RMB per person each year on luxury.

Now, at the peak of their career and earnings, and with a passport likely stamped with trips to the world's most glamorous cities, they are spending to show off their success, and to demonstrate individualism in the world's most populous urban landscape.

Following in the footsteps of their slightly older peers, China's post-'90s consumers, better known as Generation Z, are delivering the shot in the arm China's luxury market needed to emerge from several years of stagnant growth.

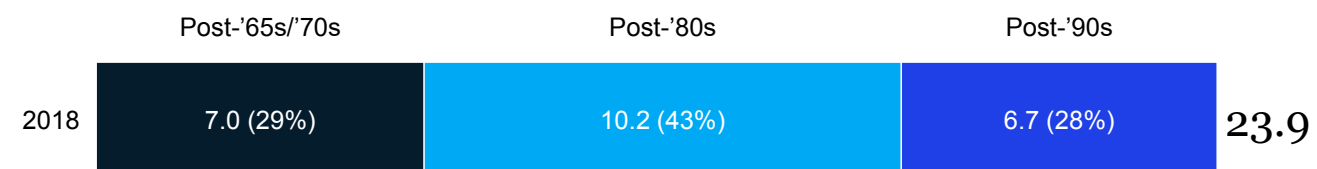
Enticed by luxury streetwear and other product lines targeted squarely at their demographic, the post-'90s consumers spend 25,000 RMB a year on luxury goods, already as much as their parents—the post-'65s/'70s generation popularly referred to as Generation X.

The post-'90s consumers are the vanguard of China's urban middle-class, a dynamic and digitally engrossed cohort that as the "single child generation" are the recipients of an outsize level of familial support. Two-thirds told us their parents support their luxury spend, with McKinsey Global Institute modeling suggesting that upper-middle-class Chinese families top up their post-'90s children's bank balance by at least 4,000 RMB per month, or half their personal income. This financial cushion has a large impact on these young consumers' willingness to spend, and spend big, on luxury.

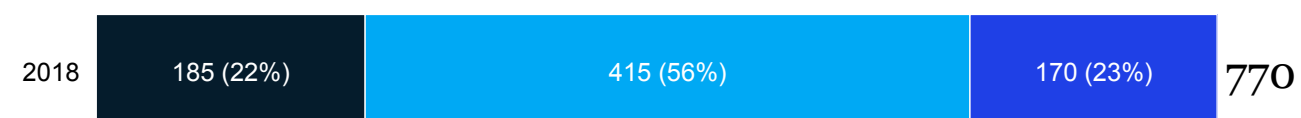
Exhibit 2

Post-'80s consumers are still the largest luxury spending group in terms of both consumer numbers and total spending.

Total no. luxury consumers by generation
Million, %



Annual luxury spending by generation
Billion RMB, %



Note: Figures may not sum to 100%, because of rounding.

SOURCE: China Luxury Report 2019

A whole new world

Research for the 2019 McKinsey China Luxury Report shows that China's young consumers are new to luxury, and thus have a less nuanced understanding of the heritage upon which the market traditionally trades.

Only 13 percent of post-'80s/'90s luxury spenders said they grew up in a family familiar with the finer things in life, while half of post-'90s, and

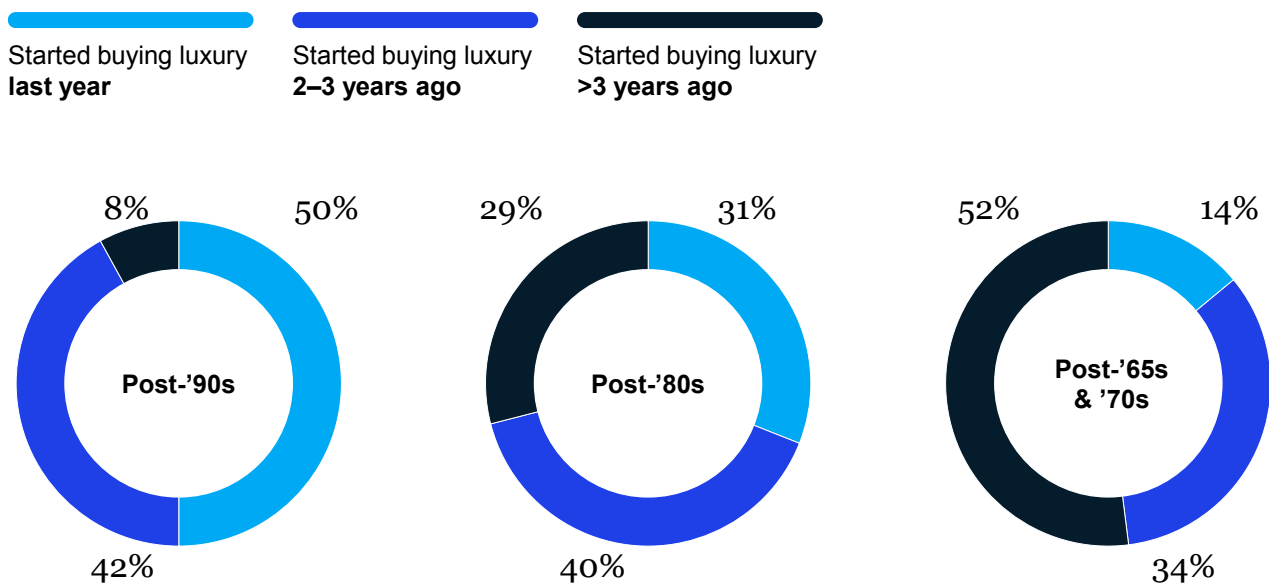
31 percent of post-'80s consumers, only made their first luxury purchase in the last year (Exhibit 3).

Luxury is also a relative novelty for many of the post-'65s/'70s group—just under half bought their first designer item less than three years ago. Nine out of 10 of the youngest generation and more than two-thirds of post-'80s consumers, also only started their engagement with luxury within the last three years.

Instead of legacy reputations established over hundreds of years in Europe, these new luxury consumers are influenced more by what is happening right now, leaving ample room for brands with the right strategy to shape their tastes.

Exhibit 3

Young consumers are new to luxury: Half of post-'90s consumers only started last year.



Only **13%** of post-'80s and '90s surveyed grew up with luxury

SOURCE: China Luxury Report 2019

Section 1: What do they want?

Key takeaway 3: Promoting iconic brand-product combinations is key

Young Chinese consumers told us luxury helps them feel distinct from the people with whom they share their cities.

They see luxury as a form of social capital that helps mark them apart, and achieve personal and social goals.

That sentiment intensifies towards the younger end of the spectrum, with well over half the sample, and almost 70 percent of post-'90s consumers, telling us they buy luxury to "feel different rather than fit in with society."

Buying luxury is also a way to convey and enjoy a shared social experience and value system—a lifestyle and community that lives and breathes luxury, online and in the flesh.

Young Chinese consumers' consumption of media, and the luxury lifestyle it portrays, is consequently heavily social and trend dependent—a desire to be seen or snapped in the latest styles drives consumption, and with it a need for brands to constantly update their styles or leverage creative marketing to create the illusion of newness.

More than three-quarters of young Chinese consumers are thus most interested in buying iconic styles that are easily recognizable, with the trend most prevalent among the post-'65s/'70s consumers.

Indeed, the concept of a niche brand has multiple meanings across luxury segments, from one that exhibits unique design to those that are niche in the sense of being rarely seen on the street, or simply not available in mainland China.

In any case, China's luxury market has yet to develop the widespread sophistication necessary to sustain demand for truly niche or boutique brands, as has been the case in the West.

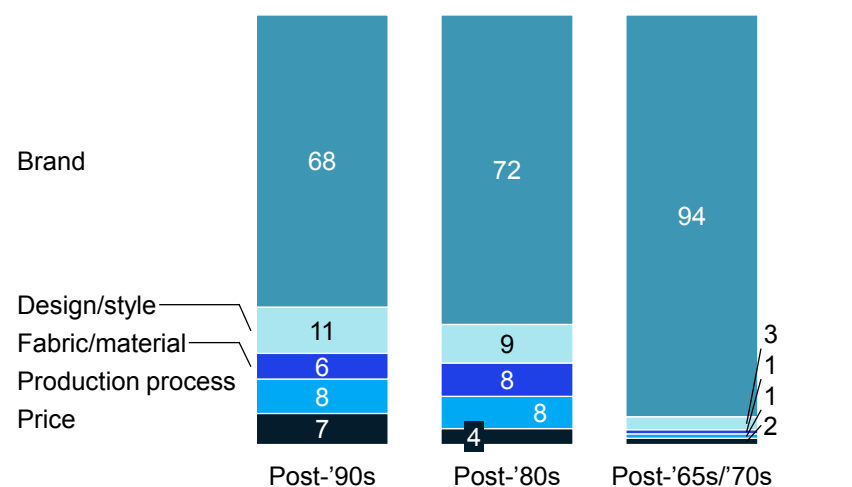
Brand remains king when it comes to informing taste across all our surveyed generations, but is relatively less important for younger consumers. For example, brand was the top reason for the last luxury purchase among 68 percent of the post-'90s consumers, compared with 94 percent of the post-'65s/'70s consumers (Exhibit 4).

