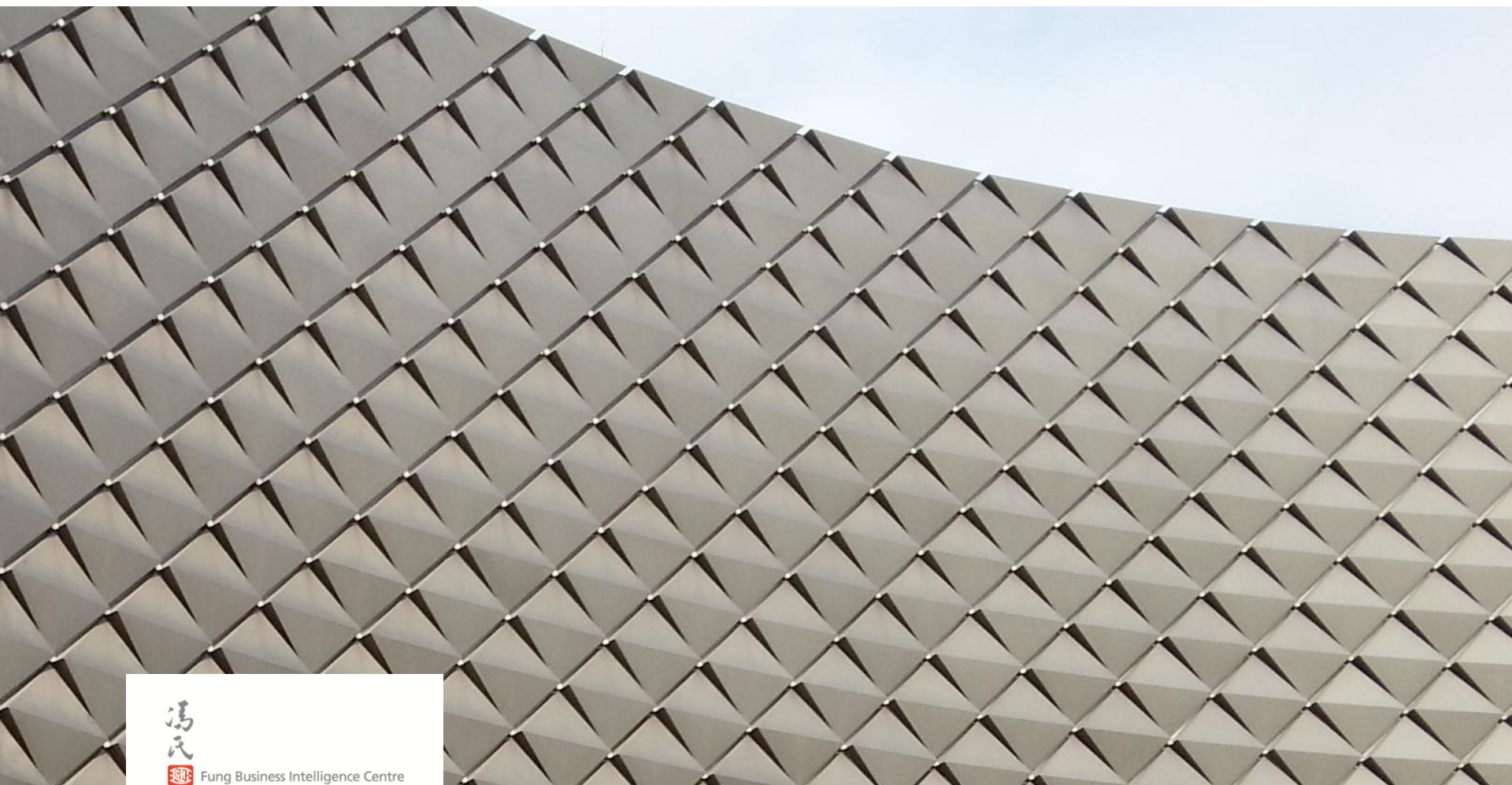


# LUXURY MARKET IN CHINA

MAY 2015

FUNG BUSINESS INTELLIGENCE CENTRE



Fung Business Intelligence Centre

## IN THIS ISSUE

### **I. Key highlights**

**3**

### **II. Industry overview**

**6**

### **III. Major driving forces of China's luxury market**

**19**

### **IV. Distinctive features and latest developments of China's luxury market**

**24**

### **V. Key strategies of luxury retailers in China**

**42**

# **I. KEY HIGHLIGHTS**

## KEY HIGHLIGHTS

**China's luxury market moderates; -2% yoy growth in 2014.**

- China's luxury market was down by 2% yoy to 15 billion euro (or 115 billion yuan) in 2014, impacted mostly by negative sales growth in watches, men's wear and leather goods. Social gifting has slowed significantly as a result of the government's anti-corruption drive, and greatly affected sales of luxury goods

**Touristic spending becomes a strong driver of luxury spending**

- Chinese consumers have strong preferences for shopping luxury goods overseas. Chinese visitors were estimated to spend as much as 209 million yuan on luxury goods overseas in 2014

**Sales channels see significant changes**

- Due to the big price discrepancy and relatively fewer choices of luxury goods in China, "daigou" is gaining popularity. Around 15% of Chinese luxury goods spending in 2014 was realised through "daigou" channel; market size is estimated at 55 – 75 billion yuan in 2014. At the same time, benefiting from the establishment of pilot zones for cross-border e-commerce and Free Trade Zones, as well as the emergence of new "haitao" methods, more consumers will buy luxury products via e-commerce platforms

**Luxury consumers become more sophisticated**

- Luxury consumers increasingly look for low-key, unique products instead of those with conspicuous logos. At the same time, they also show more interest in home grown luxury products that emphasise local craftsmanship and culture

**Affordable luxury gains increasing attention**

- The skyrocketing prices of some premium luxury brands have prompted consumers to turn to alternative affordable luxury brands that are chic and stylish, but sell at cheaper prices. Some niche brands such as Coach, Michael Kors, Kate Spade and Tory Burch have been expanding rapidly in China over recent years

## KEY HIGHLIGHTS (*CONTINUED*)

**Some luxury brands lower product prices in China**

- As more wealthy Chinese consumers choose to shop luxury products abroad, some luxury brands have started to cut their prices in China with a hope to drive part of the overseas spending back to the country. More luxury brands are expected to adjust their pricing strategies in China in the near future

**Luxury players actively build up online presence**

- As Chinese consumers are now used to getting product information, if not buying luxury products online, many luxury retailers have set up their online platforms. At the same time, increasing numbers of luxury brands choose to set up storefronts on third-party online shopping platforms such as Tmall and JD.com

**Social media becomes an important marketing tool**

- Many luxury retailers now use social media platforms such as Sino Weibo and WeChat to promote their latest collections and interact with consumers

**Luxury retailers are keen to create an immersive in-store experience**

- Many luxury retailers now put more focus on creating an exceptional shopping environment and introducing lifestyle experience in their physical stores, hoping to enhance the attractiveness of their stores and draw customer

**Some brands take back China franchises**

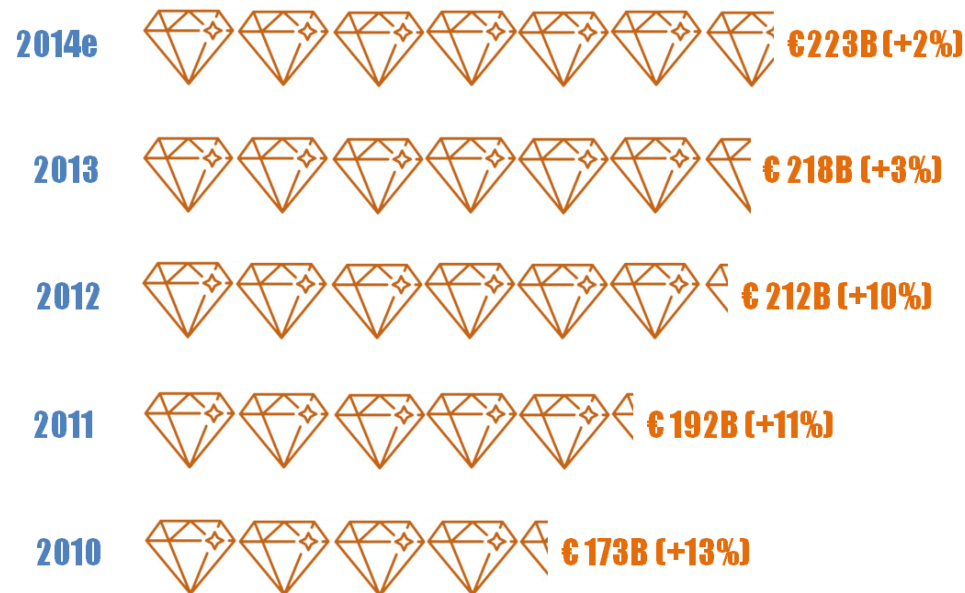
- To better control brand image and oversee expansion, some international luxury brands have started opening more directly-operated stores, buying back franchises from local partners and taking stakes in other China retail partners

# **I. INDUSTRY OVERVIEW**

# LUXURY MARKET IN CHINA SAW NEGATIVE GROWTH IN 2014

- The global luxury market experienced the first moderation since the 2009 financial crisis. According to Bain & Company, global sales of luxury goods amounted to 223 billion euro in 2014\* (Exhibit 1)

**Exhibit 1: Global luxury sales, 2010 – 2014 (estimates), billion euro, yoy growth %**



Source: Bain & Company

## LUXURY MARKET IN CHINA SAW NEGATIVE GROWTH IN 2014 (CONTINUED)

- Bain & Company states that the luxury sales in Mainland China decreased 2% year-on-year (yoy) to 15 billion euro in 2014\* (Exhibit 2) [Note: The yoy growth would be -1% in yuan terms]
- The slowdown was due in part to the slowing Chinese economy, as well as increasing government efforts to rein in extravagant spending. Consumers' growing tendency to buy luxury products abroad or via cross border e-commerce platforms have also contributed to the market slowdown

**Exhibit 2: Mainland China luxury sales, 2011-2014 (estimates),  
billion euro, yoy growth %**



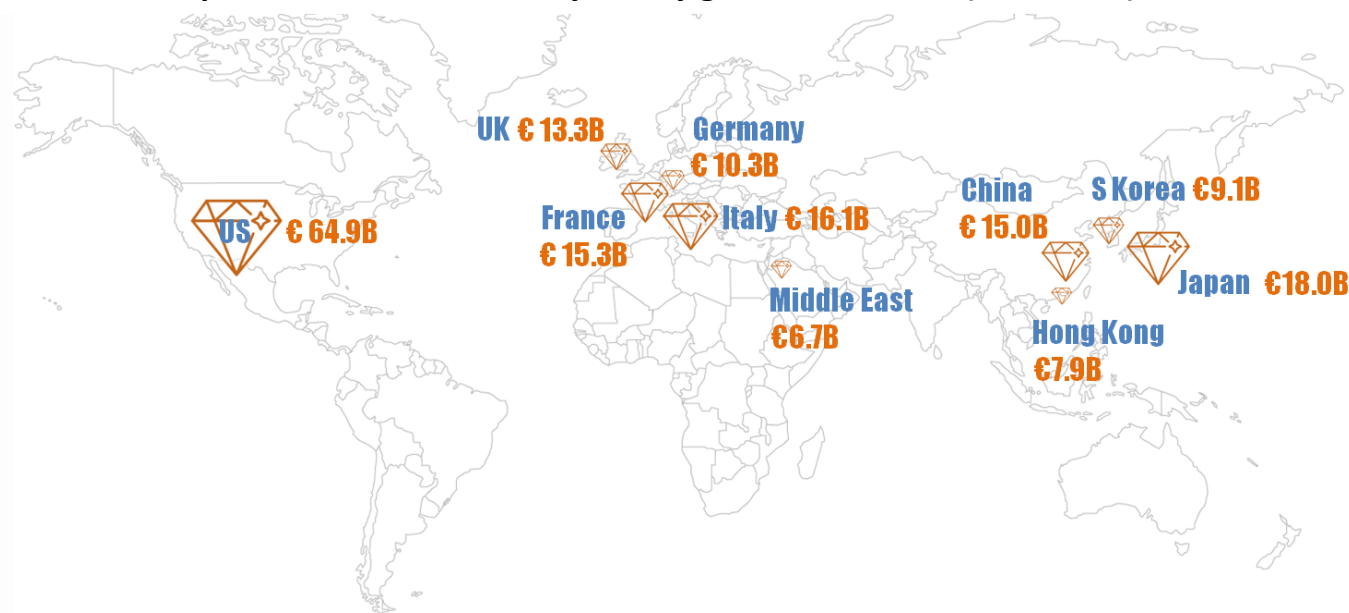
*Source: Bain & Company*



## LUXURY MARKET IN CHINA SAW NEGATIVE GROWTH IN 2014 *(CONTINUED)*

- Chinese was still among the top nationalities in terms of total sales of luxury goods. China was the fifth largest luxury goods market in 2014, after the U.S., Japan, Italy and France (Exhibit 3)

