

CHINA

LUXURY FORECAST



AN IN-DEPTH ANALYSIS OF LUXURY
PURCHASE BEHAVIORS AND TRENDS
IN GREATER CHINA FOR 2009

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SEPTEMBER 2009

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INTRODUCTION

THE CHINA LUXURY MARKET: SHORT HISTORY, HUGE POTENTIAL

China is often considered to be the next top luxury consumption market in the world¹, a leading position occupied so far by the USA and Japan. Today, China is already a major luxury market with an affluent class of 440,000 multi-millionaires². The country is in the middle of a great evolution with a growing proportion of individuals benefiting from a high purchasing power. Thus, it highlights one of the main paradoxes of this market: recent but already huge.

To better understand both the near-term and longer-term outlook of the luxury market in China, **Ruder Finn Asia**, one of the world's largest independent public relations firms and **Albatross Global Solutions**, one of the leading market research companies on the luxury industry segment throughout Asia, have jointly conducted a survey among high-profile Chinese consumers.

For the **2009 China Luxury Forecast**, we have surveyed more than 1,000 high-profile consumers with an average annual income of RMB 243,000, from a total of 21 cities including Beijing, Shanghai, Guangzhou, Hong Kong and 17 tier-2 cities in East, South, West and North China. The survey was conducted during April and May this year. By analyzing consumer confidence and purchasing power, purchasing behavior and intention as well as the information channels that influence purchase decision process, the report aims to help marketers better understand the prevailing behaviors among Chinese consumers and the foreseeable trends in luxury consumption over the next year.

¹ World Luxury Association

² Insights China, published by McKinsey & Company

In this first edition of the China Luxury Forecast, we:

- Assess the impact of the economic downturn on China's luxury market;
- Take the pulse of luxury consumers' purchasing behaviors;
- Review changing habits in use and preferences of information channels;
- And share our observations on what we call China's luxury hubs.

Additional insights have been added in our 'inserts', mainly on tier-2 cities, a major focus of the Forecast. These regions are fast becoming emerging luxury markets – but have often been neglected in past surveys. Finally, the purpose of the Forecast is to keep track of the coming trends of this fast-evolving market.

KEY FINDINGS:

- In China³ as a whole, more than half of respondents claimed they will not let the global economic downturn affect their purchases of luxury goods; nearly nine out of ten respondents said they will not change their preferred categories during the crisis. Tier-1 cities showcase a strong sense of optimism, while tier-2 cities are only slightly behind. Luxury consumption and consumer confidence are most affected in Hong Kong, where consumers maintain a cautious approach compared to mainland cities.
- The gap between tier-1 and tier-2 cities' luxury markets is smaller than anticipated. Consumers in tier-2 cities are becoming more mature in areas such as consumer perceptions, behaviors and the use of information channels.

³ In the China Luxury Forecast, "China" includes mainland China and Hong Kong

• Traditional media remain essential communication tools for luxury brands in China but the increasing use of internet technology is changing the rules. The ability to tap into the potential of e-media platforms to strengthen the “word-of-mouth” effect has become crucial for luxury brands in order to enhance and maintain their reputation.

• While Hong Kong remains the main luxury hub in China, with 43.2% of respondents selecting the Special Administrative Region as their favorite destination to purchase luxury items, Shanghai is becoming a luxury hub in its own right. This is especially true in East China, where the city is chosen by a third of tier-2 cities respondents. Due to the strong purchasing power of consumers in this region, we anticipate that Shanghai's position as a hub for luxury consumption in Mainland China will only increase in the future.

PART 1 SURVEY METHODOLOGY

In order to get a deeper understanding of the market, we decided to focus our research of the luxury industry on three segments: luxury fashion and accessory (apparels, leather goods, shoes, scarves, eyeglasses, tableware), luxury jewellery and watches, and other luxury items (AV, yachts, villas, luxury cars, musical instruments). We made luxury jewellery and watches a separate category from fashion and accessory in order to investigate special behavior amongst Chinese consumers in this category.

From April 15th to May 15th 2009, we conducted a quantitative online survey on Chinese consumers. To qualify for the survey, a respondent had to earn more than 100,000 RMB a year while there was no limit for the highest earners. The average annual income of respondents was RMB 243,000. It was also required that consumers be frequent visitors of luxury stores with more than one visit per month. This has paved the road for us to gain insights into not only the general mindset of experienced luxury consumers, but also into their shopping habits.

We eventually gathered completed questionnaires from 1,025 luxury-oriented respondents, nearly 50% of them living in tier-2 cities (see Chart 1) and 70% being women. Respondents were equitably distributed between four major areas: North (Harbin, Dalian, Tianjin, Shenyang, Qingdao), East (Hangzhou, Ningbo, Nanjing, Suzhou), West (Chengdu, Chongqing, Kunming, Wuhan, Xi'an), and South (Shenzhen, Xiamen, Fuzhou). We also covered tier-1 cities such as Beijing, Shanghai and Guangzhou; and finally the Hong Kong Special Administrative Region.