Exhibit 4

Brand is important, but relatively less so among young consumers.

Top reason for last luxury purchase by generation

% of respondents who selected reason as no. 1 contributing factor



Brand is still the most important factor but relatively less so vs the older generation

- Social influence accelerates sophistication: consumers start to appreciate more nuanced elements such as design, fabric, and manufacturing process
- Commanding knowledge beyond simply brand is another form of social capital to be demonstrated among peers

Participants ranked these 5 reasons as a contributing factor for their most recent purchase

Note: Figures may not sum to 100%, because of rounding.

SOURCE: China Luxury Report 2019

Brand loyalty tends to be higher among the older generation, some of whom are likely to be VIPs for various brands as a result of several years sharing their insights with peers as key opinion leaders (KOLs).

Having said that, the overwhelmingly social nature of luxury consumption in China acts as a catalyst for consumers to learn about and share

an appreciation for craft; younger consumers in particular tend to value design, fabric, and the production process.

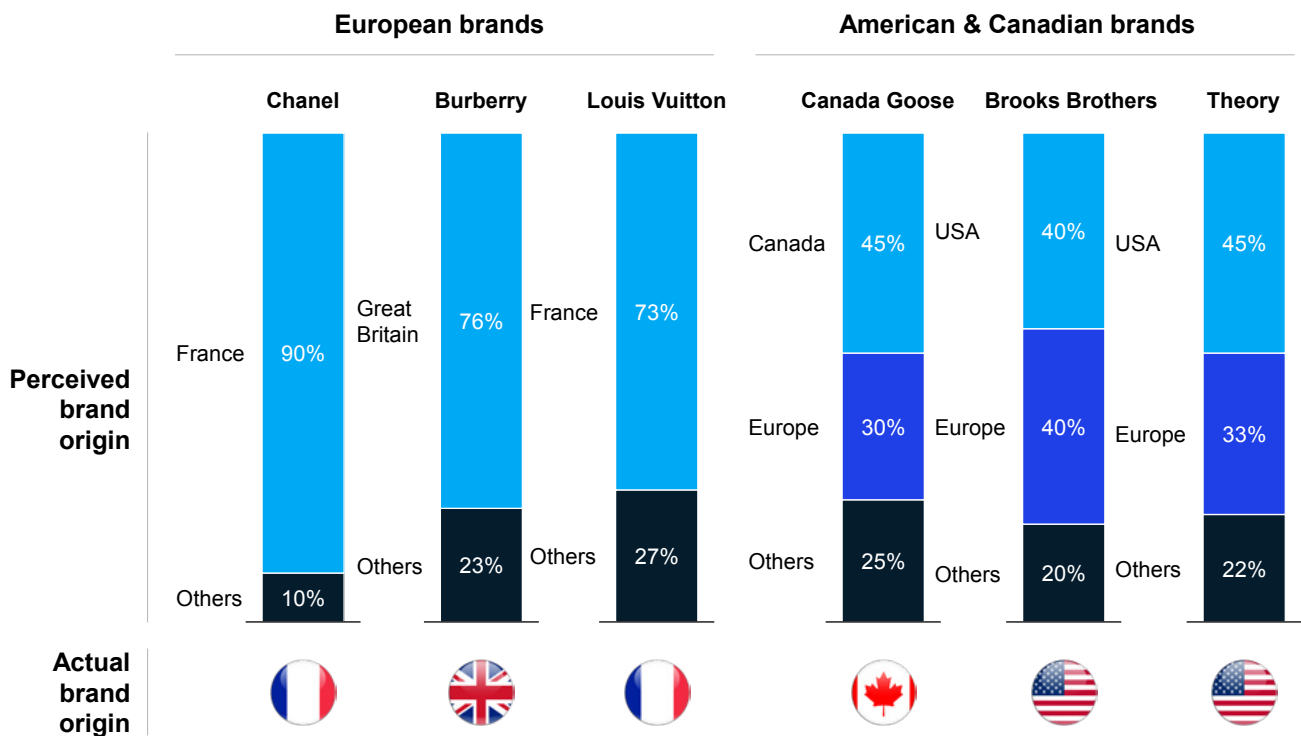
We found young consumers prefer foreign luxury brands, particularly those from France and Italy, closely followed by Great Britain, with Japanese and American labels also more appealing than homegrown luxury alternatives.

In fact, the post-'65s/'70s consumers told us they have no interest in buying Chinese luxury brands, but there are signs that such negative perceptions about domestic players are beginning to fade: one in ten post-'90s consumers said they would opt for a high-end Chinese brand, and this likely will increase in the near future as Chinese brands gain greater prominence.

Exhibit 5

The origin of North American brands is typically not well known.

Perceived country of origin vs actual country of origin



Note: Figures may not sum to 100%, because of rounding.

SOURCE: China Luxury Report 2019

For the time being, it is European brands that command the greatest recognition, and which are most strongly desired by consumers. Less than half of respondents were able to correctly name the country of origin for selected American and Canadian brands (Exhibit 5).

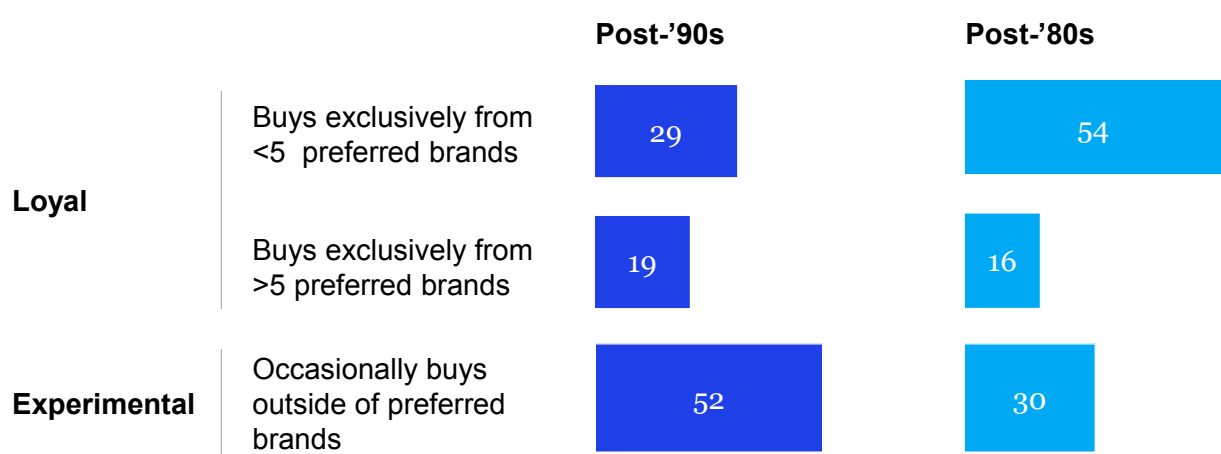
Intriguingly, our research also suggests young consumers are loyal not to brands per se, but to iconic brand-product combinations.

Online commentators often bestow nicknames on these products, helping circumvent problems less sophisticated consumers might have with pronouncing English and French names, and making it easier to share and discuss a product on social media, or to talk about in person with sales staff.

Nicknames are most often coined by the local market, and are based on a product's appearance, transliterations and translations, or pop culture references. For example, Prada's Saffiano handbag earned the nickname "killer bag" after actor Lea Seydoux's assassin character carried it with her in the movie *Mission Impossible: Ghost Protocol*.

Exhibit 6
Trying new brands is a consistent theme across generations.

Brand basket and loyalty of consumers
 % of respondents purchased no. of brands and whether they buy outside of preferred brands



SOURCE: China Luxury Report 2019

Willingness to try new brands is a consistent theme across generations, but it is the post-'90s consumers who are committed to the widest basket, and at the same time most prepared to venture outside their comfort zone (Exhibit 6).

The desire to create just the right mix of incentive for young consumers to switch brands necessitates that luxury players constantly renew and refresh their product lines, or at least push marketing that sustains an illusion of newness.

The result is a whirlwind of content designed to elevate each new product to the iconic, must-have status of, say, the Birkin Bag.

Focus on product in addition to brand is enabled by consumers' high exposure to social media. This allows marketers to tailor video, images, and other content purely to product.