**Exhibit 3: Top ten countries/ areas by luxury good sales, 2014 (estimates), billion euro**

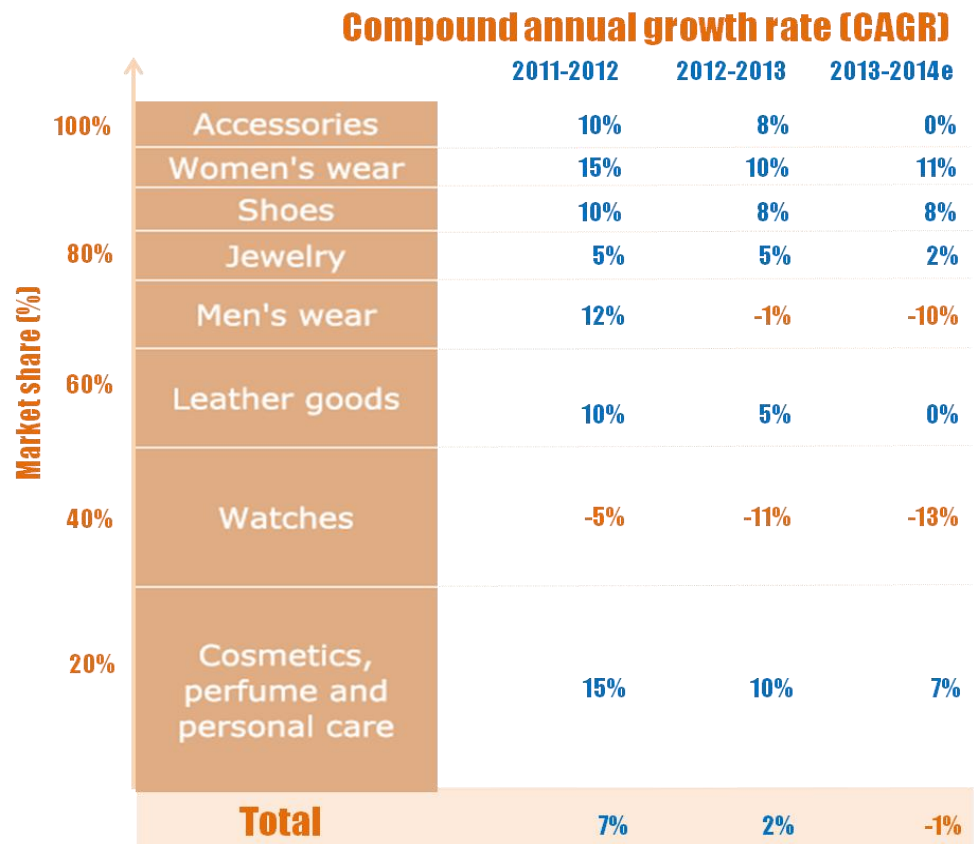


Source: Bain & Company

## SALES OF WOMEN'S WEAR SAW STRONG MOMENTUM WHILE WATCHES AND MEN'S APPAREL SLOWED SIGNIFICANTLY

- Among the major product categories, the growth rate of women's wear was more resilient in 2014, up by 11% yoy. Sales of men's wear and watches, on the other hand, recorded negative yoy growth rates of -10% and -13% respectively\* (Exhibit 4)

**Exhibit 4: Market share of China's luxury market and growth rates by category, 2014**

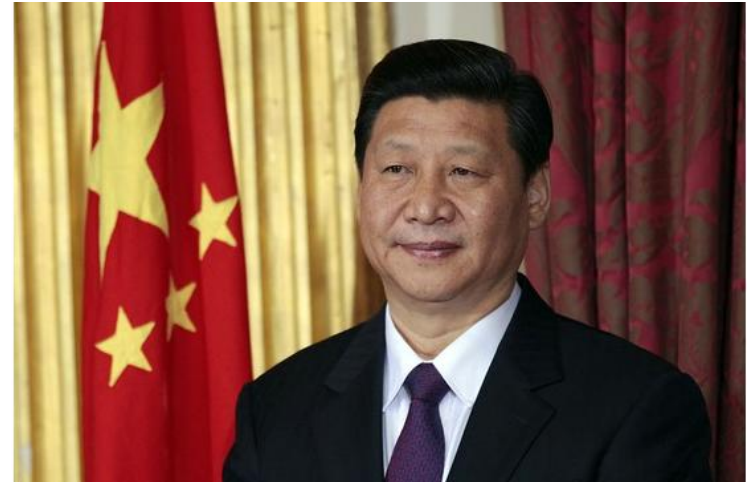


Source: Bain & Company. 2015

\* "China Luxury Study 2015". January 2015. Bain & Company.

## SOCIAL GIFTING SLOWED SIGNIFICANTLY

- The government's anti-corruption drive has greatly affected gift giving in China
  - Being one of the most popular items for social gifting, Swiss made luxury watches witnessed a large decrease in sales in China. According to Federation of the Swiss Watch Industry, the total value of Swiss watches exports to China dropped by 3.1% yoy during 2014
  - A survey by Hurun shows that gift giving among China's wealthiest individuals fell by 5% yoy in 2014\*















































“In order to fight against corruption, a person's life and death, personal praise or blame, do not matter.”

-- President Xi Jinping  
August, 2014

\* “Chinese Luxury Consumer Survey 2015”. January 2015. Hurun.

# SELECTED HIGH-END/LUXURY DEPARTMENT STORES

**Exhibit 5:** Selected high-end/luxury department stores in China, as of May 2015









Department store	City	Place of origin	Selected high-end/luxury brand					
SKP Beijing (Formerly known as Shin Kong Plaza)* 新光天地	Beijing	Taiwan	  	 	 	 	  	 
Reel Department Store 芮欧百货	Shanghai, Shenzhen	China	 	 	 	 		
Renhe Spring Department Store 仁和春天百货	Chengdu	China	 		 	 	  	
Charter Department Store 卓展百货	Shenyang, Changchun, Beijing, Harbin	China	 	 	 	 	 	 

Source: Company websites; compiled by Fung Business Intelligence Centre

\*The department store is a joint venture between Taiwan Shin Kong Mitsukoshi Department Store and Beijing Hualian Group. Shin Kong Plaza changed name to SKP Beijing after Shin Kong Mitsukoshi Department Store withdrawn from the joint venture in 2014.

# SELECTED HIGH-END/LUXURY SHOPPING MALLS

**Exhibit 6:** Selected high-end/luxury shopping malls in China, as of May 2015











Enterprise	Selected shopping mall	Location	Selected high-end/luxury brand						
Beijing Yintai Property Co., Ltd. 北京银泰置业有限公司	Yintai Centre 银泰中心	Beijing, Hefei	 LOUIS VUITTON	CÉLINE	 VALENTINO	LANVIN PARIS	GUCCI	Cartier	
			 HERMÈS PARIS	 GIORGIO ARMANI	D&G	BOTTEGA VENETA	 Christian Louboutin	Lane Crawford *	
Hang Lung Properties 恒隆地产有限公司	Plaza 66, Forum 66, Center 66, Olympia 66 恒隆广场	Shanghai, Shenyang, Wuxi, Tianjin, Dalian, Kunming, Wuhan	 BURBERRY LONDON	BOTTEGA VENETA		 GIVENCHY	PRADA	 GIORGIO ARMANI	
			 HERMÈS PARIS	CÉLINE		Dior	 BALENCIAGA	 LOUIS VUITTON	
The Wharf (Holdings) Limited 九龙仓集团有限公司	Chengdu International Finance Square 成都国际金融中心	Chengdu	MOSCHINO	GUCCI		 LOEWE	 BALENCIAGA	Salvatore Ferragamo	
			 TOMMY HILFINGER	 GIORGIO ARMANI		VALENTINO	BOTTEGA VENETA		

Source: Company websites; compiled by Fung Business Intelligence Centre

\*Lane Crawford is a Hong Kong-based department store

## SELECTED HIGH-END/LUXURY SHOPPING MALLS (CONTINUED)

**Exhibit 6:** Selected high-end/luxury shopping malls in China, as of May 2015

Enterprise	Selected shopping mall	Location	Selected high-end/luxury brands				
Swire Properties Limited 太古地产	Taikoo Hui 太古汇	Guangzhou	 	 CERRUTI 1881	 LANVIN PARIS	BOTTEGA VENETA Dior	PRADA GUCCI 
China Resources Land Limited 华润置地有限公司	The MixC 万象城	Shenyang, Hangzhou, Shenzhen, Chengdu, Nanning, Zhengzhou, Chongqing, Wuxi, Hefei, Qingdao, Shanghai, Taizhou, Ganzhou, Xi'an, Wenzhou, Nantong, Taiyuan, Jinan, Xiamen, Liuzhou, Shijiazhuang, Fuzhou, Ningbo	 MOSCHINO	CERRUTI 1881 	LANVIN PARIS  VALENTINO	 LOEWE Dior	 GUCCI Cartier

Source: Company websites; compiled by Fung Business Intelligence Centre

## FOOTPRINT OF SELECT LUXURY/PREMIUM BRANDS IN CHINA

- Thanks to the rapid urbanisation in China over recent years, the development of cities has been remarkable. Small and medium-sized cities, in particular, have attracted massive number of rural migrants. Rising consumption in these smaller cities have created huge demand for luxury products. In recent years, many luxury players have stepped into lower-tier cities
- Exhibit 7 shows the footprint of selected luxury and premium brands in China\*

*\* Only direct selling stores are included in the store counting exercise; discount outlet stores are excluded.*

# FOOTPRINT OF SELECT LUXURY/PREMIUM BRANDS IN CHINA

Exhibit 7: Store locations of selected luxury brands in China, as of May 2015\*

Ranking	City	Louis Vuitton	Hermès	Chanel***	Gucci	Tiffany & Co	Dior	Burberry	Prada	Ermenegildo Zegna	Fendi	Salvatore Ferragamo	Dunhill	Kent & Curwen	Cerruti 1881	Gieves & Hawkes
1	Hong Kong**															
2	Shenzhen	1	1		1	1	2	2	1	2	1	1	2	4	5	2
3	Shanghai	4	4	1	8	6	8	7	5	2	2	6	7	6	7	6
4	Taipei**															
5	Guangzhou	2	2	1		1	3	2	1	2	2	2	1	3	3	3
6	Beijing	5	5	1	5	4	6	5	5	7	4	4	12	6	11	9
7	Suzhou	1	1		2			2	1	1		4	1	1	2	2
8	Tianjin	2			3	2	2	2	3	3	1	3	2	3	3	2
9	Foshan															
10	Macau**															
11	Wuxi	1			1			1	1		1	3			2	1
12	Dongguan															
13	Wuhan	2	1		1	1	2	1	1	3		2	3	3	4	1
14	Nanjing	1		1		1	1	2	1	1	1	1	2	1		
15	Chengdu	2	1	1	2	2	4	4	2	4	2	3	4	7	2	2
16	Qingdao	1	1		1	1		1	1	1		1	1	1	1	
17	Xinbei															
18	Xiamen	1			1			1				1		2	2	2
19	Dalian	1	1	1	1		2	1	1	1	1	2	1	1	1	2
20	Zhengzhou	1			1			1		1		1	1		1	1
21	Ningbo	1	1		1		2	1		1		1		1	1	1
22	Shenyang	2	1	1	3	2	3	2	1	4	2	2	3	5	6	3
23	Changsha	1			1			2		2		1		2		
24	Hangzhou	2	2	1	2	2	3	3		4	2	3	2	3	3	1
25	Changzhou				1							1			1	
26	Chongqing	1			2	1		1	1	2		2	4		1	
27	Tangshan															
28	Jinan	1			1	1		2	1	2		1	1	2	1	
29	Zhongshan														1	1
30	Nantong															
31	Yantai				1			1				1		1	1	1
32	Quanzhou															