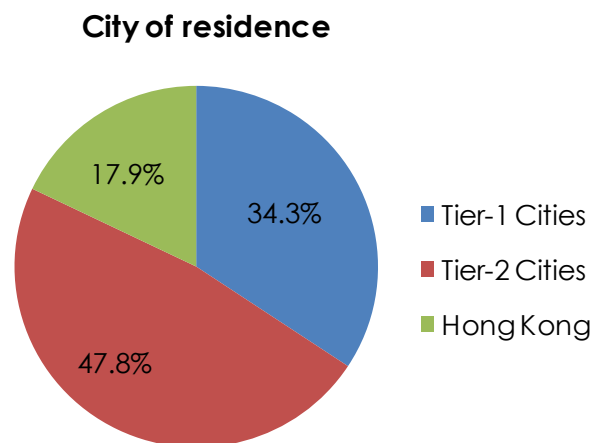


Chart 1

The Forecast's objective is to review on a yearly basis how the economic environment is influencing respondents, the evolving purchasing habits of Chinese luxury consumers, their interaction with luxury brands through various information channels and the potential trends of this booming market. In the future, we will gradually increase the scope of our survey and the size of the respondents sample.

PART 2 ECONOMIC DOWNTURN: A REAL IMPACT, MANY REASONS FOR HOPE

KEY FINDINGS

- In most regions, Chinese consumers have widespread confidence in their future purchasing power.
- Luxury consumption and consumer confidence however, have been affected in Hong Kong and South China.
- Consumer tastes and preferences remain unchanged.

As the effects of the financial crisis continue to be felt around the globe, the luxury sector is seeing a decline in the demand of luxury goods in several key markets. In its latest edition of 'Luxury Goods Worldwide Market', market research firm Bain & Company anticipated that sales revenues would decline 15% in the Americas and 10% in Europe and Japan in the first half of 2009, as luxury consumers' spending and confidence decline.

So far, China is one of the countries that have suffered least from the worldwide economic downturn. But is it enough for the luxury market in this country to avoid the plight of other regions? Chinese customers are known to be very cautious and tend to save a significant part of their revenues. Our survey shows that the global financial crisis has affected consumer sensitivity to prices, but even so, luxury spending remains strong in China, and this trend should hold in the short-term future.

The Forecast shows an increased sensitivity to prices among luxury consumers: 49.7% of respondents in China claim to be more sensitive during an economic downturn (see Chart 2).

Does price affect your purchasing behavior during an economic downturn?

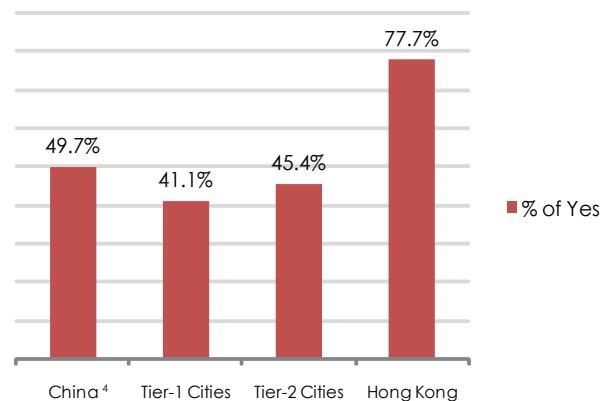


Chart 2

Men are more cautious than women: 55.4% of men in China answered that price affects their purchasing behavior during an economic downturn whereas the proportion of women is 47.3% (see Chart 3). The gap is biggest in tier-1 cities, where men are 15% more affected than women.

Does price affect your purchasing behavior during an economic downturn?

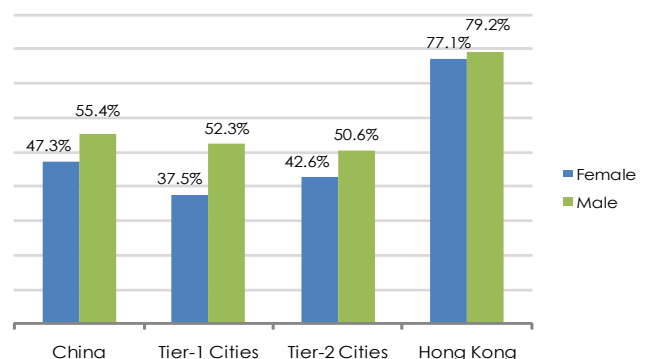


Chart 3

⁴ In all the charts of the China Luxury Forecast, "China" includes mainland China and Hong Kong

Likewise, frequent overseas travelers – travelling overseas three times a year or more – are keenly aware of the global economic situation and feel more impacted by the economic environment (see Chart 4).