The trend finds its apotheosis in cross-brand product collaborations, for example LV and Supreme partnering to release a series of limited-edition

apparel and accessories in 2017, which sold out in three days in Beijing, rather than the originally intended two weeks.

Brands are also teaming up with KOLs to help stoke excitement for product launches, often resulting in sold-out product lines or large upswings in a brand's social-media followings. For example, in 2017, Burberry partnered with top fashion KOL Mr. Bags to promote a special edition exclusively launched via WeChat, which sold out in less than ten minutes.



Section 2: Marketing and engagement

Key takeaway 4: Everything is media, social is everywhere

Being relatively new to luxury, Chinese consumers are constantly tapping various forms of content as they strive to improve their awareness of the market.

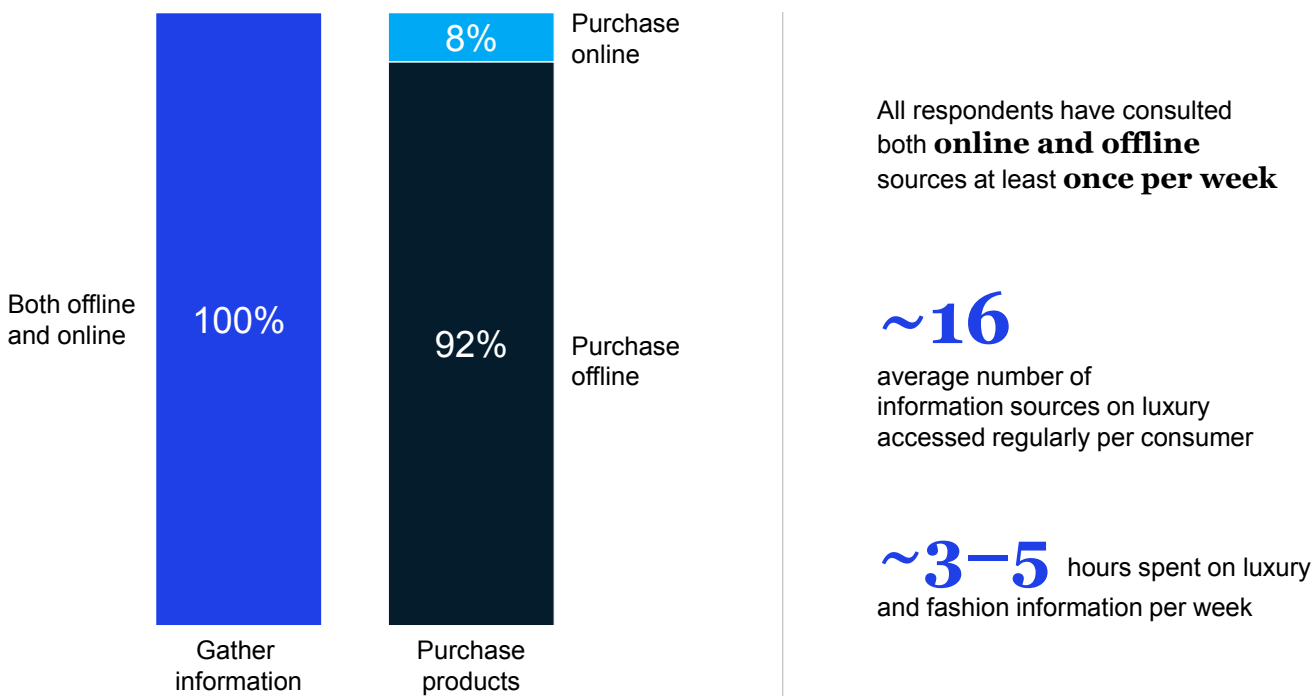
All of the 1,000 respondents we surveyed consult a mix of online and offline sources during the three to five hours per week they spend absorbing information on luxury and fashion, with every single one saying they were exposed to digital influence at some point in their customer journey (Exhibit 7).

At every touchpoint, from e-commerce to in-store, and of course through social media, consumers are seeking to pick up information about the latest luxury products, the celebrities who promote them, and the lifestyles they embody. Only traditional ads fail to command the avid attention of consumers, according to our research (Exhibit 8).

Exhibit 7

All Chinese luxury consumers are influenced by both online and offline touchpoints.

Information and channel preference of Chinese luxury consumers
Sources consulted and channel of last purchase experience



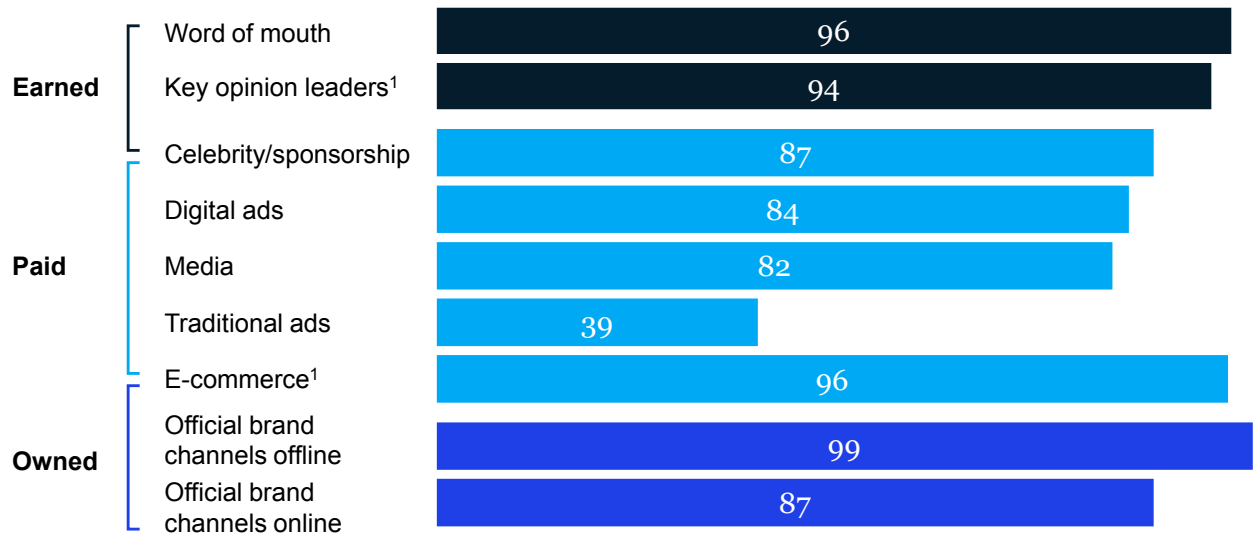
SOURCE: China Luxury Report 2019

Exhibit 8

All channels except for traditional ads command high engagement.

How do you get information about new luxury brands?

% of respondents



¹KOLs can be either paid or earned; Ecommerce can be either paid or owned.

SOURCE: China Luxury Report 2019

Despite their affinity for digital discovery, in-person experiences in brand stores are the most impactful when it comes to making a purchase decision for nine out of ten young Chinese consumers (Exhibit 9).

While all our respondents said they leverage brands' official channels for information, paid and earned avenues offer a means for brands to differentiate, particularly those trying to expand their reach or alter their image.

In keeping with their belief in luxury as social capital, word of mouth is the

most commonly accessed source of information on new luxury brands. These channels include cross-border commerce offerings, commonly referred to as Daigou².

E-commerce, whether third-party or owned, plays a uniquely important role in gathering information. Consumers use e-commerce platforms to source facts about products, as well as read peer reviews and product experiences, with 45 percent of respondents indicating it is a favored consultation channel.