# FOOTPRINT OF SELECT LUXURY/PREMIUM BRANDS IN CHINA

Ranking	City	Louis Vuitton	Hermès	Chanel***	Gucci	Tiffany & Co	Dior	Burberry	Prada	Ermenegildo Zegna	Fendi	Salvatore Ferragamo	Dunhill	Kent & Curwen	Cerruti 1881	Gieves & Hawkes
33	Zibo															
34	Xi'an	1			2	1		1	2	2				5	4	4
35	Hefei	1			2			1	1	1		1			1	
36	Jiaxing															
37	Kaohsiung **															
38	Xuzhou															
39	Zhenjiang															
40	Fuzhou	1						1		1		1		1	1	1
41	Changchun	1			1			1	1	3	1	1	1	1	2	
42	Shaoxing															
43	Shijiazhuang	1			1			1		1		1		1	1	1
44	Yangzhou													1	1	
45	Nanchang														1	1
46	Taizhou															
47	Huaifang															
48	Dongying															
49	Wenzhou	1			1			1	2	1		1			1	
50	Jining															
51	Taichung**															
...																
56	Harbin	2	1			1	2	2	1	2		2	2	3	3	2
...																
60	Handan													1	1	1
...																
62	Yancheng														1	1
69	Huizhou													1	1	1
70	Tainan**															
...																
72	Taiyuan	1			1			2	1	2		1		2	2	2
...																
75	Jilin													1	1	1
...																
78	Kunming	2	1		2	1		1		2		2	2	1	1	1

# FOOTPRINT OF SELECT LUXURY/PREMIUM BRANDS IN CHINA

Ranking	City	Louis Vuitton	Hermès	Chanel***	Gucci	Tiffany & Co	Dior	Burberry	Prada	Ermenegildo Zegna	Fendi	Salvatore Ferragamo	Dunhill	Kent & Curwen	Cerruti 1881	Gieves & Hawkes
79	Hohhot				1			1		1		1		1	1	1
...																
81	Nanning	1	1		1			1	1	1		1		2	2	1
82	Baoding													1	1	1
...																
88	Yichang													1	1	
...																
91	Huzhou															1
...																
95	Zhoushan													1		
...																
105	Guiyang				1			1		1		1		2	2	1
...																
111	Ürümqi	1			1			1		1		1			1	
...																
120	Lanzhou				1			1		1				1	2	1
...																
123	Haikou													1	1	1
...																
167	Shangyu													1	1	
...																
182	Dandong														1	1
...																
194	Jincheng													1	1	1
...																
234	Sanya	1								1		1				
	Tangshan													1	1	1

Source: Company websites; compiled by Fung Business Intelligence Centre

\* This table includes the most competitive cities ranked by Chinese Academy of Social Sciences in May 2014 based on their overall economic competitiveness; cities that did not have any selected luxury/premium brands have been omitted

\*\* Hong Kong (#1), Macau (#10), and cities in Taiwan: Taipei (#4), Kaohsiung (#37), Taichung (#51), Tainan (#70) are not included in the store counting exercises

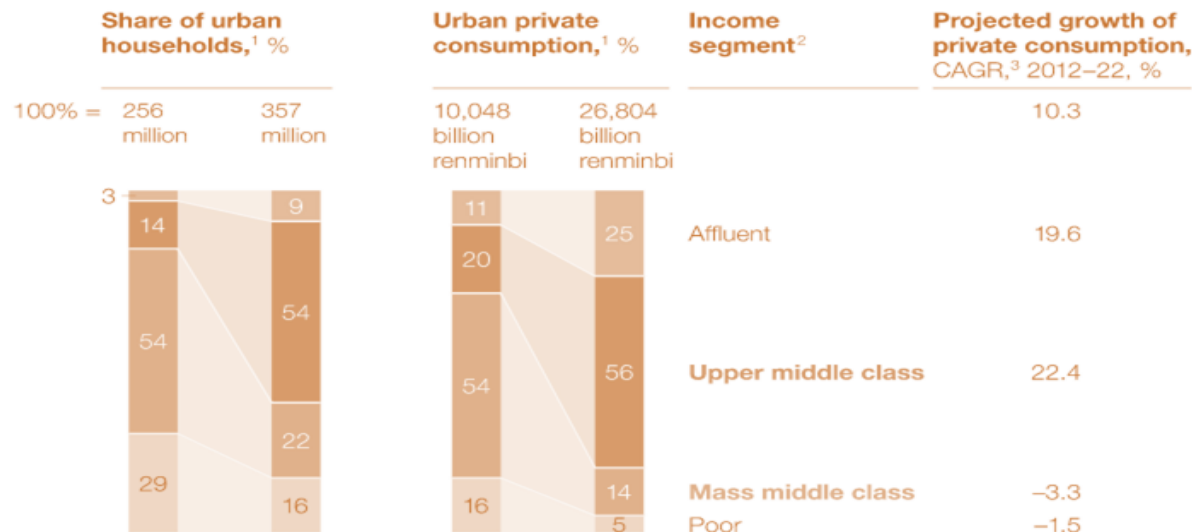
\*\*\*The outlets of Chanel under the category of "Eyewear", "Cosmetics" and "Fine jewelry/watches" are excluded

## **II. MAJOR DRIVING FORCES OF CHINA'S LUXURY MARKET**

# RAPID INCREASE IN HOUSEHOLD DISPOSABLE INCOME; A BIGGER MIDDLE-CLASS IS EXPECTED

- Household disposable income has been growing consistently over recent years, and is expected to continue in coming years
- McKinsey & Company predicts the number of “upper middle-class” Chinese (those with an annual income between 106,000 and 229,000 yuan) will increase tremendously in the coming decade - 54% of China’s urban consumers will be regarded as “upper middle-class” by 2022, up from 14% in 2012\* (Exhibit 8)

**Exhibit 8: The magnitude of China’s middle-class growth is transforming the nation**



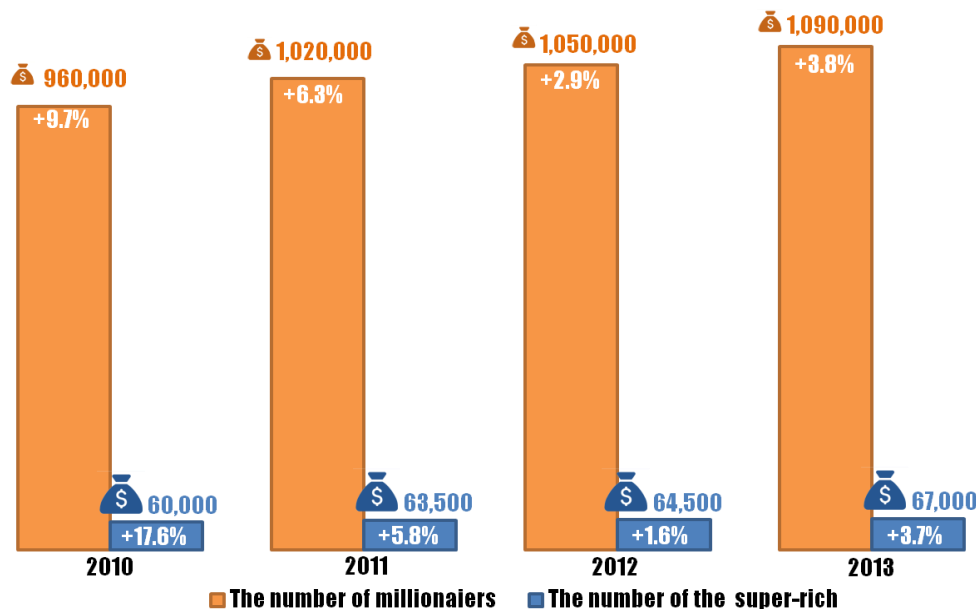
Source: McKinsey & Company. June 2013

\* “Mapping China’s Middle Class ” . June 2013. McKinsey & Company.

## NUMBER OF WEALTHY INDIVIDUALS CONTINUES TO GROW, ALBEIT AT A SLOWER PACE

- According to *Hurun Wealthy Report 2014*, there were 1.09 million millionaires and 67,000 super-rich individuals in China in 2013, an increase of 3.8% yoy and 3.7% yoy, respectively from 2012. The growth rates were much slower than that in 2010 and 2011, due largely to the relatively slow recovery of the world economy and slower economic growth in China\* (Exhibit 9)

**Exhibit 9: Number of millionaires and super-rich individuals in China, 2010-2013**

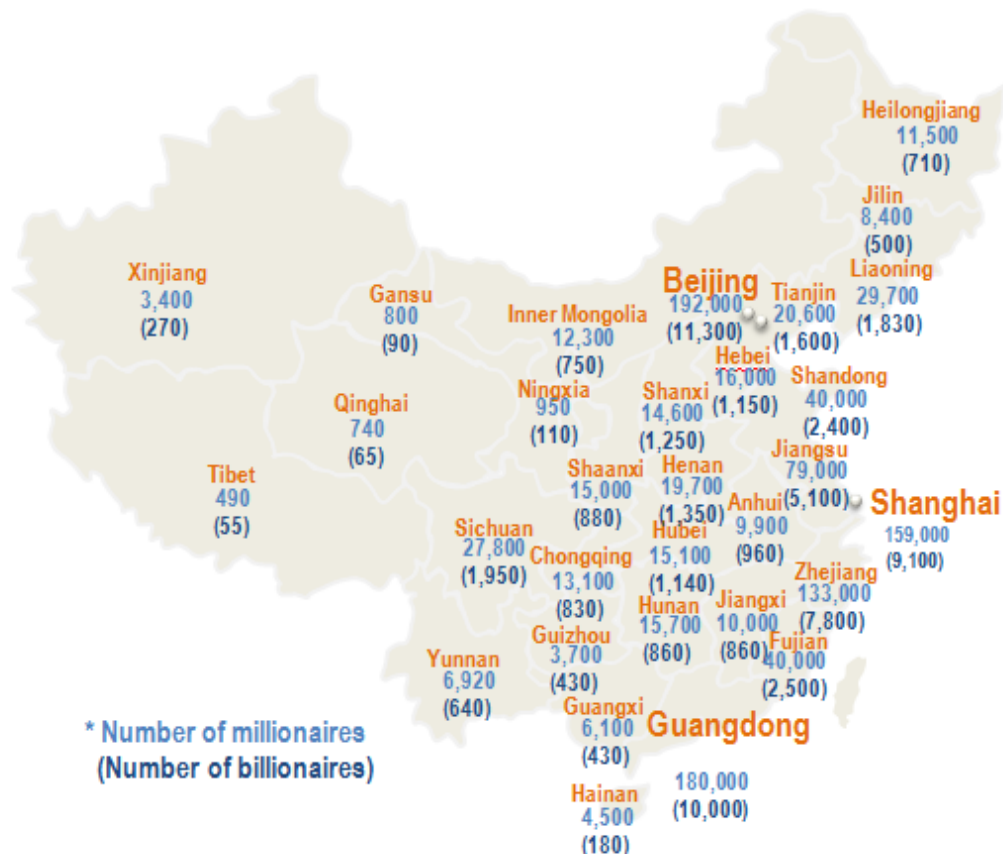


Source: Hurun

\* "Hurun Wealthy Report 2014" . September 2014. Hurun.

# NUMBER OF WEALTHY INDIVIDUALS CONTINUES TO GROW, ALBEIT AT A SLOWER PACE (*CONTINUED*)

**Exhibit 10: Number of millionaires and super-rich individuals in China, by province, 2013**



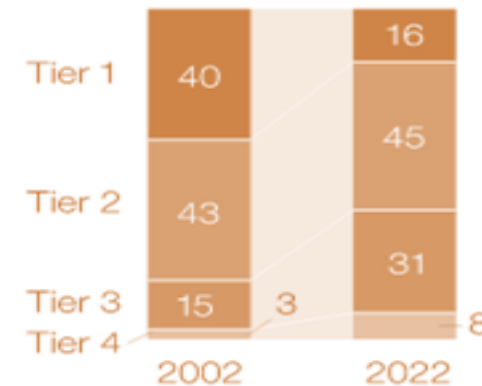
- When looking at the geographic distribution of wealthy individuals in China, Beijing took the top spot in terms of total number of millionaires and super-rich individuals with 192,000 millionaires and 11,300 super-rich individuals in 2013; Guangdong and Shanghai came in second and third\* (Exhibit 10)

\* "Hurun Wealthy Report 2014 " . September 2014. Hurun.

