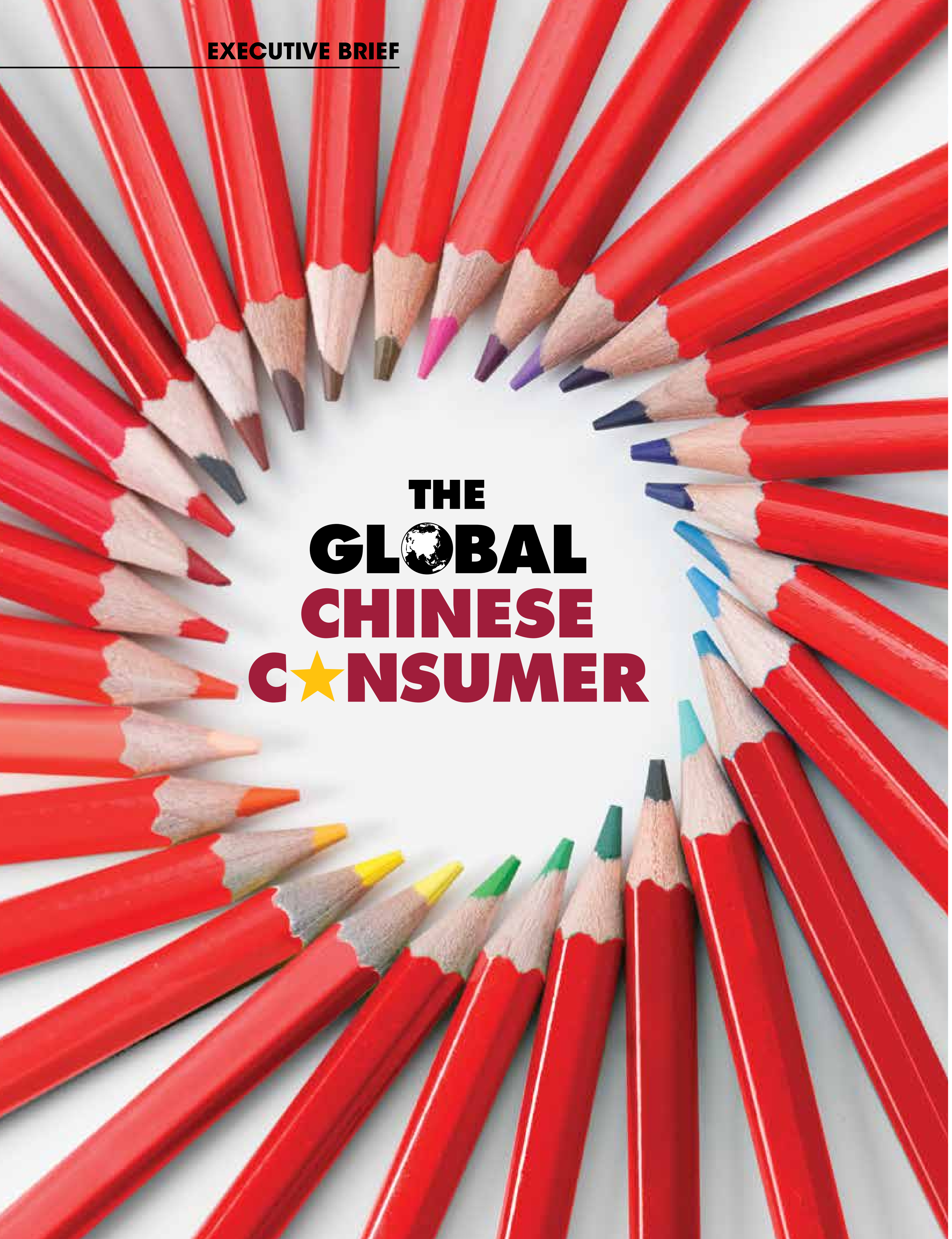

THE GLOBAL CHINESE CONSUMER

At the forefront of growth in the luxury goods market.

By Rane Xue and Xiaolei Gu

The market share of personal luxury consumption by Chinese consumers has been on an incredible growth trajectory. In 2019, according to Bain & Company, Mainland China as a market grew by 26 percent at constant exchange rates to reach €30 billion (US$35 billion) in sales, accounting for around 10 percent of the total personal luxury consumption globally at €281 billion (US$332 billion). The true contribution from Chinese consumers becomes even more apparent when we look at personal luxury consumption according to nationality. They accounted for 35 percent of the total value of luxury goods sold in the world,[1] which also meant that among all the personal luxury goods purchases made by Chinese consumers, close to 70 percent happened outside China.