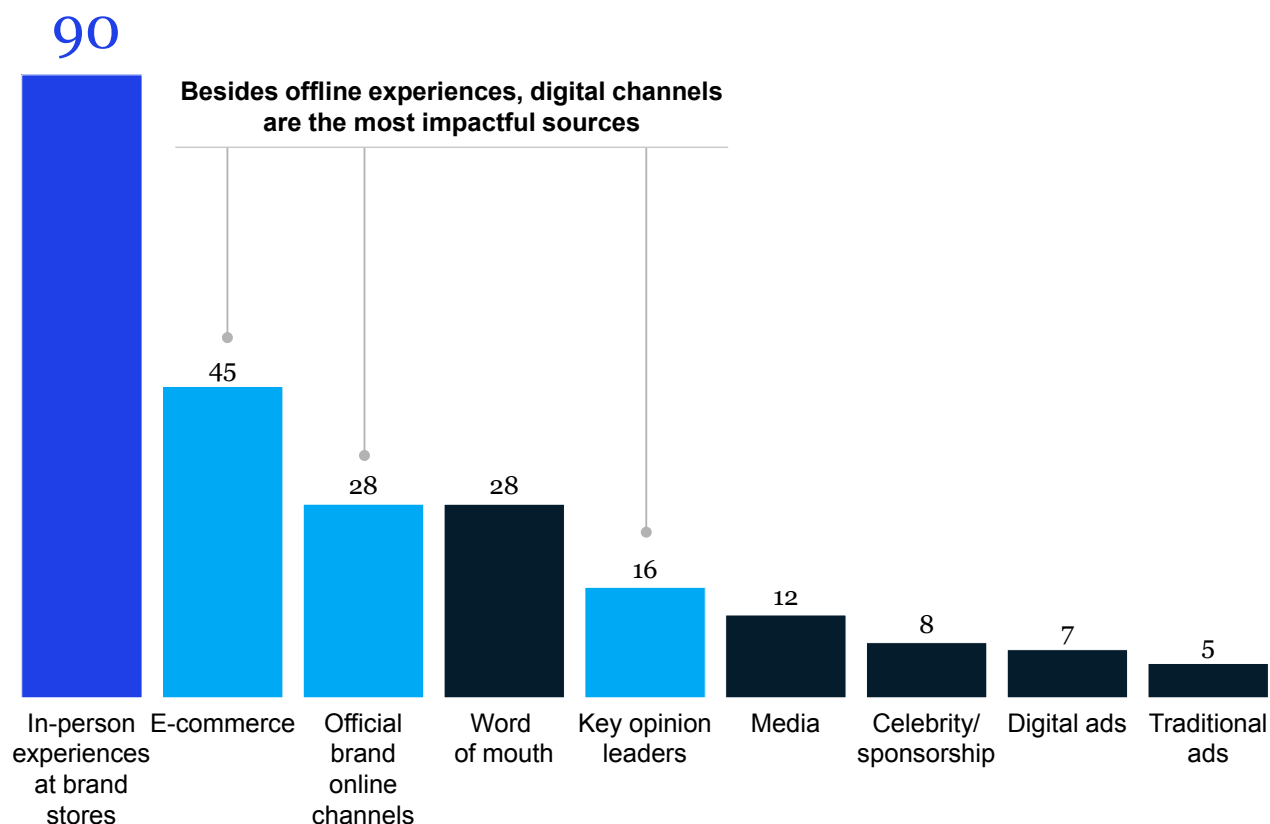
Post-'80s/'90s consumers rely significantly on the kind of online commentary that e-commerce sites provide, with 54 percent telling us they consult peer reviews compared with just a third of post-'65s/'70s consumers.

Consumer-to-consumer platforms like XiaoHongShu (RED) also allow China's young luxury acolytes to share newly accrued knowledge by posting unboxing experiences, buyer's guides, wearing occasions, and anecdotes.

² Daigou (dye-go), or "to buy on behalf," describes the practice of purchasing sought-after goods -- from high-end handbags to premium infant formula -- overseas to resell back home. Source: Bloomberg, <https://www.bloomberg.com/news/articles/2019-01-28/what-s-daigou-and-what-s-it-to-gucci-and-beijing-quicktake>.

Among all engagement channels, the most impactful are in-person and in-store.

What are the most impactful sources of information that influence your purchase (top 3 mentions)?
% of survey respondents



SOURCE: China Luxury Report 2019

KOL Kingdom

Young Chinese luxury shoppers are heavily influenced by KOLs.

Celebrities like Angelababy, Yang Mi, and Tiffany Tang, as well as fashion bloggers like Gogoboi, all play a major role in raising awareness of new products, as they command wider followings than brand-owned channels (Exhibit 10).

They also serve to contextualize luxury products in daily life, making them accessible to the new luxury consumers that constitute the bulk of the China market.

Tracking the media journey of Chanel's Gabrielle bag shows how, following the brand campaign launch, celebrity Yang

Mi caused a stir by appearing with the bag on the WeChat channel of Mr. Bags, another influential Chinese fashion blogger.

High-profile local KOLs then took up the reins, serving to deconstruct global high fashion into easily understandable chunks, before a long tail of approximately one million amateur influencers localized the product for consumers all over the country.

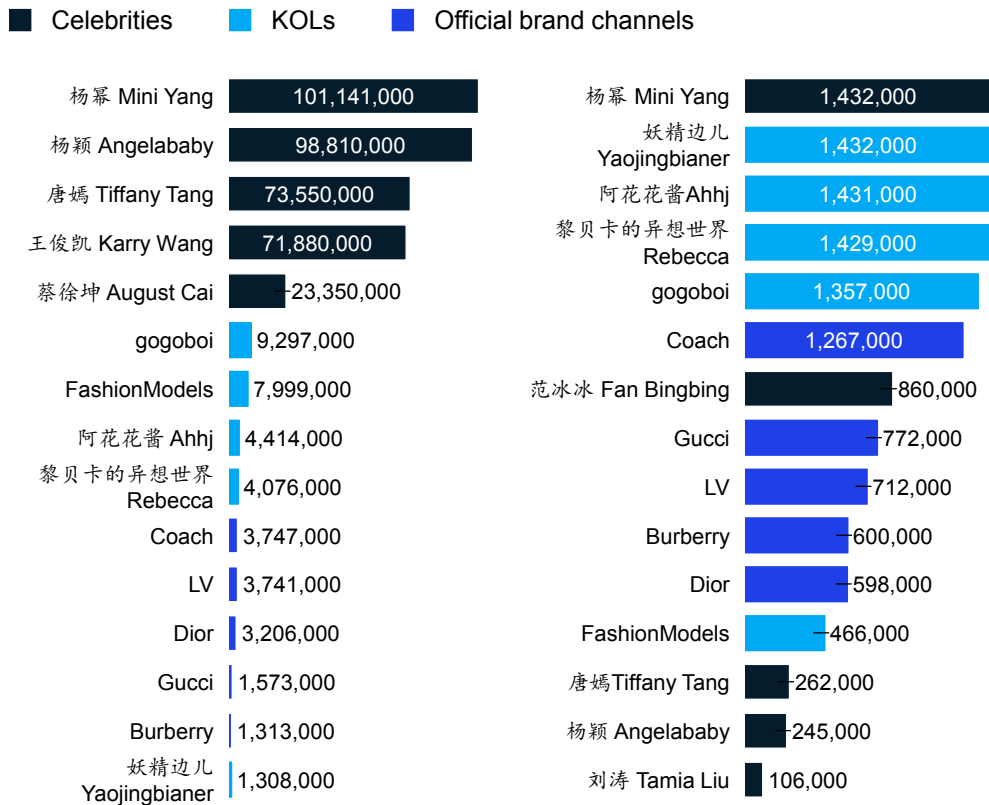
Successful brands consequently employ a portfolio approach to KOL engagement: working with celebrities and influencers with varying degrees of star power, a trend that has spurred the emergence of online platforms that assist brands with finding suitable KOLs.

LV, for example, works closely with a core group of brand ambassadors with global reach such as Chinese-Canadian star Kris Wu, but hires others on an ad hoc basis according to the needs of individual events or product launches. The brand also leverages partnerships with KOLs like Mr. Bags, who managed a Beijing pop-up store for a day, and Gogoboi, who ran the brand's Weibo account during the 2017 LV Fashion Week, to help introduce products to the widest possible audience.

Top celebrities and key opinion leaders (KOLs) have wider reach than brand-owned channels.

Estimated number of active Weibo followers

Estimated number of active WeChat followers



Celebrity and KOL influence particularly pronounced in **“social-oriented”** and interactive channels

SOURCES: Press search, as of Nov 2018

While WeChat remains the foremost platform for branded media, it is also increasingly used to drive interactive consumer engagement, both through official accounts and through mini-programs within the WeChat ecosystem that host interactive digital games and other experiences such as product trials, service reservations, consumer advice, and more. Other platforms like Baidu, Douyin and Alipay are now establishing their own mini-programs.