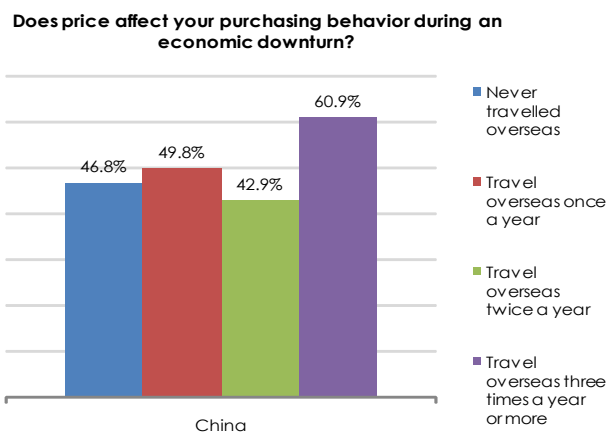


Chart 4

Luxury consumption and consumer confidence most affected in Hong Kong

Regionally, the Forecast confirms that Hong Kong is the most affected region. Only 11.7% of Hong Kong respondents are confident that their purchasing power will increase over the next year (see Chart 5).

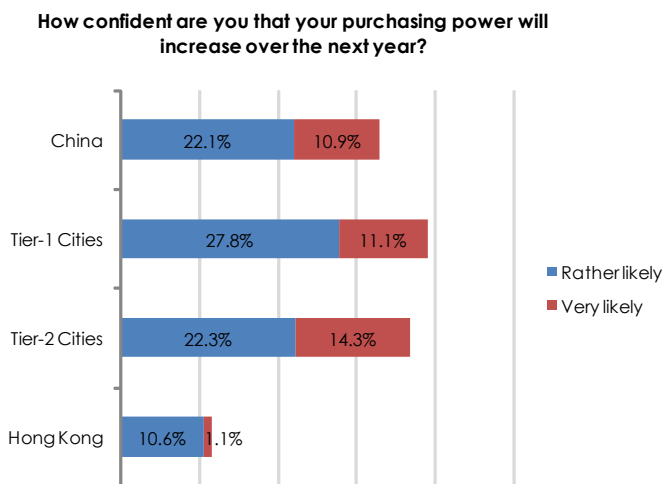


Chart 5

This loss of confidence goes together with the intention to reduce or postpone luxury purchases: 38% of Hong Kong respondents claim they are planning to reduce their purchases by HK\$5,000/month or more. Hong Kong consumers also express pessimism about their future purchasing power. Only one out of 10 respondents was confident that his/her purchasing power would likely increase in the next year while nearly half said they would maintain a wait and see attitude. The remaining 40% were not confident.

Hong Kong consumers' caution about the future is a direct result of the global economic downturn, the SAR being much more exposed to global economic trends than mainland China. In the first quarter of 2009, the Gross Domestic Product (GDP) declined by 7.8% year-on-year in real terms, following a 2.6% decrease in the fourth quarter of 2008. As for private consumption expenditure (PCE), it contracted by 5.5% in real terms in the first quarter of 2009 from a year earlier, after a 4.1% decline in the fourth quarter of 2008⁴.

⁴ Census and Statistics Department, The Government of the Hong Kong Special Administrative Region http://www.censtatd.gov.hk/hong_kong_statistics/key_economic_and_social_indicators/index.jsp

Strong sense of optimism in tier-1 and tier-2 cities

Even if the global economic downturn has affected consumer sensitivity to prices across the board, the Forecast reveals that there is widespread confidence in the future in China – with the notable exception of Hong Kong: only half of tier-1 and tier-2 cities respondents have adopted a cautious attitude regarding their purchasing power. While just 14.5% of tier-1 and 6.5% of tier-2 cities respondents declared they will reduce their luxury purchases by more than RMB 5,000 a month (see Chart 6).

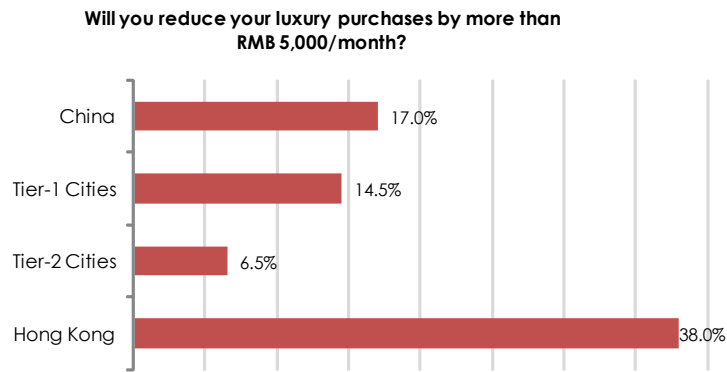


Chart 6

The gap is even narrower between tier-1 and tier-2 cities' respondents regarding their purchasing confidence: respectively 13.3% and 15.5% express pessimism while 38.9% and 36.7% are optimistic (see Chart 7).