## RIISING LUXURY DEMAND IN SMALLER CITIES AND LOWER-TIER CITIES

- The Chinese government has been focusing on promoting the development of small and medium-sized cities and towns over recent years
  - McKinsey & Company predicts the growth of middle-class will be faster in smaller cities in northern and western China than in big cities. Smaller cities with populations of less than 1.5 million are expected to be the major drivers of economic growth over the next two decades. These cities will form strong clusters with huge economic potential
  - By 2020, the share of middle-class in tier 3 and 4 cities is expected to reach 39%, up from 18% in 2002\* (Exhibit 11). Rising consumption in the smaller cities will also create huge demand for luxury goods

**Exhibit 11: Share of middle class by city tiers**



Source: McKinsey & Company. June 2013

\* "Mapping China's Middle Class". June 2013. McKinsey & Company.

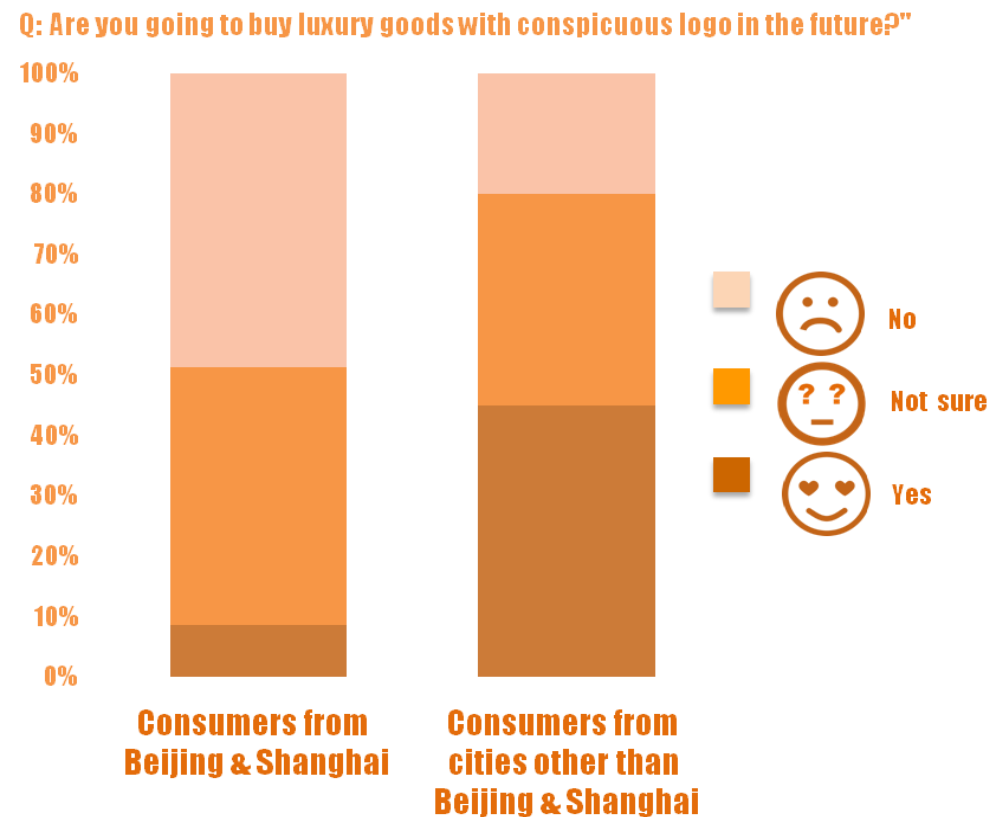
### **III. DISTINCT FEATURES AND LATEST DEVELOPMENTS OF CHINA'S LUXURY MARKET**



# LUXURY CONSUMERS ARE BECOMING MORE SOPHISTICATED

- Looking for low-key, unique products instead of those with conspicuous logos
  - Instead of selecting luxury products with visible logos, Chinese consumers now concern more about the history and culture of brands, as well as brand heritage and product quality. The younger generation or consumers in big cities, in particular, tend to seek luxury brands and products with unique and exclusive designs to demonstrate their personal taste and sophistication
  - Having said that, consumers in smaller cities may still prefer brands with conspicuous and easily recognised logos (Exhibit 12)

**Exhibit 12: Chinese consumers' attitude toward purchasing luxury goods with conspicuous logo**



Source: Bain & Company

## LUXURY CONSUMERS BECOME MORE SOPHISTICATED (*CONTINUED*)

- Increasingly interested in home grown luxury products
  - Although the China's luxury market is still dominated by foreign players, Chinese luxury brands that emphasise local craftsmanship and culture are becoming more popular among Chinese consumers
  - Some home-grown premium apparel and accessory brands that have already got increasing international recognition, such as Shang Xia, NE·TIGER and SHIATZY CHEN, have started to gain attention in China



## LUXURY CONSUMERS BECOME MORE SOPHISTICATED (*CONTINUED*)

- Demanding something beyond shopping experience
  - With increasing wealth, China's luxury consumers are looking for something beyond the shopping experience. They are moving away from merely owning a luxury product to “experiencing” luxury; some examples include gourmet dining, private flights, bespoke safaris, luxurious travel tours, slimming clinics and art auctions



## POST-90s GENERATION INCREASING BECOME AN IMPORTANT FORCE FOR LUXURY CONSUMPTION

- According to Horizon, a market monitoring company, the population of China's post-90s generation reached 140 million and accounted for 11.7% of the entire population in 2012\*
- Similar to the older post-80s generation, the post-90s are also seen as the “little emperors” in the family, thanks to China's one-child policy. They are willing to splurge on luxury products. Moreover, they are tech-savvy and used to getting product information or looking for the latest trends from the Internet and social media. Thus, they usually have higher brand awareness

\* “The growing force of post-90s mobile users in China ” . 14 August, 2012 Wang China Times.  
<http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20120814000048&cid=1502>.



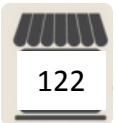


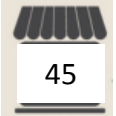


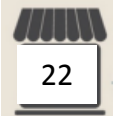


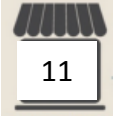


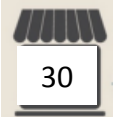
## AFFORDABLE LUXURY ON THE RISE

- As Chinese consumers are becoming more discerning, their attitudes towards luxury brands and luxury goods consumption are changing
- Given the tighter anti-extravagance measures, people are more cautious when spending on premium luxury goods. The skyrocketing prices of some premium luxury brands have prompted consumers to turn to alternative affordable luxury brands that are chic and stylish, but sell at cheaper prices
  - Coach, an American affordable luxury brand selling leather goods, has seen strong growth in China over recent times. The company reported total sales growth of more than 13% yoy in the China market in 2QFY15. The company first entered the China market in 2008 and has a total of 121 stores as of August 2014\*
  - Other niche brands such as Michael Kors, Kate Spade and Tory Burch have also expanded rapidly in China over recent years (Exhibit 13)

\* “Coach Q2 Earnings Beat Estimates but Revenue Falls Short ” . 29 January 2015. Yahoo.  
<http://finance.yahoo.com/news/coach-q2-earnings-beat-estimates-151503127.html>.

## AFFORDABLE LUXURY ON THE RISE (*CONTINUED*)

Exhibit 13: Number of stores of selected affordable luxury brands in China, as of May 2015

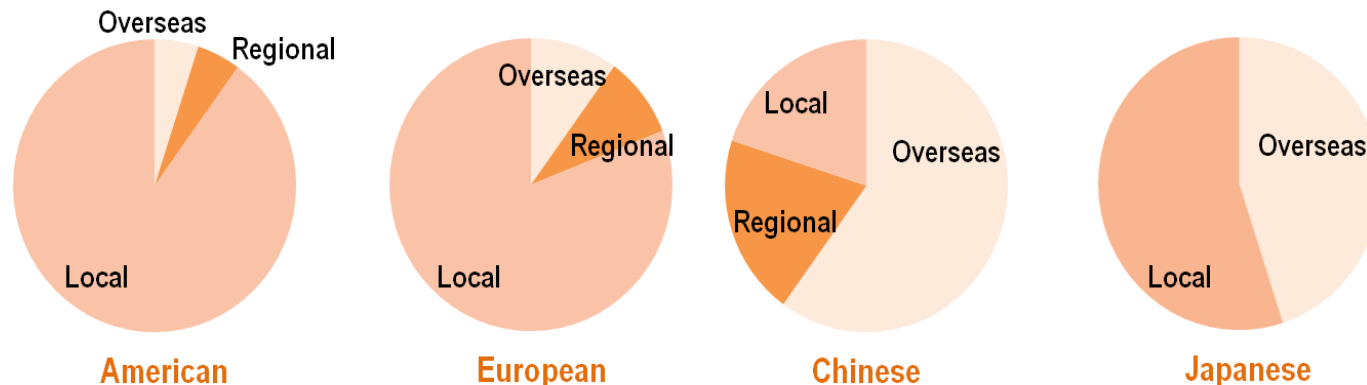
Brand	Place of origin	Year of entering China	Product category	Price range, yuan (Majority)				Total number of stores (as of May 2015)
				Women's skirt	Women's leather Bag	Women's leather flat shoes	Men's leather wallet	
 COACH NEW YORK	 US	2008	Men's and women's wear, shoes, handbags, accessories	7,950-11,00	1,950-3,500	2,000-4,000	2,450-3,150	 122
 MICHAEL KORS	 US	2011	Women's wear, shoes, handbags, accessories	1,600-1,900	2,500-4,900	~1,300	n/a	 45
 kate spade NEW YORK	 US	2011	Women's wear, shoes, handbags, accessories, kids wear, stationery	2,300-3,500	2,000-5,000	n/a	n/a	 22
 TORY BURCH	 US	2011	Women's wear, shoes, handbags, accessories	2,450-4,000	4,000-5,000	2,280-2,680	n/a	 11
 agnès b.	 France	2004	Men's and women's wear, maternity wear, shoes, bags, food & beverages	3,100-5,400	2,390-3,590	n/a	2,190-2,390	 30

Source: Company websites; field trips; compiled by Fung Business Intelligence Centre

## TOURISTIC SPENDING BECOMES A STRONG DRIVER OF LUXURY SPENDING

- Chinese consumers have strong preferences for shopping luxury goods overseas. China's outbound tourists amounted to 116 million yuan in 2014, up 18.2% yoy according to the Chinese Tourism Academy. Touristic spending has become a strong driver of luxury spending
- Bain & Company estimates that Chinese visitors spent as much as 209 million yuan on luxury goods overseas in 2014. As shown in Exhibit 14, Chinese consumers spent abroad three times more than they spent locally

**Exhibit 14: Luxury shopping destination, 2014 (estimates)**



*Source: Bain & Company; compiled by Fung Business Intelligence Centre*

## TOURISTIC SPENDING BECOMES A STRONG DRIVER OF LUXURY SPENDING (CONTINUED)

- Hefty import tariff, consumption tax and VAT (value-added tax) on imported goods as well as higher pricing strategies in China have made prices of luxury products sold in China much higher than in other countries. Exhibit 15-17 list the taxes on selected imported luxury products
- Product authenticity, a greater variety of choice and the experience of shopping overseas are other major drivers for overseas luxury consumption



## TOURISTIC SPENDING BECOMES A STRONG DRIVER OF LUXURY SPENDING (CONTINUED)

**Exhibit 15: Import tariff, consumption tax and VAT on selected imported luxury products in China – apparel**

Product category	Import tax rate		Consumption tax	VAT
	Preferential	Regular		
Men and women's cotton coat	17.5%	90%	0	17%
Men and women's wool coat	25%	130%	0	17%
Men's wool suit	25%	130%	0	17%
Men and women's cotton shirt	16%	90%	0	17%
Men and women's silk top	14%	130%	0	17%
Women's cotton skirt	14%	90%	0	17%
Women's silk skirt	14%	130%	0	17%

*Source: China customs; compiled by Fung Business Intelligence Centre*

## TOURISTIC SPENDING BECOMES A STRONG DRIVER OF LUXURY SPENDING (CONTINUED)

**Exhibit 16: Import tariff, consumption tax and VAT on selected imported luxury products in China – Handbag, Jewellery and watches**

Product category	Import tax rate		Consumption tax	VAT
	Preferential	Regular		
Leather handbag	10%	100%	20%	17%
Quartz watches	11%	80%	20%	17%
Mechanical watch	15%	80%	20%	17%
Jewelry with diamond	20%	130%	5-10%	17%
Jewelry with gem	35%	130%	5-10%	17%
Pearl jewelry products	35%	130%	5-10%	17%
Silvery jewelry	20%	130%	5-10%	17%
Gold jewelry	20%	130%	5-10%	17%