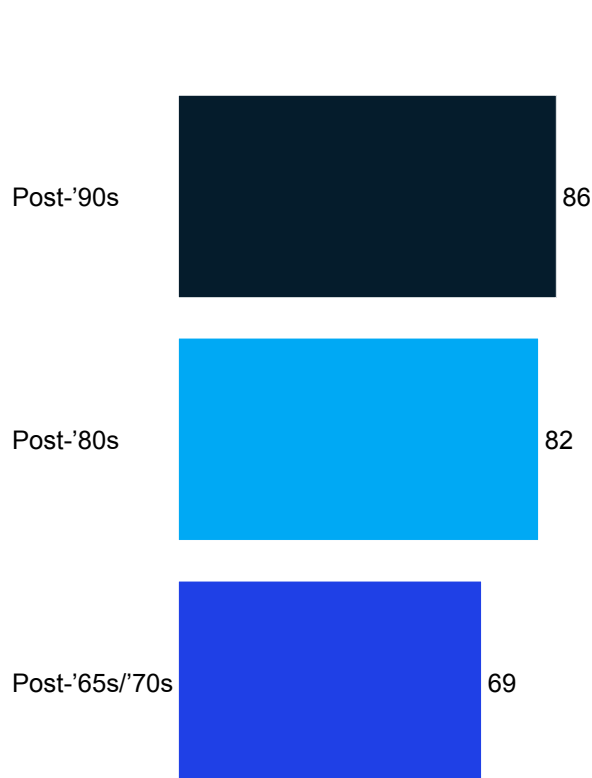
Moreover, pioneers are pushing into new mediums such as video-sharing app Douyin, also known as TikTok. American fashion brand Michael Kors partnered with KOLs to create a series of catwalk videos in various city streets, before challenging users to follow suit via their Douyin accounts. The campaign generated 200 million views for the more than 30,000 user-generated videos submitted.

Successfully launching new products thus requires that brands adopt an omni-channel approach that drives a high level of consumer engagement, demanding new creative campaigns on a regular basis.

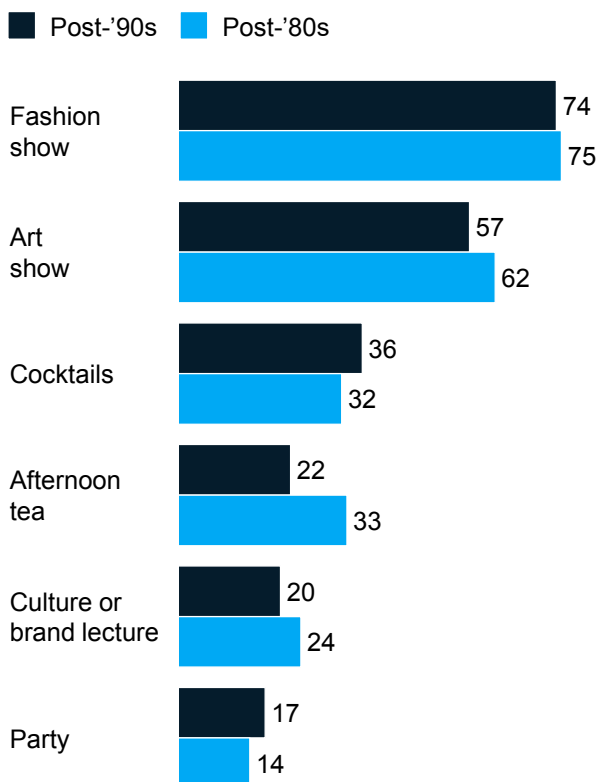
This flow of paid and earned media coupled with multiple opportunities for consumer engagement helps cement a product's iconic positioning in the digital firmament.

Younger generations have a stronger preference for fashion and art events where they can highlight their sophisticated tastes.

% of respondents attracted by more than 1 type of event hosted by luxury brands



Preferred events hosted by luxury brands
% of survey respondents



SOURCE: China Luxury Report 2019

Young Chinese consumers are also demanding more from luxury brands when it comes to hosting offline events (Exhibit 11). Fashion shows are the event of choice for three-quarters of post-'80s/'90s consumers, with art-related gatherings also commanding strong interest.

For example, LV's "Volez Voguez Voyagez" museum-quality exhibition in Shanghai created a sense of exoticism for consumers dreaming of an escape from the depths of China's winter, while a WeChat mini-program helped drive engagement by linking bookings to the event's marketing campaign.



Section 3: Channel and sales

Key takeaway 5: While discovery is digital, purchases are influenced and made in person

In keeping with young Chinese consumers' susceptibility to in-store influence, sales staff play a critical role in providing purchase advice and suggestions, including in the form of WeChat messages (Exhibit 12).

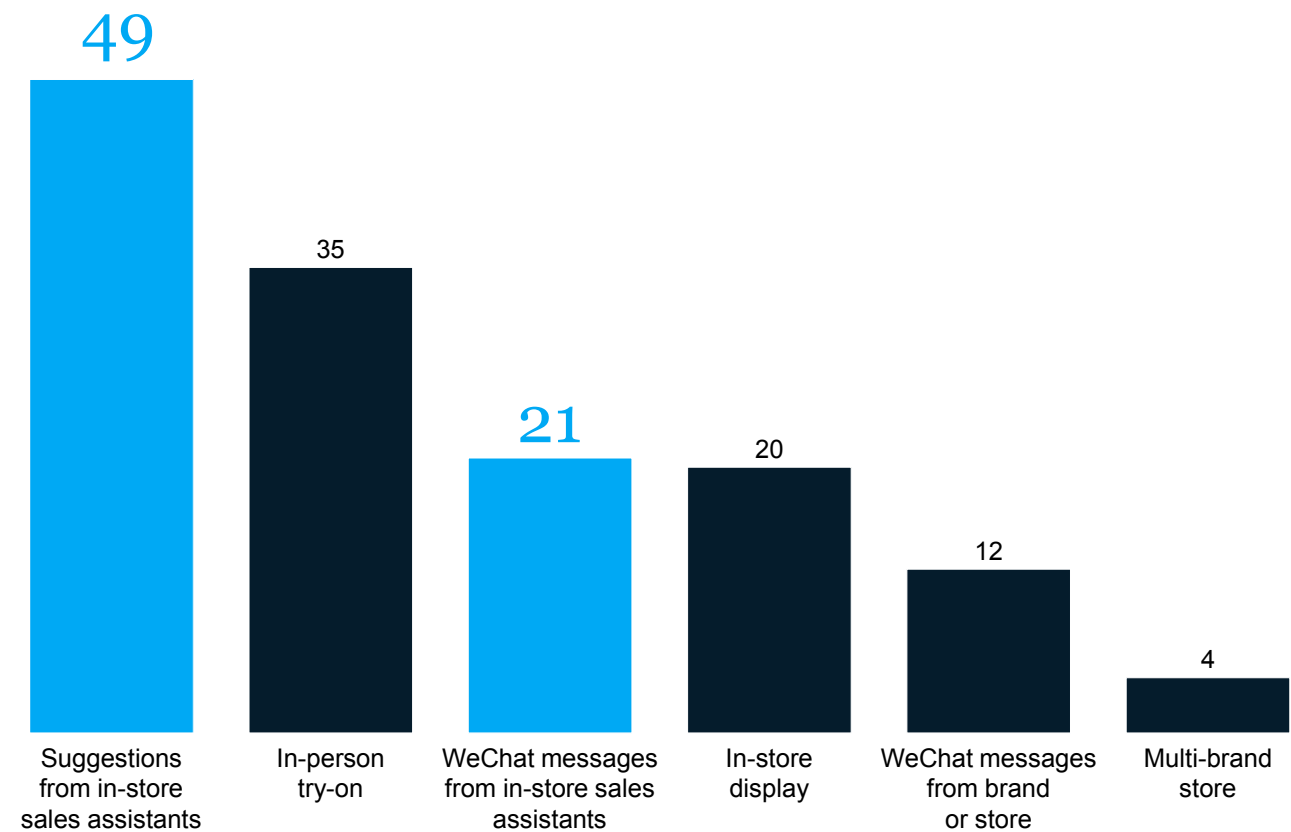
For about half our sample of post-'80s/'90s consumers, this means ensuring sales staff provide regular updates on product information, but there is more to it than that. The younger generation expect a more personal service, down to staff who can help pick out accessories based on an intimate knowledge of the customer's personality, as well as their previous purchases or preferences. They also value staff who can make fashion shows or parties more accessible, and who keep in touch, more as a friend than merely a salesperson.

As for the post-'65s/'70s consumers, they rely on staff who understand their personal life, including their family situation, and their related emotional needs.

Exhibit 12

In-store sales assistants play a critical influencing role, both through physical interaction and WeChat messages.