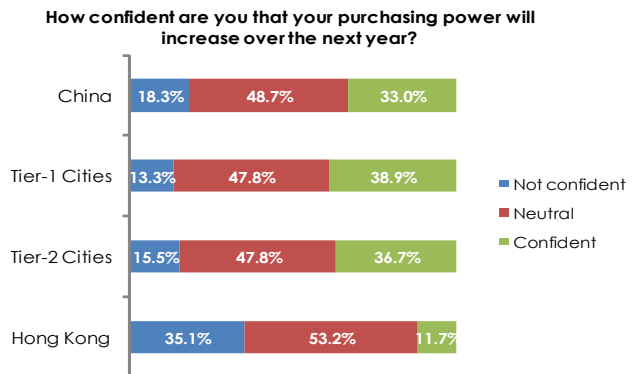


Chart 7

Among tier-1 cities, Beijing inhabitants are by far the most optimistic, with 44.8% being confident in their future purchasing power. Shanghai is ten points behind (34.6%), but the city's consumers are the least price sensitive during the economic turmoil, with 63% saying they are not affected, projecting a positive outlook for the luxury market in the city in the coming months. Eastern China is the most optimistic region, with respondents from Zhejiang and Jiangsu provinces being the most confident of all tier-2 areas (41.6%).

No change in customer tastes

Nearly 90% of respondents claim they will not change their preferences on luxury items during the crisis, Beijing and Shanghai being the least impacted cities with respectively 96.1% and 92.6% (see Chart 8).

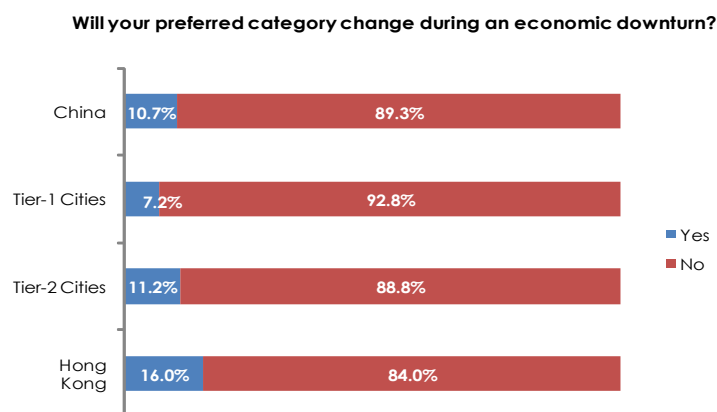


Chart 8

The Forecast shows that the economic downturn has had a limited impact on Chinese consumers in the luxury market. The main reason lies with the relative strong performance of China's economy, which was predicted to grow by 7% this year according to the 'Asian Development Outlook 2009' released by Asia Development Bank in March 2009. Another factor is the nation's confidence and people's high satisfaction with their lives: more than four in five Chinese people polled in 2008 by the Pew Global Attitude Project said they were satisfied with the general trends in their country, the highest result among the 24 countries in the survey.

Nevertheless, consumers are being more careful about the way they spend their money and more savvy in the ways they gather information about brands. In the next chapter, we are going to analyze the main contributing factors that influence the decision making process in luxury consumption.

Tier-2 Cities in Economic Downturn

China's tier-2 cities already are or are becoming the target of many luxury brands. In many regards, the Forecast shows that the gap between tier-1 cities and tier-2 cities is narrowing:

- More than half of respondents (54.6%) in tier-2 cities say their purchasing behaviors were not affected by prices, which is just 4.3% lower than in tier-1 cities.*
- 36.6% are optimistic that their purchasing power will increase in the coming six months, only 2.3% less than in tier-1 cities.*

However, tier-2 cities luxury markets still possess specific characteristics that need to be carefully understood by luxury firms wanting to have a strong presence in these markets. Many luxury brands have realized the potential of these markets and are targeting or already expanding in tier-2 cities.

Louis Vuitton opened its first boutique in Beijing in 1992 and now has 29 boutiques in 24 Chinese cities, including most of those covered in this Forecast. They also opened a few stores in tier-2 cities such as Wuxi, Changsha, Urumqi, and Taiyuan.

Hermès first started cautiously with two boutiques in Beijing and Shanghai in 1997 and 2001. Since 2004, twelve new openings have extended the company's network which now covers eight tier-2 cities on top of Beijing, Shanghai and Guangzhou.

PART 3 TAKING THE PULSE OF CHINA'S LUXURY CONSUMERS

KEY FINDINGS

- Brand reputation is the key factor driving luxury consumption.
- Differences in consumer perceptions, tastes and preferences between tier-1 and tier-2 cities were narrower than envisioned.
- Tier-2 cities consumers are gradually developing unique purchasing preferences and habits.

Purchasing Power

The gap is narrowing despite the differences in purchasing power that subsist between Hong Kong, tier-1 and tier-2 cities. In the case of luxury fashion and accessories, tier-1 cities consumers reported higher spending than tier-2 cities'. Unsurprisingly, the highest proportion of 'big spenders' is to be found in Hong Kong, where 59.6% of respondents spend a minimum of HK\$20,000 every year, followed by tier-1 cities (36.1%) and tier-2 cities (25.1%) (see Chart 9). Beijing respondents have a particular liking for luxury fashion and accessories, with 44.7% of them willing to spend RMB20,000 or more annually on such items.