Source: China customs; compiled by Fung Business Intelligence Centre

# TOURISTIC SPENDING BECOMES A STRONG DRIVER OF LUXURY SPENDING (CONTINUED)

**Exhibit 17: Import tariff, consumption tax and VAT on selected imported luxury products in China – Footwear**

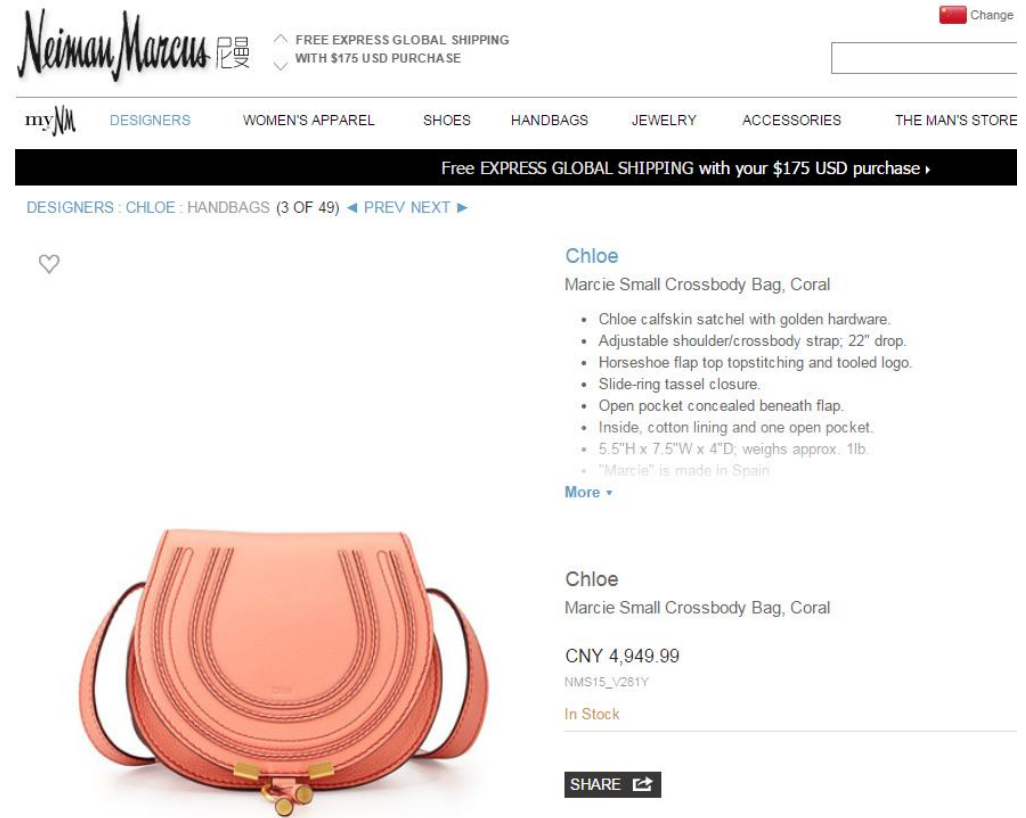
Product category	Import tax rate		Consumption tax	VAT
	Preferential	Regular		
Leather shoes with leather soles	24%	100%	0%	17%
Leather short boots	10%	100%	0%	17%
Canvas shoes	22%	100%	0%	17%
Leather sports shoes	24%	100%	0%	17%

*Source: China customs, compiled by Fung Business Intelligence Centre*

# CROSS-BORDER E-COMMERCE INCREASES IN POPULARITY

## - “HAITAO”

- With China’s e-commerce market becoming more mature, more Chinese consumers are indicating greater confidence for buying luxury products online, particularly via overseas online shopping platforms. This type of cross-border e-commerce activity is commonly referred to as “haitao”
- “Haitao” is one form of cross-border e-commerce activity. It has gained popularity over recent years due largely to the price discrepancy between luxury products sold in China and the ones sold in overseas

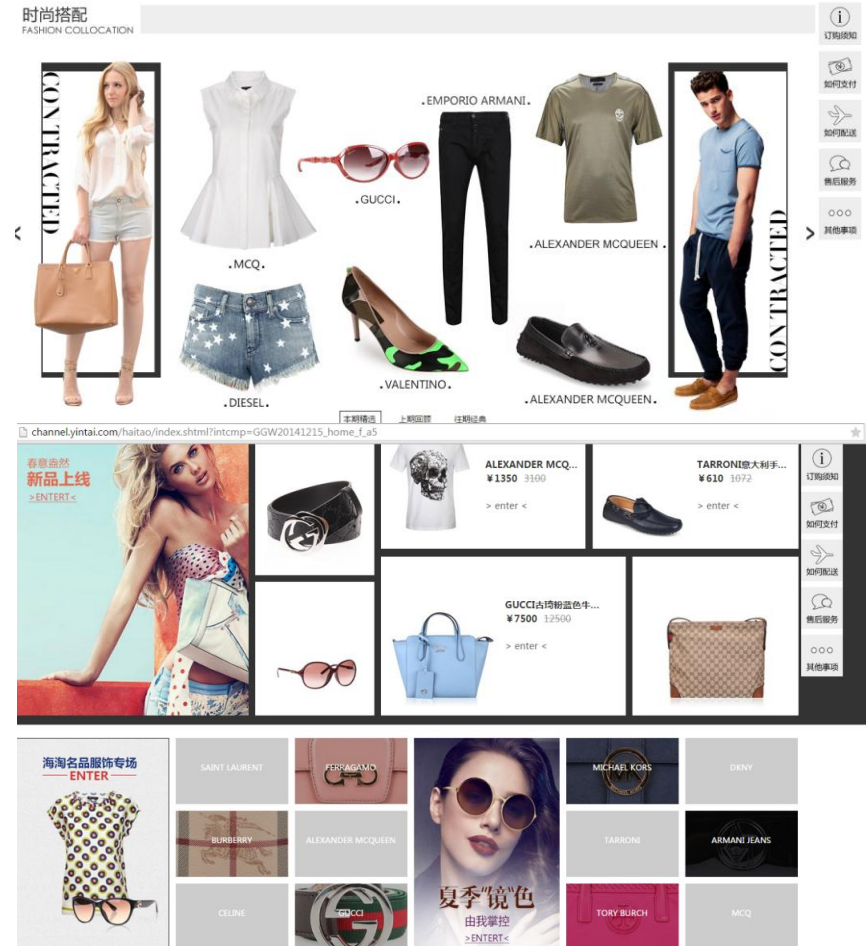


Source: <http://www.neimanmarcus.com/>

# CROSS-BORDER E-COMMERCE INCREASES IN POPULARITY

## - “HAITAO” (CONTINUED)

- Eyeing the huge potential of cross-border e-commerce, some high-end department store operators have leveraged “haitao” to sell luxury products
  - In May 2015, Intime Department Store launched a “haitao” section on its online platform, Yintai.com. Around 90% of the products sold on the “haitao” section are from luxury brands such as Yves Saint Laurent, Burberry, Gucci, Salvatore Ferragamo, Céline, Michael Kors and Armani Jeans. The prices of the luxury products sold on the “haitao” section are as much as 60% lower than that in the physical stores\*. Consumers also have to pay an additional 80 yuan per item for delivery. Moreover, no refunds or exchanges are allowed after purchase



\* Product prices exclude taxes. Consumers have to pay personal postal articles taxes; the tax rates are based on different product categories.

# CROSS-BORDER E-COMMERCE INCREASES IN POPULARITY

## - PILOT CITIES AND FREE-TRADE ZONES

- Having said that, many consumers are not quite satisfied with their traditional “haitao” experience. Major causes of dissatisfaction include long delivery lead time, many hidden costs involved, language barrier, uncertainty in product quality and difficult product returns\*
- To better regulate cross-border e-commerce, the government has approved seven pilot zones\*\* to carry out cross-border e-commerce services. It has also established a number of free-trade zones (FTZs) to facilitate trade services. Currently, four FTZs have been established in Shanghai, Tianjin, Guangdong and Fujian

*\*Tmall Global*

*\*\* The seven pilot cities approved for cross-border e-commerce import services include Shanghai, Chongqing, Hangzhou, Ningbo, Zhengzhou, Guangzhou, and Shenzhen.*

## CROSS-BORDER E-COMMERCE INCREASES IN POPULARITY

### - “DIRECT MAIL” AND “BONDED AREA IMPORT” MODELS

- Meanwhile, two new “haitao” models have been introduced, namely the “direct mail” model and the “bonded area import” model
  - “Direct mail” model – consumers buy products from qualified e-commerce platforms or e-tailers; the goods are shipped by international transportation means to consumers (via the pilot cities or FTZs)
  - “Bonded area import” model – imported goods are shipped and stored in bonded warehouses in the pilot zones or FTZs before customers place their orders on qualified e-commerce platforms or e-tailers
- Under these two models, imported goods are regarded as personal consumption items; instead of the import taxes, consumption taxes and VAT for general imported goods, the Customs levies import duties on the orders at the tax rate applicable to personal consumption items (or personal postal articles taxes)
- Exhibit 18 compares the tax rates for personal postal articles and tax rates for general imported goods on selected consumer products

# CROSS-BORDER E-COMMERCE INCREASES IN POPULARITY

## - PERSONAL POSTAL ARTICLES VS. TAX RATES ON GENERAL IMPORTED GOODS FOR SELECTED CONSUMER PRODUCTS

**Exhibit 18: Tax rates on key consumer categories**

Product category	Tax rate for personal postal articles	Tax rate for general imported goods			
		Import		Consumption tax	VAT
		Preferential	Regular		
Apparel and textile (Cotton, wool, silk, synthetic fiber and others)	20%	14-25%	90-130%	0%	17%
Leather clothes and accessories	10%	10-20%	100%	0%	17%
Bags (Suitcases, handbags, purses and others)	10%	10-20%	100%	0%	17%
Shoes (Leather shoes, leather boots, sports shoes, canvas shoes and others)	10%	10-24%	100%	0%	17%

Source: China Customs, QGTONG, State Council of the PRC



# CROSS-BORDER E-COMMERCE INCREASES IN POPULARITY

## - PERSONAL POSTAL ARTICLES VS. TAX RATES ON GENERAL IMPORTED GOODS FOR SELECTED CONSUMER PRODUCTS

**Exhibit 18: Tax rates on key consumer categories (*continued*)**

Product category	Tax rate for personal postal articles	Tax rate for general imported goods			
		Import		Consumption tax	VAT
		Preferential	Regular		
General watches	20%	11-23%	80-100%	0%	17%
Luxury watches (10,000 yuan or above)	30%	11-23%	80-100%	20%	17%
Cosmetics	50%	6.5-15%	150%	30%	17%
Skin care products	50%	6.5%	150%	0%	17%
Gold and silver jewellery, platinum jewellery, diamonds, and diamond jewellery	10%	20-35%	130%	5%	17%
Other precious jewellery and precious stones	10%	20-35%	130%	10%	17%

Source: China Customs, QGTONG, State Council of the PRC

## **IV. KEY STRATEGIES OF LUXURY RETAILERS IN CHINA**

## ADJUSTING THE PRICE IN CHINA

- As more wealthy Chinese consumers choose to shop luxury products abroad, some luxury brands have started to cut their prices in China with a hope to drive part of the overseas spending back to the country
  - Chanel has cut the prices of selected product lines available in China by up to 20% starting 8 April 2015\*; earlier, Swiss watchmaker Cartier also announced it will cut prices on its watches by 5% in China\*\*
  - It is expected that more luxury brands will adjust their pricing strategies in China in the near future



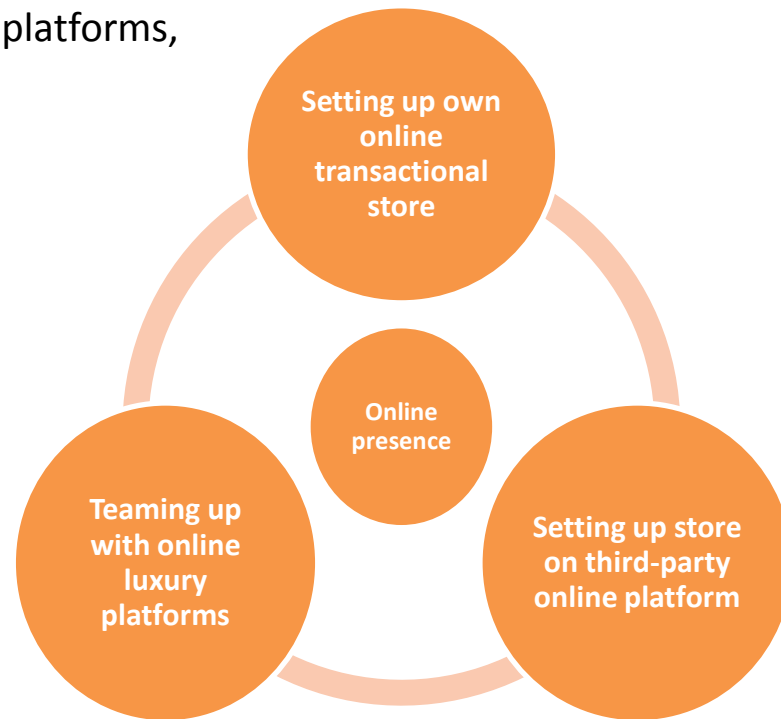
Source: <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150325000099&cid=1202>

\* "Chanel cuts prices in China" 25 March, 2015. Want China Times. <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150325000099&cid=1202>;

\*\* "Cartier Cuts Price in China" . 21 April 2015. CPP-luxury. <http://www.cpp-luxury.com/cartier-cuts-prices-in-china/>.