What are the most impactful brand offline channels that influence your purchase (top 3 mentions)?
% of survey respondents



SOURCE: China Luxury Report 2019

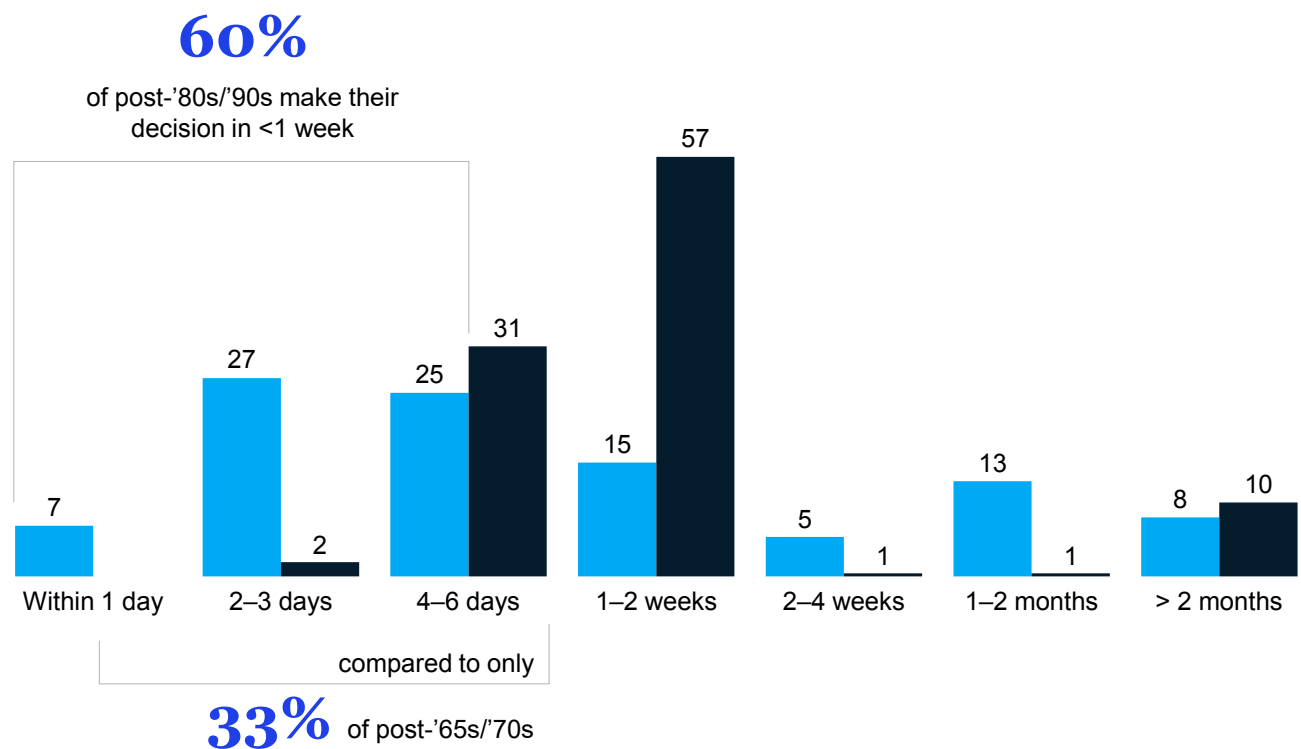
Exhibit 13

Thanks to social-media engagement and cultivation, younger consumers make faster purchasing decisions.

How long did you consider before making the purchase decision?

% of consumers surveyed

■ Post-'80s/'90s ■ Post-'65s/'70s



SOURCE: China Luxury Report 2019

Immersion in luxury speeds up the decision-making process for younger consumers (Exhibit 13).

Half of the post-'80s/'90s consumers said they arrive in store with a clear understanding of what they want to buy, as they already spend a lot of time researching in daily life; while 60 percent told us they took less than a week to make their purchase decision.

The post-'65s/'70s consumers take a little longer to make up their minds, though the vast majority are still likely to decide what to buy within a fortnight.

Younger luxury consumers are also more likely to switch to a different product of the same brand in-store, with respondents suggesting the lure of trying on new items can sometimes be too much to resist. Just under a quarter of post-'80s/'90s consumers said they

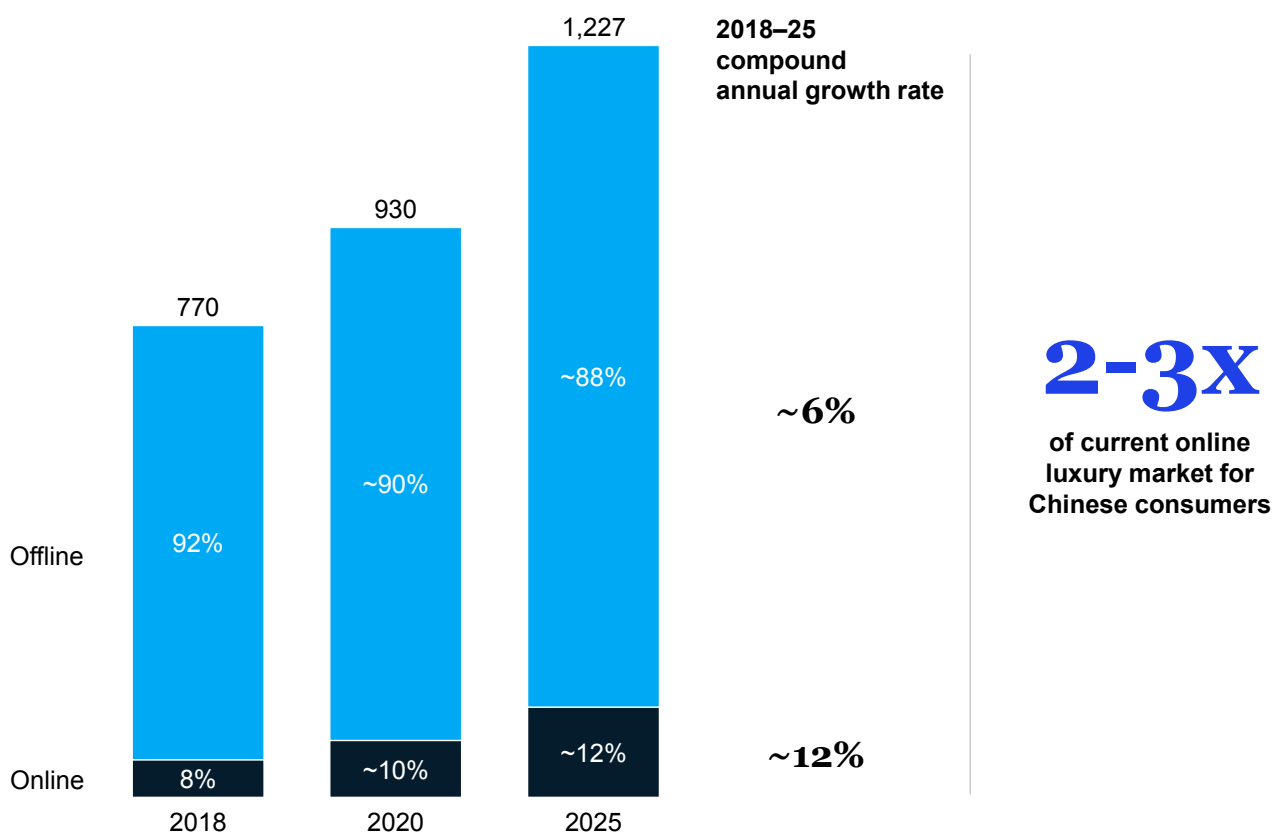
returned from their last shopping trip having done so, compared with just 7 percent of the older group.

Young Chinese luxury consumers still conduct the vast majority of their purchases offline, with half of them visiting a premium mall to do so.

Offline is still expected to be the preferred luxury sales channel in the near future.

Breakdown of Chinese online luxury spending

RMB billion



SOURCE: China Luxury Report 2019

Looking ahead, offline channels will continue to dominate luxury sales in the near future, offering a compound annual growth rate of about 6 percent over the next several years (Exhibit 14).

Our research suggests that luxury brands' current store footprint captures less than half of the country's affluent households—those earning over 300,000 RMB per year—indicating the importance of developing a presence that caters to the remainder. This might encompass travel retail, as well as a

system that allows luxury consumers in lower-tier cities to be served remotely, on WeChat or phone, by sales assistants in higher-tier urban centers who will notify them when new products arrive. Pop-up stores and improved online services will also play their part.

Though top luxury brands have largely saturated China's top 15 cities, brands should exercise caution if considering expanding into the more than 100 third-tier urban clusters as the luxury consuming population becomes widely dispersed.