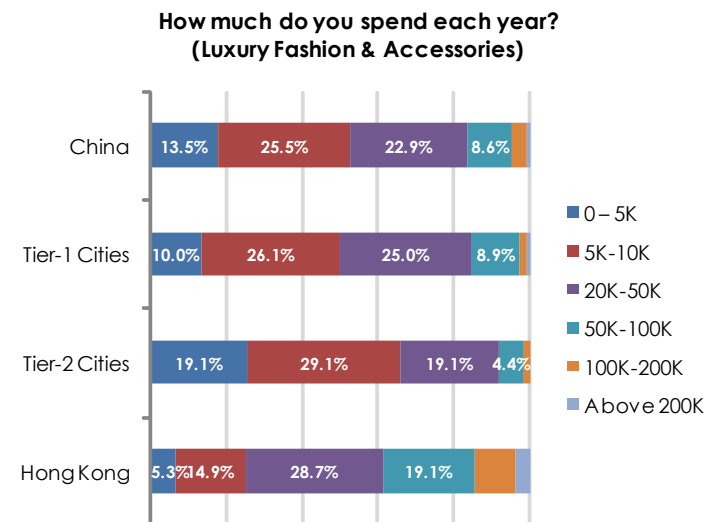


Chart 9

When it comes to the amount of money normally spent on a single item of luxury fashion and accessory, more than 80% of consumers will not exceed spending RMB20,000. Again, Hong Kong respondents come on top with 14% of them likely to spend more than HK\$20,000, followed by Beijing with 13% (see Chart 10).

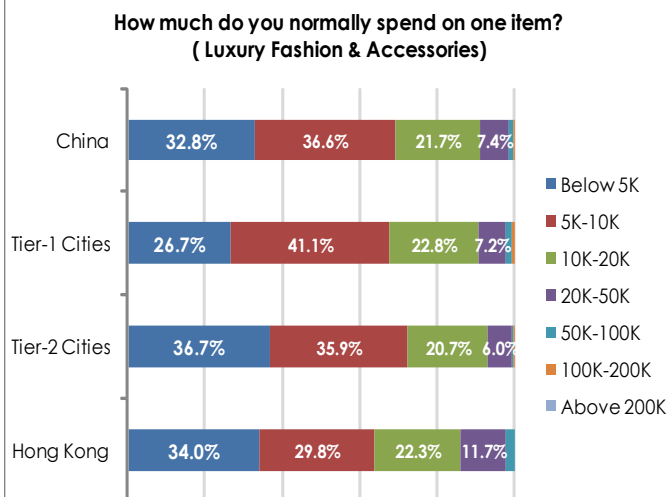


Chart 10

Spending Patterns

The Forecast also reveals that the most sought after luxury fashion and accessory products in China are apparels, followed by leather goods. Watches are more popular than jewellery, especially in Eastern tier-2 cities (Hangzhou – Ningbo – Nanjing - Suzhou) and Hong Kong. Other sought after luxury goods in China are luxury cars, audio and video, as well as villas. Luxury Cars are especially popular with Eastern tier-2 cities respondents (69.0%), Northern tier-2 cities (51.4%) and Beijing (50%). These results illustrate the strong potential of tier-2 cities for luxury car consumption (see Charts 11, 12 and 13 for more details).