The picture becomes even more complicated when we probe further. According to Morgan Stanley, among the Chinese luxury goods purchases that were made outside China, close to 40 percent were overseas self-purchases and 20 percent were overseas *daigou*,[2] where the latter refers to surrogate shopping performed on behalf of those living in China.

The Covid-19 pandemic has made understanding Chinese consumers more important than ever in the world of luxury goods, with their purchases reshoring back to China which is expected to make the China market the biggest luxury market in the next two years. On one hand, this raised a question for brands on how they are able to identify and engage with the ones who are the main driver of luxury repatriation, and develop new perspectives on consumer understanding. On the other hand, brands still need to keep a watchful eye on future consumption patterns when people start to travel again.

A new perspective on Chinese consumers

We have come up with a new way to look at Chinese consumers who are going beyond their home market for their purchases by using an anthropological and cultural approach (refer to Figure 1). In our analysis, Chinese consumers can be organised into the following four groups based on their footprint, and more importantly, their global mindset.

UNDERSTANDING CHINESE CONSUMERS

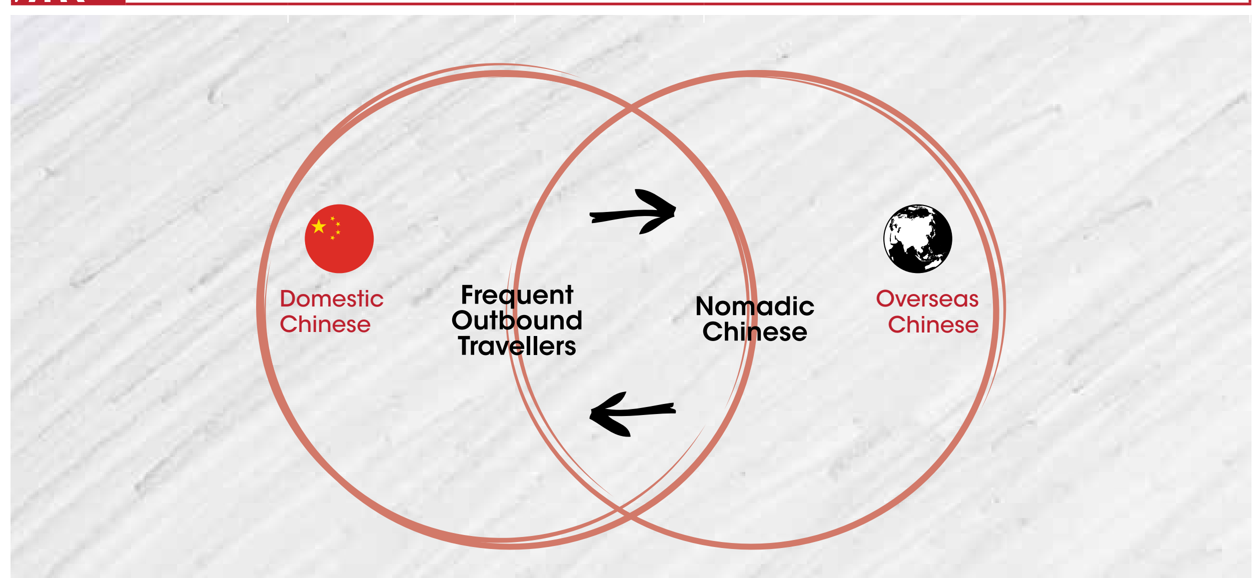

FIGURE 1

DOMESTIC CHINESE

The *Domestic Chinese* segment makes up the 1.4-billion-strong market that is critical to every industry. The majority of Chinese consumers live in China and they travel predominantly within the geographical confines of the country. They are usually studied from a generational perspective, using socioeconomic status and the regional/city-tier approach, among other classic frameworks adopted for consumer studies.