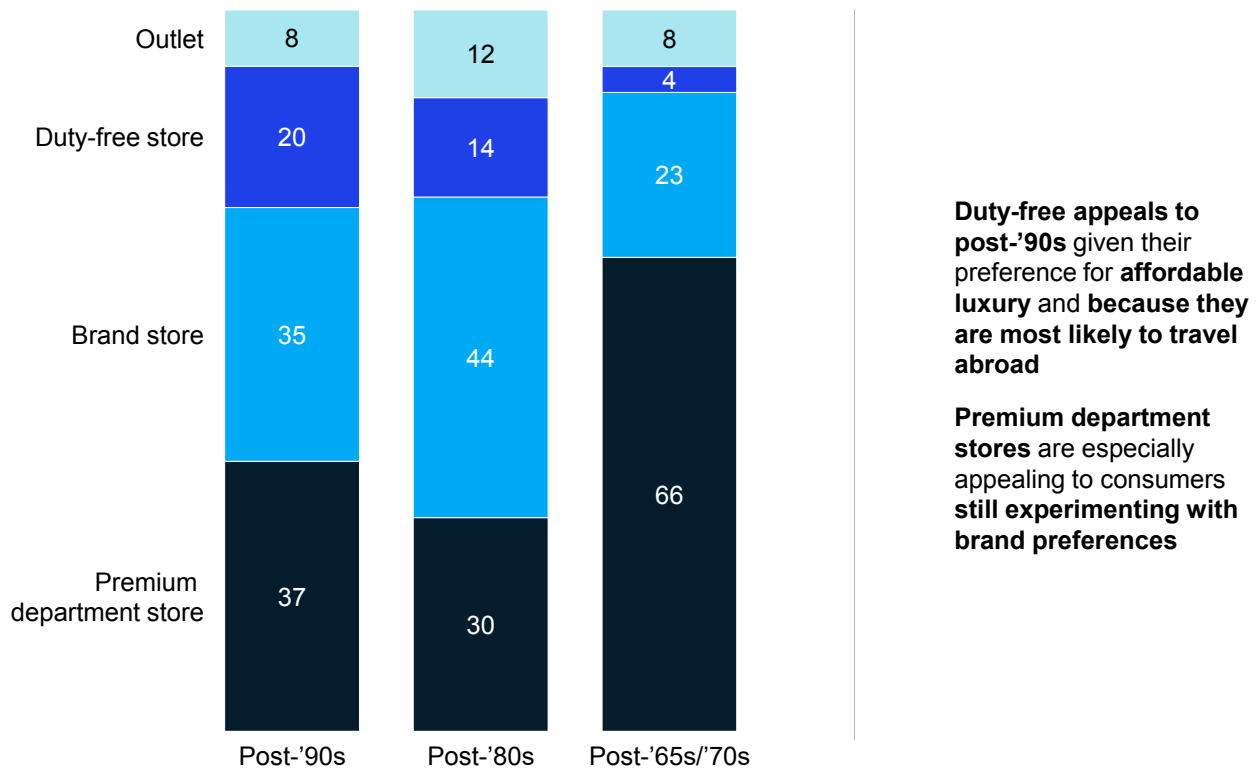
The experience of luxury shopping in person is what keeps young Chinese consumers coming back to offline stores, with two-thirds of post-'90s consumers telling us the experience can impact their purchase decision.

A similar proportion suggested the experience helps improve their aesthetic sensibility, and 62 percent agreed that luxury shopping is not just about product, but high-quality service and experience.

Exhibit 15

Among offline channels, post-'90s consumers shop across different types of bricks-and-mortar stores and no longer only focus on premium department stores.

At what type of physical store did you make your last luxury purchase?
 % of survey respondents based on UnionPay data



Note: Figures may not sum to 100%, because of rounding.

SOURCE: China Luxury Report 2019

China's young consumers shop across a mix of brand stores, premium malls, duty-free shops, and other outlets, with post-'90s consumers drawn to the latter option due to a preference for affordable luxury and a tendency to travel abroad in higher volumes than their peers (Exhibit 15).

Post-'80s consumers are most inclined to frequent brand stores, and post-'65s/'70s consumers most partial to premium malls, which we also found appealed to consumers still experimenting with brand preferences.

Young consumers are more likely to make a purchase if great personalization service is offered.

Would this factor help you make a purchase at a store offline?

% of post-'80s and post-'90s respondents saying "yes"



SOURCE: China Luxury Report 2019

In keeping with their susceptibility to purchase suggestions from in-store staff, post-'80s/'90s consumers are most influenced to purchase offline by a more personalized experience (Exhibit 16).

They told us that knowledgeable staff with a helpful attitude are the most likely to influence them to make a purchase in store, ideally in the form of a dedicated sales guide who can pick out accessories in line with their tastes.

Furthermore, they are not averse to taking the purchasing plunge after consuming premium desserts, champagne or other beverages, or being otherwise entertained in-store.

We also found that most Chinese consumers are only likely to be tempted away from domestic physical stores to overseas or Daigou alternatives for a price differential greater than 500 RMB per item, but were almost universally amenable to doing so for a discount of 1,000 RMB or more.

Online opportunity

We forecast online luxury sales to grow by up to three times the current market size, to account for an eighth of China's 1.2 trillion RMB luxury market by 2025. Online luxury sales in China lag other categories by a large margin, with just 8 percent of respondents indicating they went online to make their last luxury purchase, compared with half of people who do so when buying apparel or consumer electronics.

Indeed, there is a sizable opportunity to tap affluent online consumers in China's smaller cities, with almost half of consumers in lower tier cities suggesting they would be willing to shop online in the next year, compared with less than a quarter of those in larger cities, who are mainly searching for niche brands or hard-to-find products.

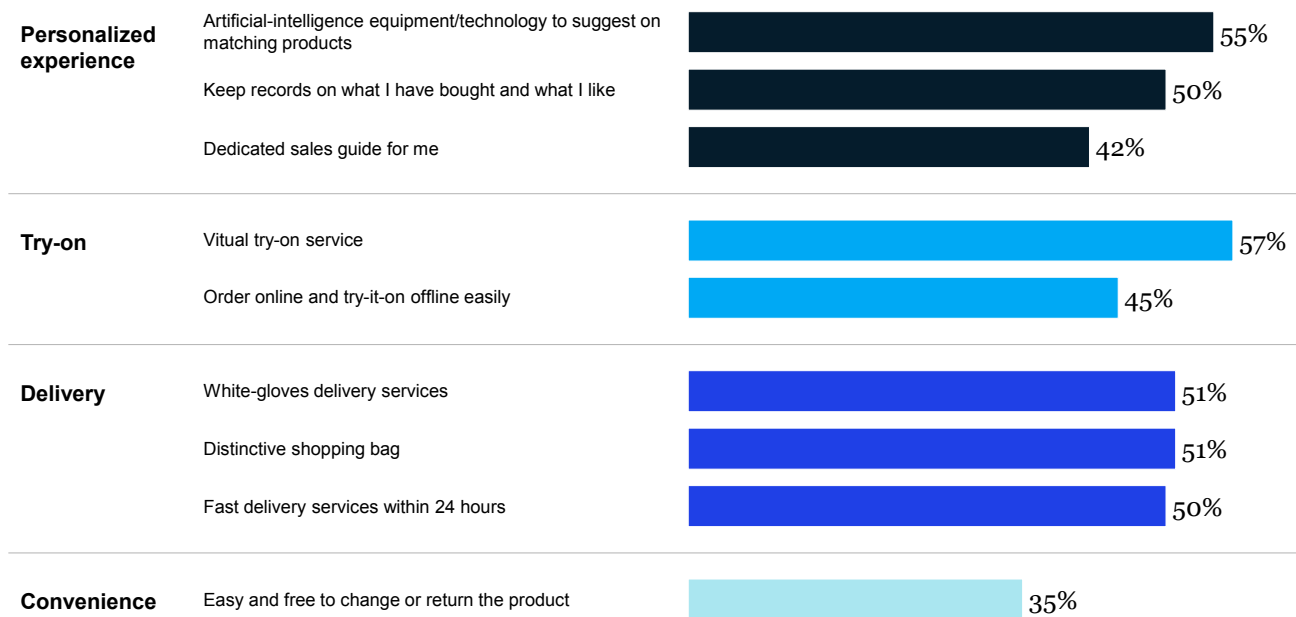
Among post-'80s consumers, just 1 percent told us they made their last purchase online, compared with 29 percent who said they would be prepared to tap digital luxury commerce in the next year.

Post-'90s consumers are more comfortable going online to shop, but there is still a substantial mismatch between the 18 percent who said they did so last time out, and the third of respondents who indicated it was likely they would in the next 12 months.

For online purchases, consumers are demanding superior experiences through personalization, easy try-on, and premium delivery service.

Would this factor increase your likelihood of purchasing online?

% of post-'80s and post-'90s respondents saying "yes"



SOURCE: China Luxury Report 2019

Looking to the future, luxury brands can tempt their young customers online by digitizing the intimate, personalized experience that attracts them to brick-and-mortar stores (Exhibit 17).

Virtual try-on services and matching suggestions curated by artificial intelligence (AI) both increase the likelihood consumers will purchase online, as can premium perks like 24-hour white-glove dispatch, and distinctive shopping bags.