**What are your preferred luxury categories?
(Luxury Fashion & Accessories)**

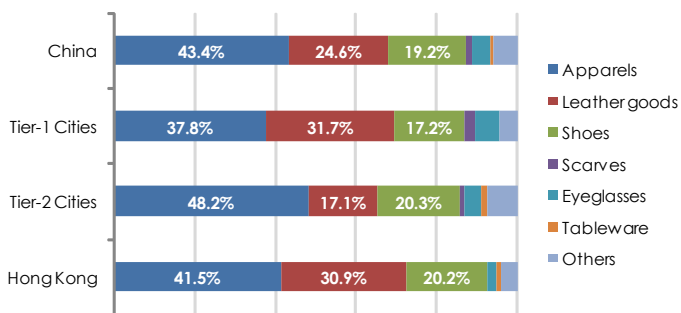


Chart 11

**What is your preferred luxury category?
(Luxury Jewelry & Watch)**

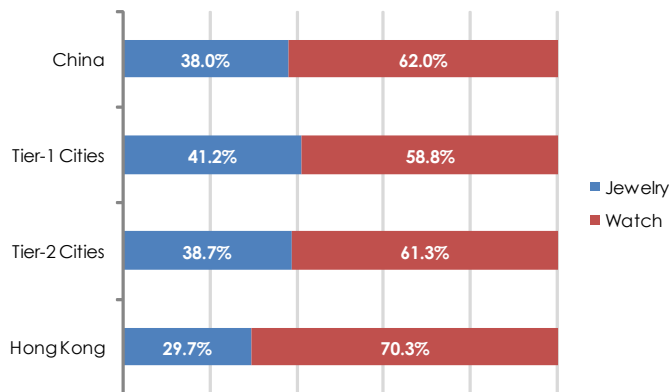


Chart 12

**What are your preferred luxury categories?
(Other luxury)**

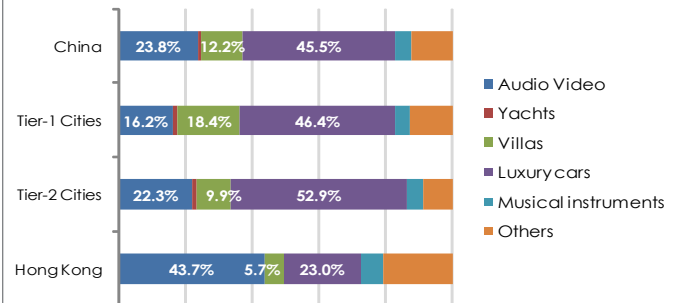


Chart 13

Brand preference

Luxury brands such as Louis Vuitton and Cartier that tapped into China's market as early as the 1990s remain on top today despite a more competitive market. They benefit from their long-term, localized and mature marketing campaigns. Chanel's high rank among the top brands consumers are planning to purchase stems from a different source. Its success in attracting mainland consumers originates from the brand's clear image and the iconic effect of the brand's founder Ms. Coco Chanel; another contributing factor is Chanel's widely expanding cosmetics line in China, which make its brand awareness even higher.

The chart below shows the preferred brands of respondents in different regions:

1 - Luxury Fashion & Accessory

	Louis Vuitton	Chanel	Gucci	Prada
Tier-1 Cities	20%	13%	12%	
Tier-2 Cities	33%	21%	16%	
Hong Kong	12%	16%	7%	7%

2 - Luxury Watches & Jewelry

	Cartier	Omega	Tiffany	Rolex
Tier-1 Cities	13%	6%	6%	3%
Tier-2 Cities	16%	9%		7%
Hong Kong	16%		10%	8%

Purchasing purpose and brand loyalty

Interestingly, our Forecast shows that instead of showing status, consumers in the country are likely to purchase luxury goods for enjoyment, experience and taste (see Chart 14). Brand loyalty is at a very respectable level, with more than 47% of respondents from the mainland saying that they are loyal to brands. The loyalty pattern is similar all around China, with the only exception of Hong Kong, where it reaches 55.3%, the only region to exceed 50%.

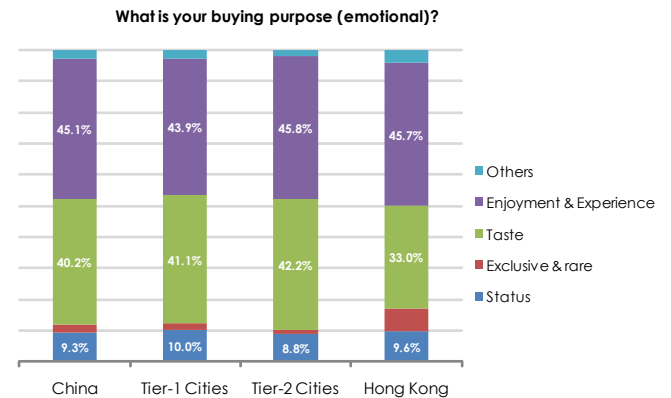


Chart 14

Purchase triggers

What prompts Chinese customers to buy a luxury product? To better identify the motivations and the enticing factors, we decided to distinguish between “initial purchase triggers” (all the elements that motivate customers to go to a point of sale) and “in-store purchase triggers” (the factors that influence the purchase at the point of sale). Our research demonstrates that brand- and product-related factors obviously remain key along the purchasing process decision and that service plays a major role during but also before the visit to a store.

Brand first

Brand-related factors occupy a place of choice in the “initial purchase triggers” category, and this applies to a mature luxury market such as Hong Kong as well as to emerging ones such as tier-2 cities. Brand reputation is the number one factor for 73.1% of respondents in China (see Chart 15).

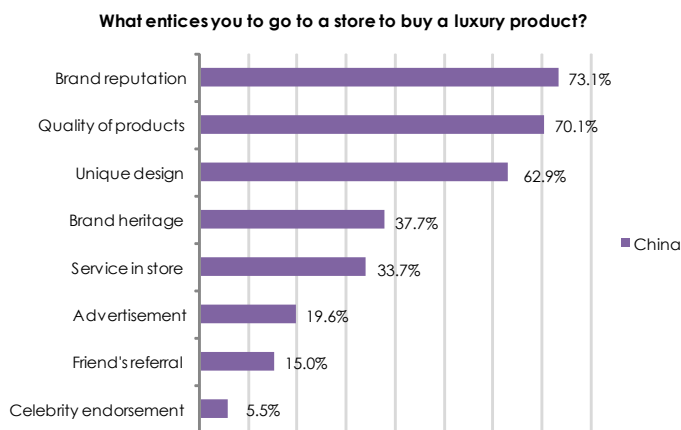


Chart 15

The difference is marginal between tier-1 and in tier-2 cities (see Chart 16) with three quarters of respondents choosing brand reputation as the most important factor (respectively 75% and 75.3%). As such, a strategy revolving around reputation is likely to strike a chord among Chinese consumers of luxury goods.