FREQUENT OUTBOUND TRAVELLERS

At the same time, about nine percent of these *Domestic Chinese* consumers own a passport that allows them to travel internationally. Approximately 15 to 20 percent of them are *Frequent Outbound Travellers*, meaning that they travel at least once a year outside Mainland China. If we look at China's outbound travel market in 2019, according to Ctrip, the largest online travel agency (OTA) in China, the majority of outbound travel destinations were within Asia (79 percent), followed by Europe (8 percent), Americas (6.8 percent), Oceania (3.5 percent), and Africa and Antarctica (2.7 percent).[3]

NOMADIC CHINESE

Nomadic Chinese is a new concept, and as a demographic, it is increasingly apparent among the younger generation. While countless Chinese have migrated over the years, here we are specifically referring to immigrants who left China after the year 2000. Many choose to move around and live in different parts of the world for a couple of years for education, work, or sometimes just to experience the world (like taking a gap year).

Unlike the earlier generations of immigrants who might have left the country to escape poverty or obtain a better quality of life, the drive and motivations of these *Nomadic Chinese* are different. They possess greater purchasing power and have made a conscious choice to embrace new cultures, lifestyles, and mindsets. Another significant difference about this group as compared to older-generation immigrants is that they remain deeply connected to China. They take great pride in being Chinese and are very active participants in China's highly developed digital ecosystem.

OVERSEAS CHINESE

This group comprises the older generations of people who decided to emigrate from China before 2000 and their descendants. Their reasons for emigrating overseas are different from those of the *Nomadic Chinese*. Additionally, their economic status, consumer behaviour patterns, and level of connections with China are different. Their descendants, who are at least second or third-generation Chinese and still share Chinese roots, are usually much more integrated with the local societies they are now living in.

Global Chinese Consumers matter

Of the above four groups, the ones we find the most interesting and would like to dive deeper into, are the two groups in the middle–the *Frequent Outbound Travellers* and the *Nomadic Chinese*. We call them *Global Chinese Consumers*. We see them being Chinese at heart, but international in terms of mindset and footprint. This is something quite important for luxury brands to take note of, because as China continues to drive its multilateral relationships, these groups of people, who act as a bridge between China and the rest of the world, will continue to grow in size and influence. Luxury brands that want to grow their brand desirability internationally need to develop and grow their brand equity based on a universal set of values, and we believe *Global Chinese Consumers* is the most important segment that these brands should focus on.

> *Global Chinese Consumers* will choose to enjoy the best of what China and the rest of the world have to offer.

Once Covid-19 restrictions are lifted, *Nomadic Chinese* and the *Frequent Outbound Travellers* (i.e., business travellers) will be the first ones back in the air. This is not only because of their affluence, but also because they have the need (for education, work, family reunions, etc.) and more importantly, the ability. They will choose to enjoy the best of what China and the rest of the world have to offer. Given the size of these market segments and the speed at which they learn and evolve in their consumption behaviour, we expect the interactions across these two groups to become more and more dynamic.

There are several reasons why the luxury industry simply cannot ignore *Global Chinese Consumers*. The first, and most obvious one, is that they have the purchasing power. Being able to travel frequently is a luxury in itself. They are more affluent than the other two groups of Chinese consumers, who are either residing only in China or overseas respectively.

Second, these consumers have developed a global mindset. Travel has influenced their personal and professional development, and challenged them to see the world through a different lens. We believe that one of the key drivers for China's rapid development, besides its economic growth, is that more and more Chinese are travelling frequently. Constant exposure to new experiences, cultures, and ideas helps them to keep evolving and redefining themselves.

The third key reason is that *Global Chinese Consumers* show greater maturity in their appreciation of luxury goods (refer to Figure 2). We find that the value drivers of luxury consumption have evolved from aiming to display their social status to demonstrating their taste and expertise in fashion. At this stage, while style, quality, and experiences are essential for Chinese luxury consumers, we also see a growing number seeking luxury for self-realisation and even value creation.