## BUILDING UP AN ONLINE PRESENCE

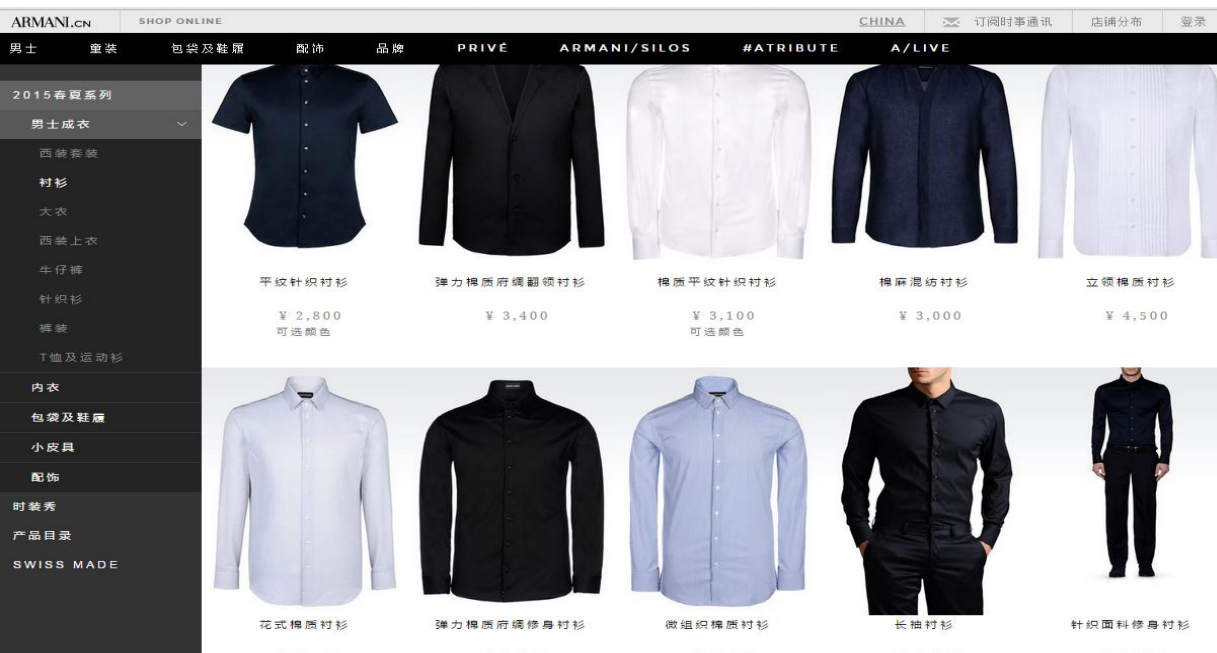
- As Chinese consumers are now used to getting product information, if not buying luxury products online. Thus, having a strong online presence is a crucial component of luxury retailer's strategy
- Some luxury retailers have created informative, interesting and interactive websites to engage with consumers in China
- Others have started selling on online platforms, usually via three approaches:



# BUILDING UP AN ONLINE PRESENCE — OWN TRANSACTIONAL WEBSITE

## CASE: ARMANI

Armani has opened own online transactional store in China. Selected products from Emporio Armani, Armani Collezioni, EA7, Prive, Armani Junior and Armani Jeans are available online



### Armani China own online transactional store

#### Payment

- Major credit and debit cards, Alipay, Pay Easy and Cash on Delivery (for purchases less than 10,000 yuan)

#### Delivery

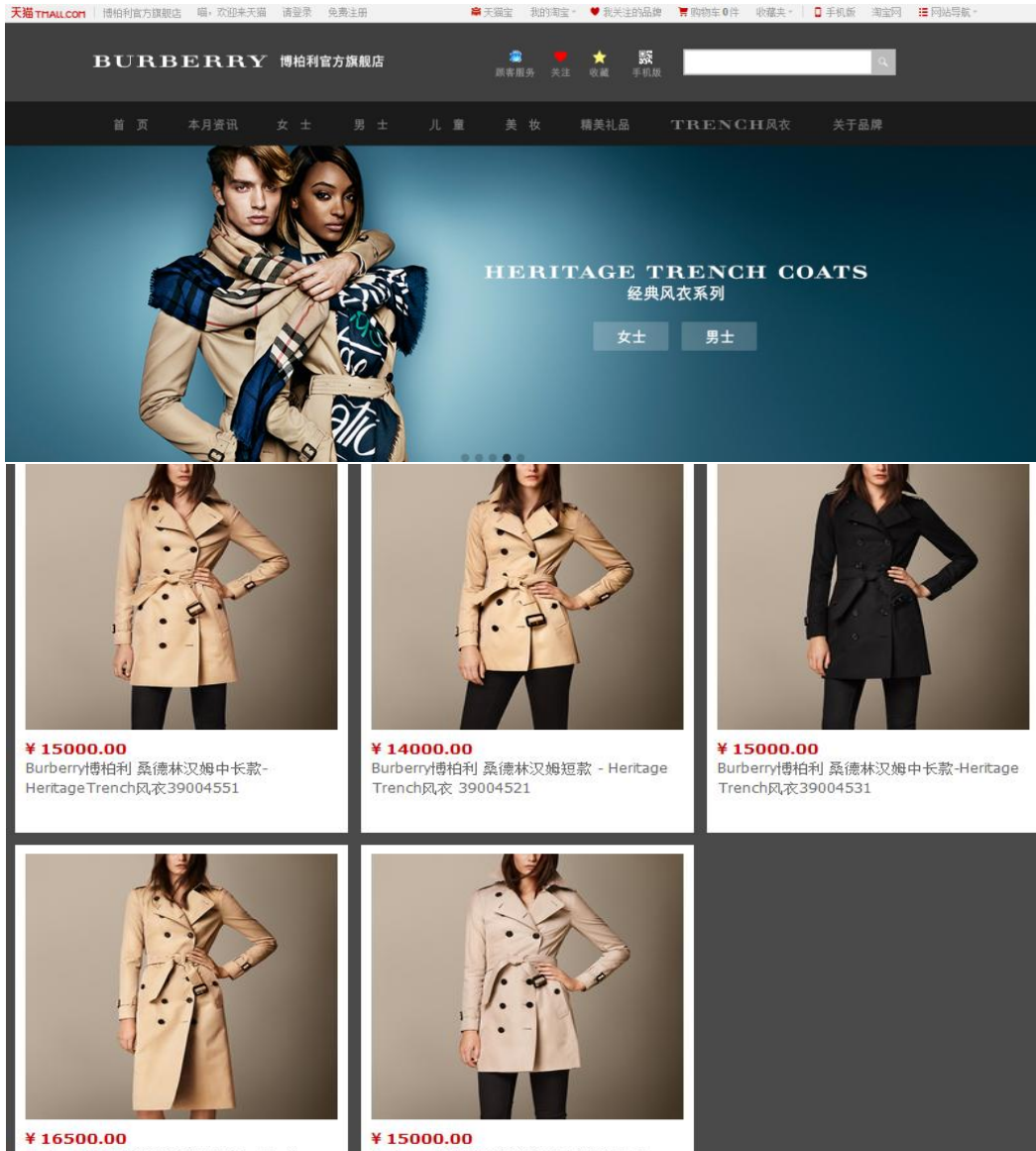
- 1-2 days (delivery fee: 75 yuan)
- 3-5 days (delivery fee: 50 yuan)

#### Returns policy

- Returns can be made within seven days of the purchase date; need to ship the products to designated address

# BUILDING UP AN ONLINE PRESENCE — ONLINE STORE ON THIRD-PARTY PLATFORM

## CASE: BURBERRY



In April 2014, Burberry launched its flagship store on Tmall, China's largest online shopping platform. This is the first time that an international luxury brand entered onto the third-party online shopping platform

### Burberry China Tmall store

#### Payment

- Major credit and debit cards, Alipay, Cash on Delivery

#### Delivery

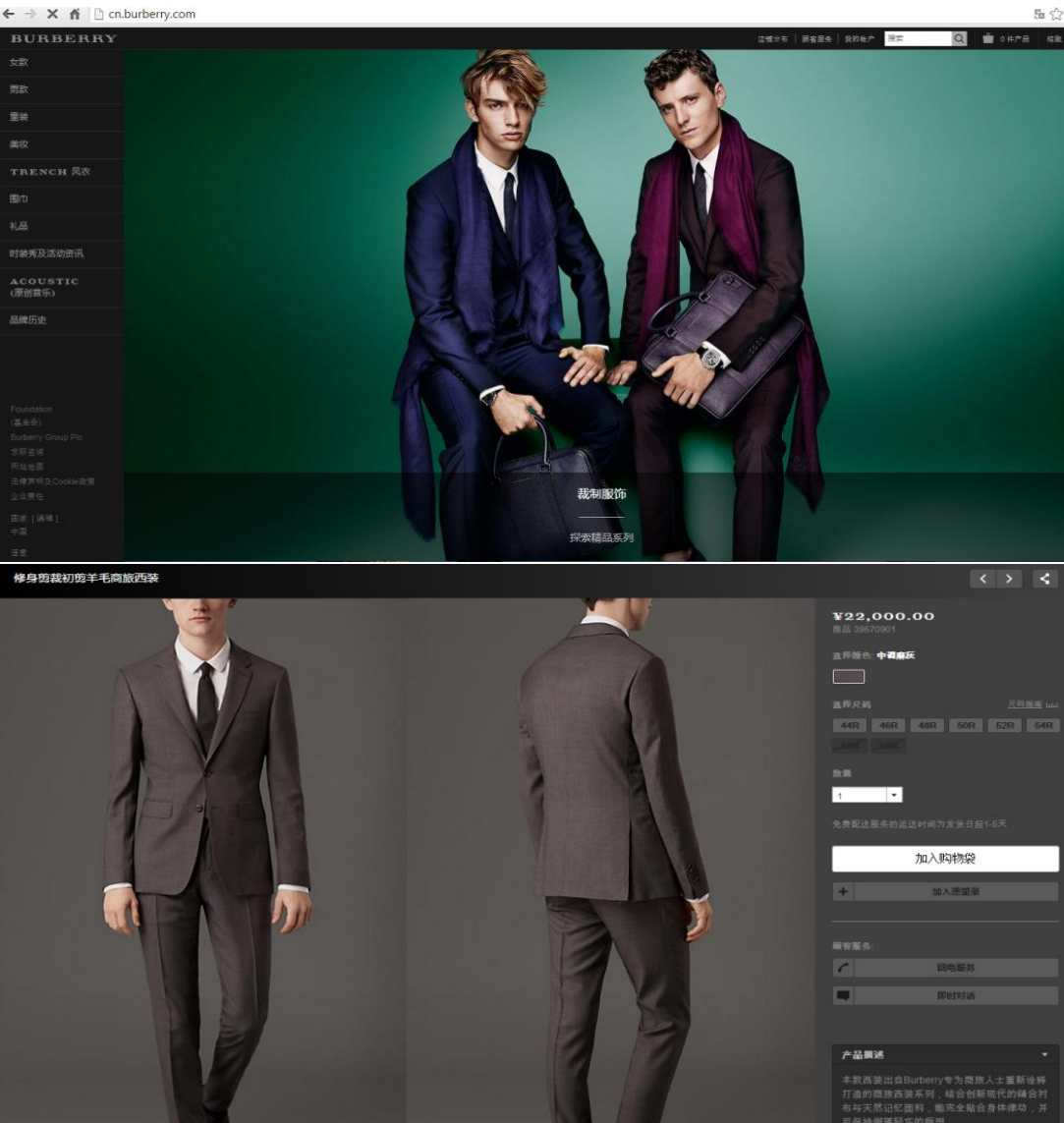
- 72 hours (delivery fee: free of charge)