When it comes to devising an online sales strategy, few brands have chosen to establish a comprehensive presence across China's multifarious e-commerce channels, comprising brand-owned as well as mainstream B2C platforms like Alibaba's Tmall, and luxury verticals like domestic player Secoo, and London-based Net-A-Porter (Exhibit 18).

Major luxury players are active in brand-owned channels, while participation in mainstream B2C e-commerce and luxury verticals is still low.

	Brand owned				Mainstream B2C e-commerce				Luxury verticals			
	Brand.com	Brand app	WeChat public account	WeChat mini program	JD		Alibaba		International leaders		Local leaders	
					JD.com ¹	TOP LIFE	Tmall	Luxury Pavilion	Net-a-porter	Farfetch	Secoo ²	Mei.com
Gucci	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	No official presence	No official presence	No official presence	No official presence	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	No official presence
Burberry	Active e-commerce presence	No official presence	Active e-commerce presence	Limited e-commerce presence	Active e-commerce presence	No official presence	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	No official presence	No official presence
Cartier	Active e-commerce presence	Branding only	Active e-commerce presence	Limited e-commerce presence	Limited e-commerce presence	No official presence	No official presence	No official presence	Limited e-commerce presence	Limited e-commerce presence	No official presence	No official presence
Louis Vuitton	Active e-commerce presence	Branding only	Active e-commerce presence	Limited e-commerce presence	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence
Dior	Limited e-commerce presence	Branding only	Limited e-commerce presence	Limited e-commerce presence	No official presence	No official presence	No official presence	No official presence	No official presence	Limited e-commerce presence	Limited e-commerce presence	Limited e-commerce presence
Chanel	Branding only	Branding only	Branding only	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence

¹Regard as "active presence" if JD self-operated brand store exists; can be sourced from brand or authorized distributors.

²In 2018, Gucci partnered with Secoo.com to sell more than 100 SKUs in 8 categories.

SOURCE: Press search

Brand websites and official WeChat channels offer the richest experience and, naturally, the most flexibility when it comes to content, not to mention comprehensive ownership of customer data. Marketing managers overseeing brands with sufficient clout can seek to take advantage of consumers' affinity for online exclusives and limited-edition partnerships as a means of driving sales to their brand-owned channels.

Mainstream luxury B2C platforms offer brands the potential to generate high traffic volumes for relatively low initial costs, as well as a degree of flexibility when it comes to customizing content and merchandising. Building a presence on these platforms is a strategy favored by smaller brands that want to enter e-commerce with minimum investment, and who subscribe to the idea that they will eventually yield high-volume sales.

When it comes to luxury verticals such as Secoo and Net-A-Porter, brands have less influence over customer experience, in particular how they are presented, raising image concerns for those attempting to orchestrate a truly omni-channel and singular brand experience. Merchandising and price control on domestic sites is also a major concern, with some sites discounting selected products by as much as 70 percent. There are lingering questions over product authenticity.



What does it all mean for luxury brands?

The imperative for global brands is to become the leading form of social capital for China's young luxury consumers, and stay there.

This demands an “always on” approach centered around a rapid cycle of new and refreshed product launches that intimately intertwine with ready-to-go viral media, including “sticky” nicknames and innovative campaigns. Newness and exclusivity could also be fostered through launching limited-editions, collaborations with KOLs and influencers, and hosting an annual calendar of special events, particularly around art and fashion.

China's young luxury consumers are more interested in aspiration than heritage, making it imperative for brands to modernize their stories and deliver them through digital channels. Savvy brands should design an integrated marketing strategy that satisfies young Chinese consumers' appetite for consuming media at every available touchpoint, whether they are online or offline, and whether they are travelling or staying in China. Local digital marketing teams should be empowered to make quick decisions and entrusted to experiment with the new media formats and channels favored by young consumers.

Since the majority of luxury purchases are made offline, brands should also reimagine the in-store experience. Catering to young consumers' desire for personalization—to feel different and valued—is key, as is doubling down on the concept of the store as its own media channel. Brands would also be wise to invest in highly trained staff capable of maintaining one-to-one relationships with customers in and beyond store, in effect becoming their personal stylists, backed by customized narratives and personalized product recommendations powered by AI.

As our research has shown, there is unparalleled opportunity to tap demand for luxury among the affluent residents of China's lower-tier cities, most of whom remain underserved by brick and mortar stores. Instead of over-expanding store footprint, brands should devise a targeted travel retail strategy that captures these consumers on the move – and follows them home. Having done so, sales staff can maintain a long-term relationship with the consumer through astute use of WeChat and other social platforms. Light asset store formats like pop-ups are worth consideration for brands with sufficient sizzle. Reaching young Chinese consumers

also requires a considered approach to e-commerce, one which cultivates a rich and consistent brand image on owned platforms, while making sharp choices over whether or not to reach for the eye-popping traffic on mainstream e-commerce platforms.

Finally, as young consumers blur the line between engagement and purchase, domestic and overseas, and online and offline, the new battleground for luxury brands requires fundamental organizational transformation. This requires not only winning in digital, but also more seamlessly integrating business units across brands, functions, and regions.

Perhaps the most exciting aspect of China's young luxury market is the scope of opportunity for digitally savvy brands to capture its ever-shifting zeitgeist, and the imperatives this provides for more established brands to stay on top of their game.

About the McKinsey China Luxury Survey 2019:

Our study combined a comprehensive survey of Chinese luxury consumers, ethnographic research of representative young Chinese luxury consumers, and market research of global luxury companies.

- The survey and analysis were conducted from October 2018 to January 2019, and is part of a series of surveys McKinsey conducts on China's luxury market every other year.
- ~1,000 consumers who have purchased luxury goods in the last 12 months.
- Respondents are in the 18–52 age range from 15 tier 1–3 cities in China, with ~200 each for post-'65s/'70s, post-'80s, post-'85s, post-'90s, and post-'95s consumers.
- Six luxury and accessible luxury categories: ready to wear, sportswear, jewelry, watch, bag, and shoes.
- ~100 luxury brands.
- The survey has also incorporated UnionPay transaction data by brand, product and channel over the last 12 months from the same ~1,000 samples

About McKinsey Greater China's Apparel, Fashion, and Luxury Group

McKinsey's Greater China Apparel, Fashion, and Luxury Group is dedicated to serving both international and domestic companies that are either established industry leaders or companies with substantial growth prospects. We assist clients by helping them understand their customers, establishing brand positioning, product innovation, boosting sales, optimizing operations, and building sustainable core competitiveness.

We have over 30 consultants in the Greater China region focused on the apparel, fashion, and luxury industry, providing clients with full service including strategic consulting, end-to-end conceptual design and implementation support. Since 2009, McKinsey has carried out annual and bi-annual Chinese and global consumer surveys.

In addition to regularly conducting in-depth research on the fashion industry, we have worked closely with the Business of Fashion, Women's Wear Daily, and other leading global fashion organizations.

McKinsey's Apparel, Fashion, and Luxury Group provides the following services to clients: consumer insight-driven brand and portfolio strategy, product and assortment strategy, agile Go-to-Market and supply chains, omni-channel strategy, digital transformation, global M&A, organizational transformation, etc.

We also regularly hold forums, luncheons, and other events for C-suite executives of leading fashion and luxury-goods businesses, allowing them to share experiences and insights from other industry leading peers.

Authors



Lan Luan

Partner – Shanghai
Lan_Luan@mckinsey.com



Aimee Kim

Senior Partner – Seoul
Aimee_Kim@mckinsey.com



Daniel Zipser

Senior Partner – Shenzhen
Daniel_Zipser@mckinsey.com



Minyi Su

Engagement Manager – New York
Minyi_Su@mckinsey.com



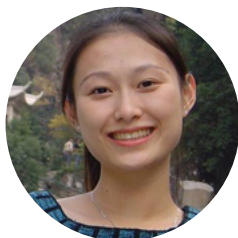
Adrian Lo

Associate – Hong Kong
Adrian_Lo@mckinsey.com



Cherry Chen

Knowledge Specialist – Shanghai
Cherry_Chen@mckinsey.com



Cherie Zhang

Knowledge Expert – Shanghai
Cherie_Zhang@mckinsey.com

The authors would like to thank Glenn Leibowitz, David Green, Lin Lin, Xiaoyun Li, Saskia Hedrich, Felicia Jia, Dina Xiao, Frannie Li, Lei Xu, Erik Rong, Chris Fang and Jeannie Tse for their contributions to the research and writing of this report.

McKinsey Greater China's
Apparel, Fashion and Luxury Group
April 2019
Copyright © McKinsey & Company
Designed by GCO NewMedia

www.mckinsey.com

 @McKinsey

 @McKinsey