SOPHISTICATION CONTINUUM OF GLOBAL CHINESE CONSUMERS

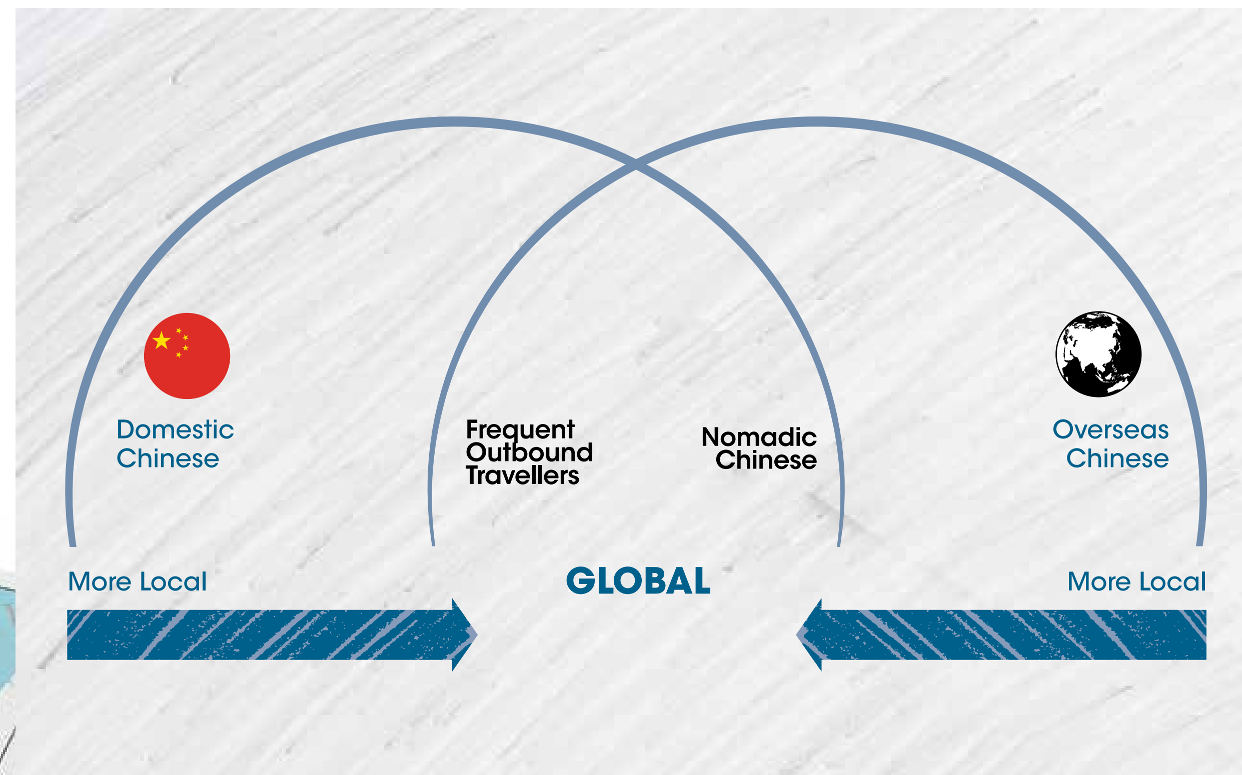

FIGURE 2

Finally, and perhaps the most important reason, *Global Chinese Consumers* are trendsetters and agents who are driving change in China's society, prompting it to start embracing some of the radical ideas and choices of the younger generation. For example, this group has helped galvanise support and understanding of unconventional groups such as the LGBT (Lesbian, Gay, Bisexual and Transgender) community and their rights in the country. Therefore, it is important for a brand to capture these consumers, as they will exert a halo effect in their social circles. In addition, to understand the future of luxury in China, we believe it is critical to understand what drives these *Global Chinese Consumers,* as they are the innovators and early adopters who set the trend for others to follow.

While we do not deliberately focus on age, it is not surprising that *Global Chinese Consumers* tend to be younger. In fact, as McKinsey & Company notes, Chinese youths tend to understand "luxury as a form of social capital that helps mark them apart, and achieve personal and social goals", and that China's "young luxury consumers are more interested in aspiration than heritage". Its report further highlights that "[the] imperative for global brands is to become the leading form of social capital to appeal to these consumers".[4]

What Global Chinese Consumers are thinking

Global Chinese Consumers have been exposed to new experiences and ideas during their movement globally. As a result, they have been developing a global citizenship mindset, and will be the forerunners in welcoming, embracing and eventually paying for brands that are driving progressive social values.

There are three key concepts we will touch upon here to further dissect the mindset of the *Global Chinese Consumer*–individuality, diversity and inclusion, and sustainability. We start with individuality because luxury consumption revolves around individual taste and personal pleasure. On the Hofstede's continuum of individualism-collectivism, Chinese consumers are ranked high on collectivism while their counterparts in the Western world tend to score higher on individualism. However, from a *Global Chinese Consumer* perspective, there is a lot more fluidity regarding the degree of individualism. Their understanding and perception are not fixed; instead, it is rather dynamic in response to different cultural contexts and where they are located. While they appreciate individualism in the Western context, they can also understand why collectivism is particularly important in Chinese

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society. We believe they will be the ones to work towards a connected future–that is, China *with* the world as opposed to China *versus* the world in terms of culture, ideologies, and ways of thinking–and drive change through their collective efforts.