#### Returns policy

- Returns can be made within 15 days of the purchase date; need to ship the products to designated address

# BUILDING UP AN ONLINE PRESENCE — ONLINE STORE ON THIRD-PARTY PLATFORM

## CASE: BURBERRY (CONTINUED)



Apart from opening store on Tmall, Burberry also launched its own online transactional store

### Burberry China own online transactional store

#### Payment

- UniPay, Alipay, Visa and Master cards

#### Delivery

- 1-5 days (delivery fee: free of charge)
- Pick up at retail store

#### Return and exchange

- No exchange
- 15 days of refund; need to ship the products to designed address



# BUILDING UP AN ONLINE PRESENCE — TEAM UP WITH ONLINE LUXURY PLATFORMS

## CASE: MCM, AGNÈS B. AND LONGCHAMP



**MCM and Longchamp granted distribution rights to Mei.com, one of China's online flash discount retailers for luxury and affordable luxury brands, in June 2014 while Agnès B. granted distribution rights to Mei.com in January 2015**

♥ 坚守正品之道  
揭秘魅力惠“品牌授权”模式

魅力惠以“品牌官方授权”为核心，直接与签约的品牌合作，保证正品。经过4年的沉淀和累计，已经和1800个国际知名品牌官方合作，为摩登睿智的消费者们创造一种独特超值的消费体验。与品牌坚实的合作伙伴关系，确保消费者通过魅力惠能购得真实权威，品质卓越，以及极具竞争力价格的商品。坚持和品牌商合作共赢，只卖正品，将更多国际顶级高品质大牌带给中国的时尚消费者，不断完善和优化用户体验，这就是魅力惠一直为之努力的目标。

**1** 品牌直接合作  
魅力惠坚持和品牌直接合作，  
杜绝任何灰色渠道

**2** 官方授权正品  
品牌直接授权，100%保证魅力惠网站  
只销售有保障的高质量正品

**3** 时尚基因团队  
魅力惠管理团队来自各大奢侈品品牌，  
与品牌商一直保持无缝的契合和认识





# BUILDING UP AN ONLINE PRESENCE – TEAM UP WITH ONLINE LUXURY PLATFORMS

## CASE: LAFAYETTE

魅力惠MEI.COM 5周年庆 时尚奢品 限时折扣

100%官方正品 点击揭秘

首页 女士 男士 美妆 家居 婴童 NEW 老佛爷奥莱 即将推出 时尚顾问 购物车 (0) 件

亲子出街 你穿对了吗？  
谁说带娃的妈妈不起范儿？！  
老佛爷言传身教至亲子穿搭法，请不要吝啬拿起你的相机来捕捉妈妈和宝贝出街的温情瞬间吧！

Lafayette

老佛爷奥莱 魅力惠独家发售

老佛爷奥莱 男士上装 3折

老佛爷奥莱 男士下装 3折起

老佛爷奥莱 男士包配饰 3折

新人专享 双重好礼  
50元优惠券  
2次免运  
马上注册>

仅剩1件 买手推荐

JOHN BULL  
蓝色轻薄水洗不规则剪裁牛仔衬衫  
RMB 897  
市场价：RMB 2988

Uppercut  
灰色纯棉翻领衬衫和上衣  
RMB 2097  
市场价：RMB 6988

仅剩1件 买手推荐

SATURDAYS SURF NYC  
蓝色纯棉连帽户外夹克  
RMB 1047  
市场价：RMB 3488

Apart from luxury brands, high-end/luxury department store operators such as Lafayette China have also partnered with online luxury platforms

In December 2014, Lafayette China formed a partnership with Mei.com. Selected products sold at Lafayette China are available at Mei.com. The prices of Lafayette China's products sold on Mei.com are as much as 60% lower than that in the physical stores \*

### Lafayette China Mei.com store

#### Payment

- Major credit and debit cards, Cash on Delivery

#### Delivery

- 3-10 days (delivery fee: free of charge for purchasing above 688 yuan)

#### Returns policy

- Returns can be made within 7 days of the purchase date; need to ship the products to designated address

## LEVERAGING SOCIAL MEDIA TO BUILD BRAND IMAGE

- Riding the boom of the e-commerce sector in China, many luxury retailers in China are making huge digital marketing efforts to increase brand equity. Social media has become an increasingly common marketing tool
- Some luxury retailers use Sina Weibo and WeChat to interact with their consumers, while others use online video sharing platforms to promote their latest collections and engage with consumers

# LEVERAGING SOCIAL MEDIA TO BUILD BRAND IMAGE

## CASE: DIOR



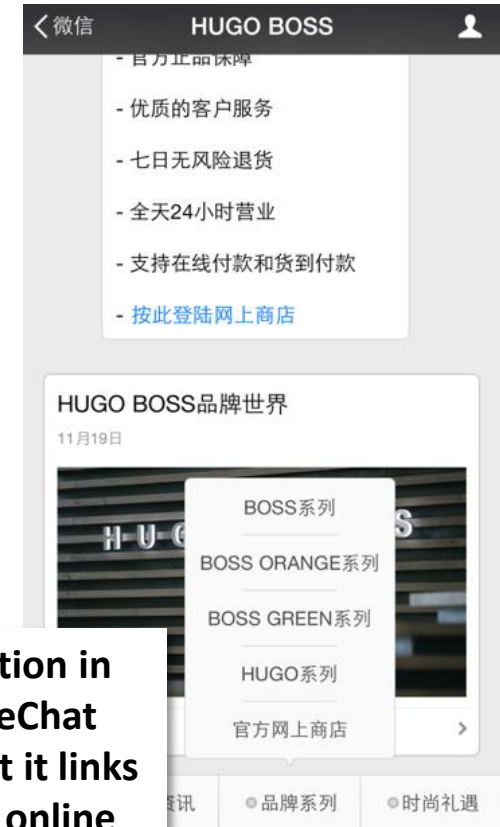
Dior has introduced its latest collections and broadcasted latest fashion trends and promotional events via its Weibo account. It updates the account on a daily basis. As of 30 April, 2015, Dior's Weibo account had **1,375,344** followers

# LEVERAGING SOCIAL MEDIA TO BUILD BRAND IMAGE

## CASE: HUGO BOSS



Hugo Boss uses its WeChat account to introduce the latest collections and fashion trends



A special function in Hugo Boss' WeChat account is that it links to Hugo Boss' online store; this enables customers to shop directly online

# LEVERAGING SOCIAL MEDIA TO BUILD BRAND IMAGE

## CASE: MICHAEL KORS

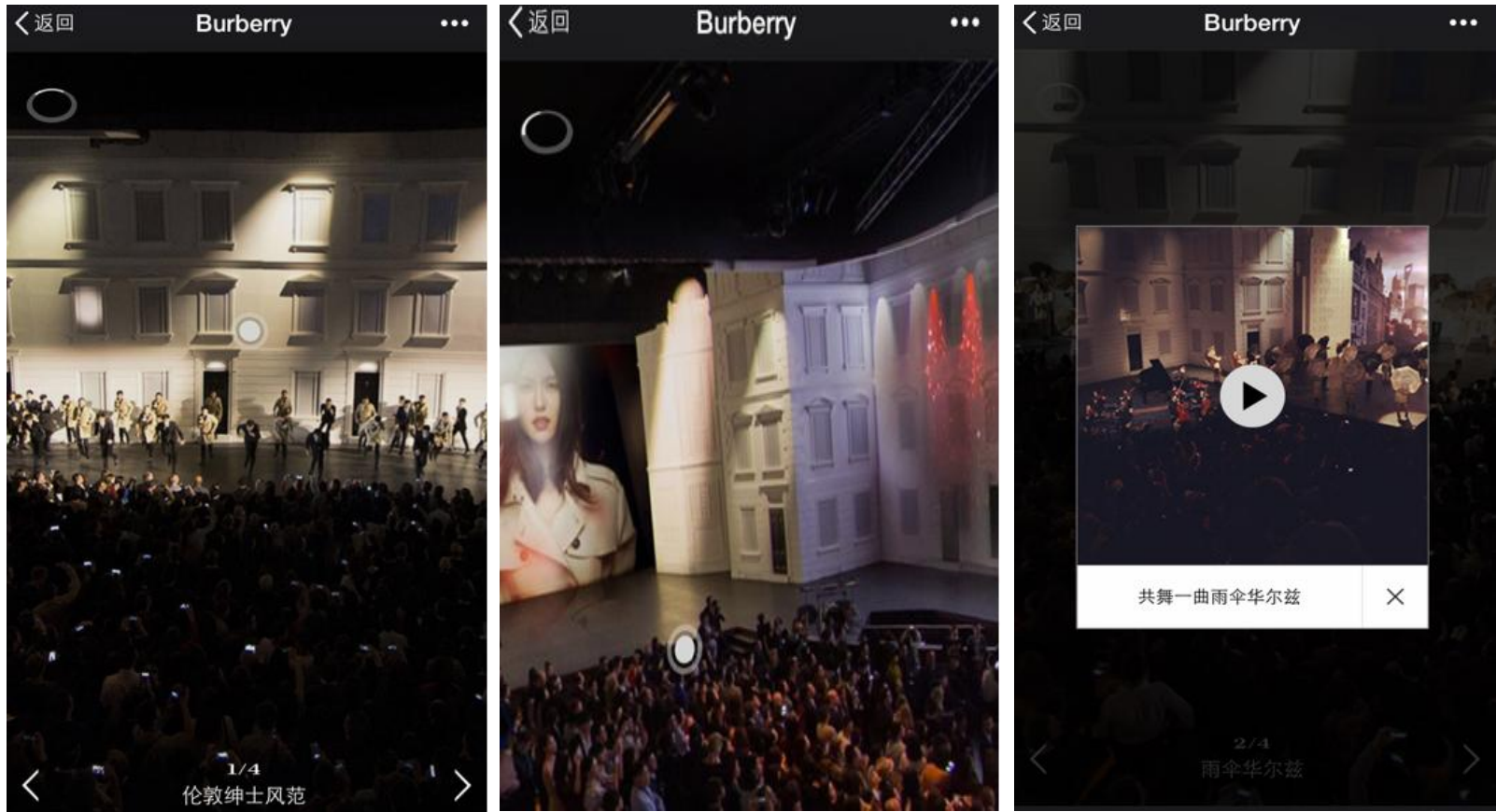


In September 2014, affordable luxury brand Michael Kors launched an “All Access Kors campaign” for its fashion show livestream on its WeChat account. The campaign allows Michael Kors’ WeChat followers to create their own personalised All Access Kors imagery – they can upload their selfie, or write their name, which is then shown in silhouette against the New York skyline. Once the imagery is created, consumers can shake their device or swipe their screen to see different angles of the skyline. The fashion show was also being broadcasted on Michael Kor’s WeChat account