Chart 16

Brand heritage is the second most important brand-related factor – and fourth overall (see Chart 15) – with 37.7%. It is an important tool to persuade a potential customer, especially in tier-2 and tier-1 cities (respectively 41.8% and 36.7%). In Hong Kong, less than 30% of respondents consider it as a key ‘initial trigger’ factor (28.7%, see Chart 16). Based on our experience of the luxury market in China, we think that heritage is more important for consumers who have little understanding of a brand. In other words, when a consumer is not sure yet about the quality of a brand and the value it brings, he/she relies on what is being communicated about the history and tradition of this brand. This highlights the necessity to focus on brand reputation and awareness as a core objective of a communication strategy, especially for luxury brands entering into tier-2 cities markets.

Product-related factors

The second key initial purchase triggers are product-related factors. According to the Forecast, quality of products (70.1%) and unique design (68.9%) are the second and third most important factors influencing consumers to get into a store and purchase. And the more mature a luxury market is, the more important these two notions become. Hong Kong consumers pay a lot of attention to the quality of products (75.5%) and their unique design (70.2%), to the extent that these two factors are in first position in the SAR. In tier-1 cities, the quality of products is almost on a par with brand reputation – especially in Beijing and Shanghai, with respectively 75% and 71.6%.

Emphasis on customer service

Apart from brand- and product-related factors, in-store customer service is selected by a third of our survey's respondents (33.7%) in the "initial purchase triggers" category, leaving far behind other factors such as advertisement, friend's referral or celebrity endorsement. The implication is that the reputation of a luxury brand in terms of customer service plays an important role even before a consumer has stepped inside a store.

The importance of customer service is also reflected by the responses regarding "in-store purchase triggers". Beside the product quality, which is the top priority, the quality of sales staff is proved to be a crucial factor that influences people's purchase decisions.

What aptitudes should be possessed by sales staff to influence consumers' decisions? Sales attitude and professional advice. More than half of respondents selected these two factors over other elements such as discounts or special offers (see Chart 17).



Chart 17

Sales attitude in tier-2 cities is the most highly regarded factor (61%). This highlights the importance of interaction and guidance in the decision making process at the point of sales (POS) and the need to create a relationship with customers, which is even more important in tier-2 cities (see Chart 18 for details).

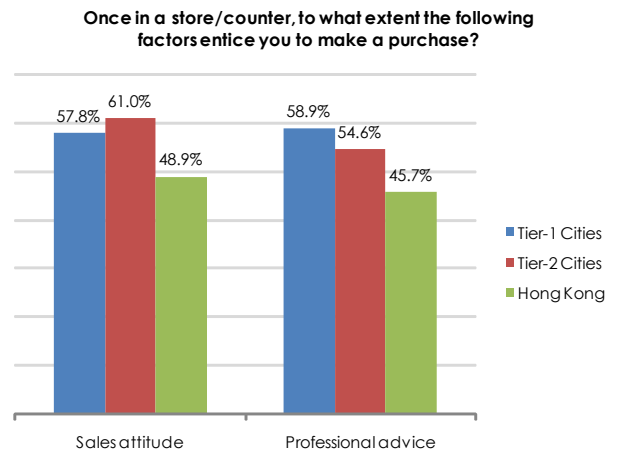


Chart 18

Celebrity endorsement

Celebrity endorsement can be a good way to strengthen brand publicity in the short term. But as the Forecast tends to show, it is not likely to be a direct initial trigger leading to a purchase, neither an element having a long-lasting effect on the way the brand is perceived.

Celebrity endorsement is mainly used to attract media attention while launching a product and to generate media buzz so as to raise awareness. Yet, its effectiveness decreases after launch. In our survey, respondents do not consider this factor to be important in their purchasing decision (see Chart 19 for details).

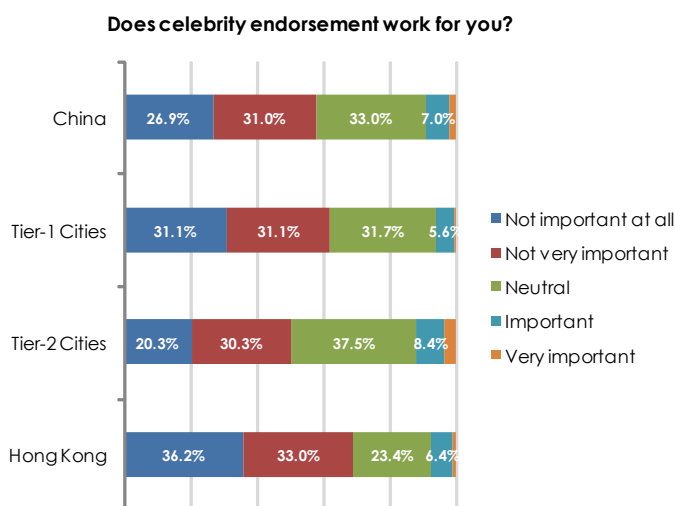


Chart 19

When comparing international or local celebrities, Shanghai distinguishes itself from other cities by overwhelmingly preferring international celebrities (96.3%) over Chinese ones (82.1%), which matches its reputation as a cosmopolitan city.