Next is the concept of diversity and inclusion. Today, this idea and ideal have gone beyond just corporate communication speak, and lie at the core of many brands, especially in the luxury sector. For instance, the inclusive plus-sized fashion market is on track to rise and clock US$32 billion in sales in 2020, and the demand for gender-fluid fashion too is increasing, especially among the younger consumers. In the West, the youths expect the luxury brands to be the flagbearers of inclusive and progressive thinking on culture, race, size, or gender. In fact, these changes about diversity and inclusion have arrived on China's shores, even though there are questions about how this would play out given its more homogeneous culture, and to a more limited extent, physique type. For instance, Shanghai lingerie brand NEIWAI's (内外 or 'Inside and Out') "*No Body is Nobody*" advertisement campaign that featured women of different body shapes, rather than the usual size 0 models, represents a shift in the consumer mindset and concept of individuality.[5] This campaign highlighted real beauty as seen in all the different shapes and forms of Chinese women. Evidently, this concept is becoming closer to the heart of luxury brand-building in the Chinese context as well. And from our point of view, true diversity and inclusion is about considering multiple perspectives and embracing different ideas and possibilities, because this is how we will be working, living, and thriving together. It is fair to say that those people who travel and see the world, and interact with different cultures and mindsets, are able to develop such diversity and inclusion-oriented attitudes.

Finally, we come to sustainability, which is such an important and evolving trend. The *Bain & Company 2019 Luxury Goods Worldwide Market Study* states: "social responsibility remains top of mind for luxury customers and encompasses more than just environmental impact".[6] In fact, 80 percent of the respondents in this study expressed a preference for socially responsible brands, especially the millennials. Additionally, 60 percent of luxury customers believed that luxury brands should be more 'activist' and become more engaged in sustainability issues than other industries.

Between 2016 and 2019, online searches for sustainable fashion have tripled. In addition, 75 percent of the millennial respondents in a 2019 U.S.-based consumer survey reported that they considered sustainability first when making a luxury purchase.[7] This includes China, where consumers are fast catching up and becoming more aware of sustainability issues as they think about how they can contribute to making a better world. Having gained economic might, its people have become more aware and are thinking about how they can plan for the next generation. Their sustainability mindset would be further developed and strengthened over the next few decades. Culturally speaking, and even historically, the Chinese have always appreciated that people and nature need to coexist in harmony. Therefore, we are confident that sustainability is something that the Chinese will learn to appreciate deeply, and they will increasingly expect luxury brands to facilitate and enable their efforts towards building it.

What lies ahead?

We believe that *Global Chinese Consumers* should be a priority for luxury brands, not only because of the consumption power they possess and demonstrate, but because they are the most sophisticated among Chinese consumers in general. They will be the first ones to truly identify with what the luxury brands embody and the type of values these brands want to deliver to the world, not just to a specific market only.

The *Global Chinese Consumer* is more than just an intellectual construct; it is a concrete, tangible, and real group of consumers that luxury brands can identify and try to engage. This requires businesses to think harder. They need to figure out how to organise themselves differently and the specific ways that they can reach this segment, using data and insights obtained about the Chinese digital ecosystem. China is very specific in its digital behaviour, and more recently, the Chinese digital ecosystem landscape has evolved with the emergence of super apps, which provide an end-to-end solution to consumers for a variety of their needs within one single ecosystem. The apps may come from ecosystems tied to Tencent and Alibaba in China. They may also be individual ones such as TikTok (known as Douyin in China) and Amazon (refer to Figure 3). They encompass a deep integration of social commerce with social media, enabling users to not only connect with one another but also post content, make calls, read news, play games, shop, share discounts with their social circles, make bookings, perform mobile payments, hail cabs, or rent bikes/cars–all on the same platform.[8] These comprehensive platforms with advanced features accumulate a large number of users. For instance, WeChat has more than 902 million active users and Weibo has close to 400 million users, and as they occupy much of Chinese consumers' screen time, the amount of consumer data captured on these platforms is massive, signalling a sizeable opportunity for brands.[9]

But this is not only about identifying a Chinese digital ecosystem and looking into formulating a data strategy for it. We also need to consider whether we have culturally relevant content and services for these *Global Chinese Consumers* that are consistent, regardless of where they are and how engaged they are along their journeys. To achieve this, luxury brands must develop a deep understanding of this specific consumer segment, who are Chinese at heart and global in terms of footprint. They then need to leverage these insights, and have organisational teams that work transversely and cross-functionally instead of in silos; most modern organisations are organised by end-markets. They must put these consumers at the heart of what they do, so that they are able to follow the latter, whether they are in China, on the road, or overseas.