# LEVERAGING SOCIAL MEDIA TO BUILD BRAND IMAGE

## CASE: BURBERRY

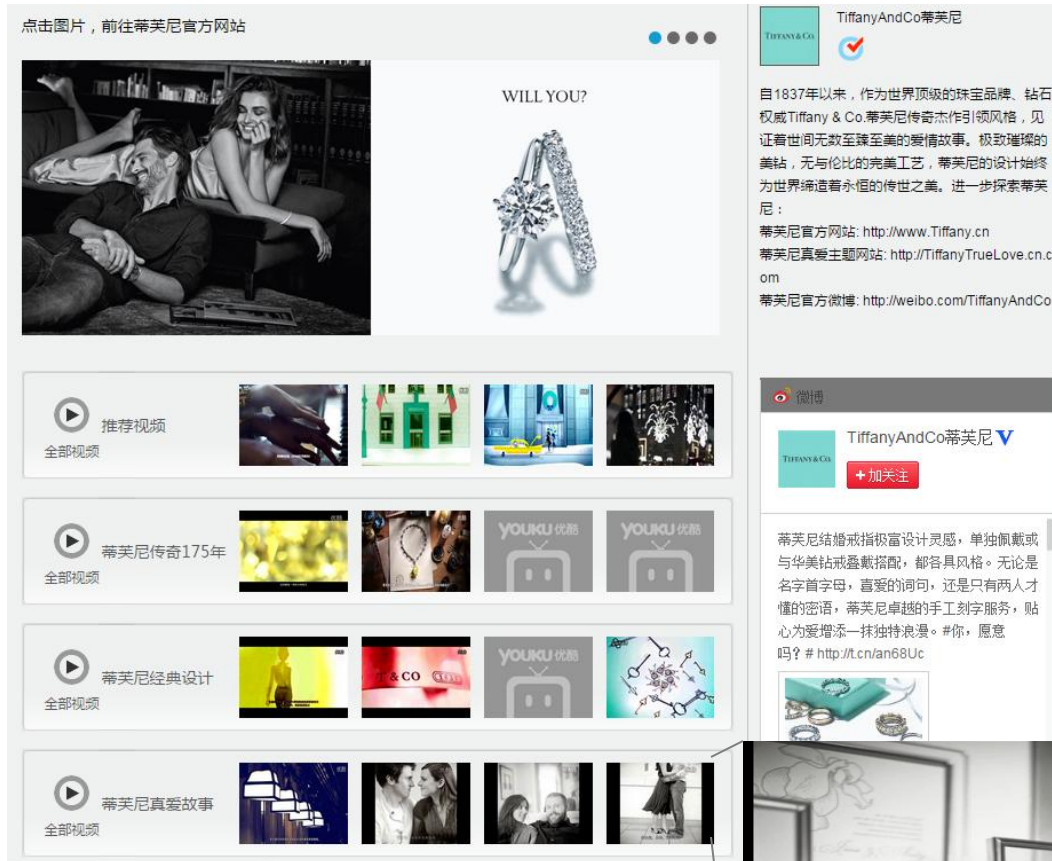


In April 2014, Burberry celebrated the opening of its Shanghai flagship store by organising an immersive theatrical event

Consumers could view the highlights of the event with 360° Virtual Tours via WeChat

# LEVERAGING SOCIAL MEDIA TO BUILD BRAND IMAGE

## CASE: TIFFANY & Co.



Tiffany & Co. uploaded its “Tiffany True Love Story”, a collection of short videos, on Youku, a leading video hosting platform in China, hoping that customers can resonate romantic love stories with its jewellery



## SOME BRANDS TAKING BACK CHINA FRANCHISES

- To better control brand image and oversee expansion, some big brands have started opening more directly-operated stores, buying back franchises from local partners and taking stakes in other China retail partners
  - In July 2014, Hugo Boss bought back a 40% stake in its Chinese mainland and Macau joint venture from franchise partner Rainbow Group\*
  - Other luxury brands such as Coach\*\* and Burberry\*\*\* have also bought back franchises from local partners or ended partnership with them to resume direct control over their China stores

\* “Hugo Boss Takes Distribution Rights in China ” . 4 July, 2014. Yicai. <http://www.yicai.com/news/2014/07/3988901.html>.

\*\* “Coach to accelerate expansion in China; to open 30 stores per year ” . 8 February, 2012, Sina. <http://fashion.eladies.sina.com.cn/industry/2012/0208/092828730.shtml>.

\*\*\* “Burberry’s sales reached 1 billion pounds;takes back distribuion righths in China ” . 25 November, 2013. Ladymax. <http://news.ladymax.cn/201311/25-20167.html>



## BONDING WITH THE CONSUMERS

- Many luxury retailers understand the importance of creating an emotional connection between the brand and the consumers. Some of them have organised special events to educate consumers about the brand story and hope to engage consumers in a more interactive way

## BONDING WITH THE CONSUMERS

### CASE: CARTIER

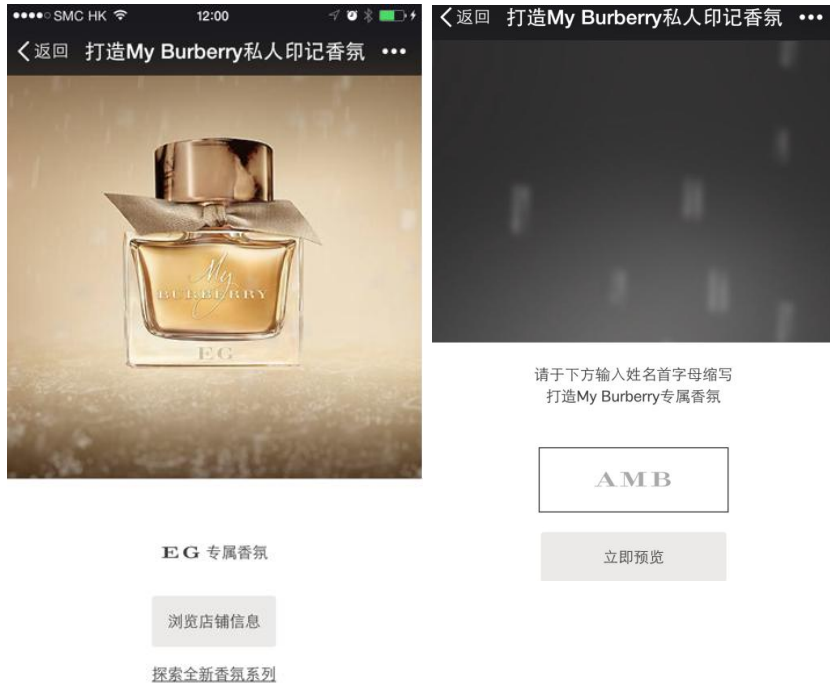


Source: <http://revo-online.com/cartier-time-art-mechanics-of-passion-now-in-shanghai/>

**Cartier held an exhibition in Shanghai in October 2014. The exhibition not only featured historic works from the brand's earliest days, but also included 3D movies and live demonstration by watchmakers**

# BONDING WITH THE CONSUMERS

## CASE: BURBERRY



In December 2014, Burberry launched a program on its WeChat account, allowing its customers to create their own customised engraved “exclusive” perfume. The tailor-made perfume can be ordered on its online platform on Tmall.



## INCORPORATING CHINESE ELEMENTS IN PRODUCT DESIGN

- To cater to the preferences of Chinese consumers, some luxury brands have combined modernity and international vision with Chinese traditional elements in their collections



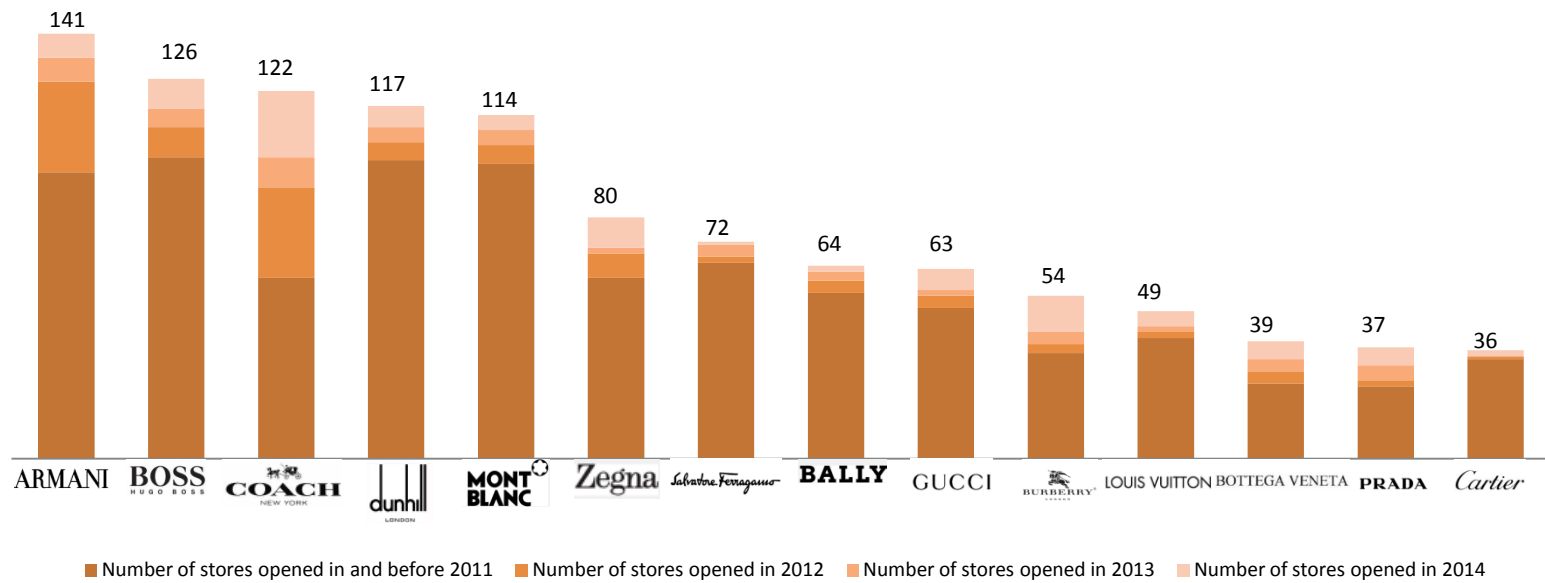
Italian luxury fashion brand Robert Cavalli also launched a porcelain dragon dish inspired dress in 2014

Inspired by the design of an ancient incense-burning vessel, Italian fashion designer Valentino, incorporated blue floral embroidery in its Fall/Winter 2013-2014 Ready-To-Wear collection

## PREMIUM LUXURY BRANDS SCALE DOWN NEW STORE OPENINGS

- Given the challenging times, some premium luxury brands have shifted their focus from aggressive store openings to closing underperformed stores and improving existing store productivity

**Exhibit 19: Number of stores in China for selected luxury brands (from 2009 to 2014)**



Source: Bain & Company; compiled by Fung Business Intelligence Centre

## CREATING IMMERSIVE IN-STORE EXPERIENCE

- Without doubt, an increasing number of luxury consumers now tend to shop online, particularly from overseas shopping platforms; however, many still prefer to shop at the physical stores for reasons such as product authenticity, being able to touch and feel the product, and enjoy the shopping environment of the physical store
- An increasing number of luxury retailers use their physical stores to maintain exclusivity, as well as to provide an exceptional shopping environment and introduce lifestyle experience



# CREATING IMMERSIVE IN-STORE EXPERIENCE

## CASE: ALFRED DUNHILL



Alfred Dunhill had opened an “Aquarium by Kee” bar in its Shanghai flagship store, with the aim of bring together its brand and lifestyle experience . With a cozy environment, the Aquarium Bar serves as a club as well as provides other services for its VIPs. Restaurant, spa, barber shop, bespoke tailor services and Bentley chauffeur services are available at the flagship store



Source: [http://www.chinadaily.com.cn/cityguide/2009-07/13/content\\_8421243.htm](http://www.chinadaily.com.cn/cityguide/2009-07/13/content_8421243.htm)  
<http://theartisanista.com/alfred-dunhill-flagship-stores-villas-shanghai-london/>

## CATERING TO THE NEEDS OF THE RICH TRAVELLING CHINESE

- With more and more Chinese consumers choose to buy luxury goods abroad, luxury retailers have hired sales associates whom can speak Chinese and better understand Chinese consumers' needs
- At the same time, to satisfy the last minute shopping needs of the rich travelling Chinese, luxury retailers are keen to open stores in international and domestic airports





# CATERING TO THE NEEDS OF THE RICH TRAVELLING CHINESE

## CASE: BURBERRY



Eyeing the rich travelling Chinese, Burberry has reportedly recruited over 150 Mandarin speaking sales associates across popular cities across Asia



Source: <http://blog.livedoor.jp/inductreversal74/archives/4867905.html>

# CATERING TO THE NEEDS OF THE RICH TRAVELLING CHINESE

## CASE: HARRODS



To make payment easier for Chinese consumers, some luxury retailers such as Harrods now accept China UnionPay, the only domestic credit card available in China, allowing Chinese consumers to make payments directly from their domestic bank accounts



Source:  
<http://www.zimbio.com/pictures/qJ9vqroQlb4/Harrods+Customers+Use+UnionPay+Debit+Cards/S1TD77iiC0H/Michael+Ward>

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