In the current context of Covid-19 when international travel is put on hold, *Global Chinese Consumers* remain a priority for luxury brands even when they are not travelling, regardless of where they are physically located and which market they belong to at this moment. The key challenge for us as brand owners now is how we distinguish them from domestic consumers so that we are able to create targeted services and messages that address their nomadic aspiration. When the travel restrictions are lifted, *Global Chinese Consumers* will be the first ones to be back on the road to pursue their dreams and inspirations. We believe that they are going to be the driving force to shape the future of luxury in Asia, and perhaps even around the globe.

GLOBAL CHINESE CONSUMERS MOVE BETWEEN TWO DIGITAL ECOSYSTEMS

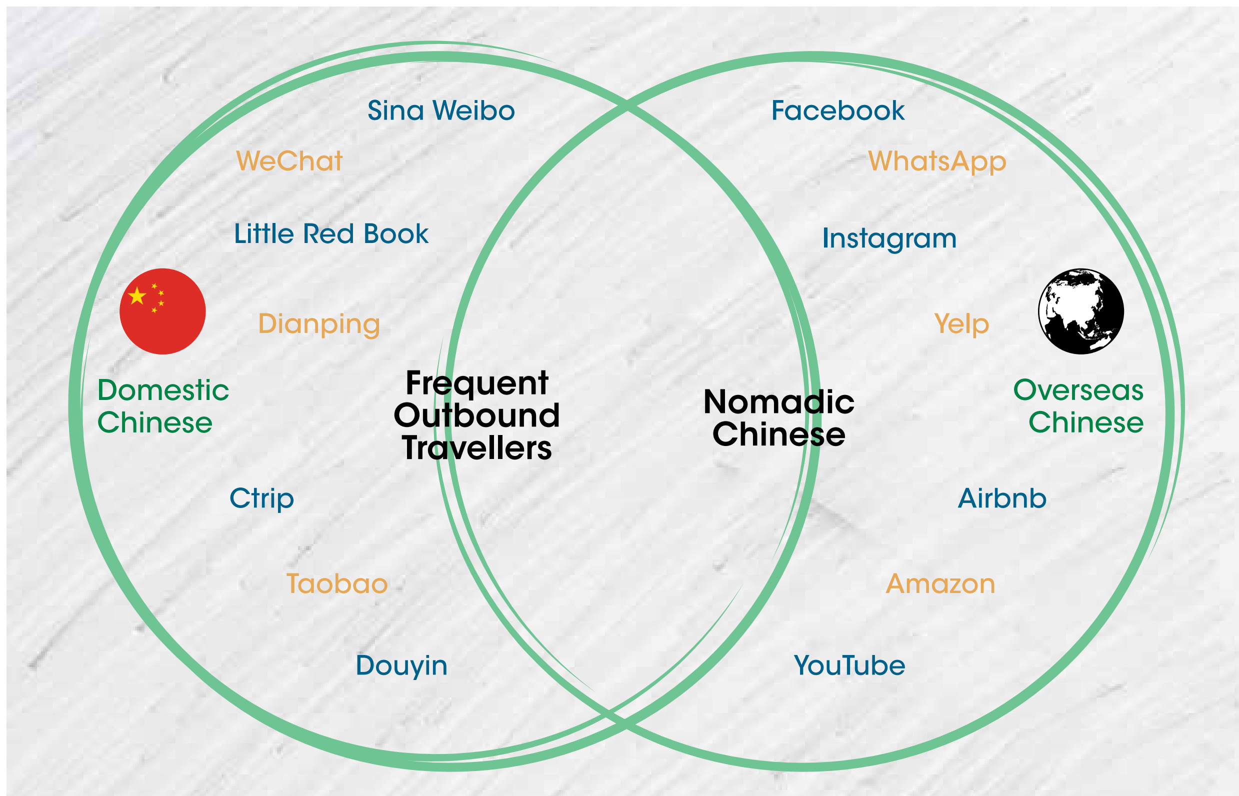

FIGURE 3

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