Tier-2 Cities' Unique Characteristics

At the product level, Chinese consumers considered special design to be the top priority in the decision making process when compared with precious material, limited edition and tailor-made. Consumers in tier-2 cities place more importance on being unique than their counterparts in other regions: 25.1% prefer limited editions while 28.7% choose customization and tailor-made products (see Chart 20).

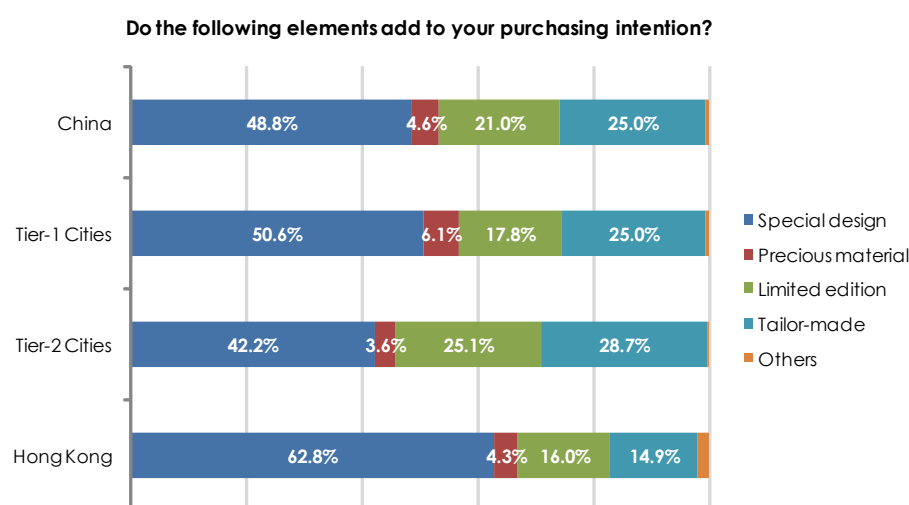


Chart 20

Another interesting feature lies in the rational purchasing purpose: while personal enjoyment is by far the primary motivation in all regions for over 80% of respondents, tier-2 cities' consumers are more than three times as likely to buy luxury goods as business gifts (7.6%) than tier-1 cities' (2.2%). Nationally, the highest proportion is in West China (10%), which includes in our survey cities such as Chengdu, Chongqing, Wuhan and Xi'an (See Chart 21).

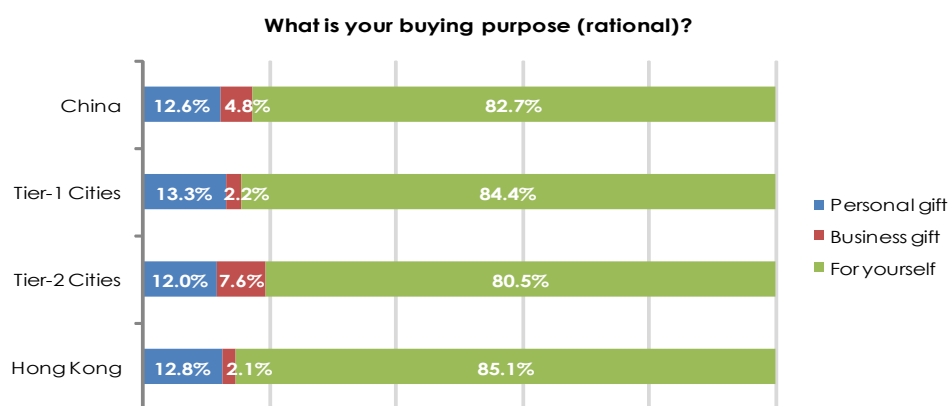


Chart 21

PART 4 THE POWER OF INFORMATION CHANNELS

KEY FINDINGS

- Traditional media remain steadfast, prevailing as the most influential media for the luxury market.
- Online communication is becoming increasingly important in shaping brand awareness in consumers' minds.
- Corporate social websites' are a natural evolution from traditional corporate websites.

Traditional media

Traditional media, mainly print and TV, remain essential communication tools in reaching out to consumers in the luxury market. Print media articles ranked first as an information channel for luxury consumers with 74.9%, advertorials came second with 65.9%, and other traditional communication tools such as PR and marketing events were also selected by more than a quarter of the polled consumers (see Chart 22).

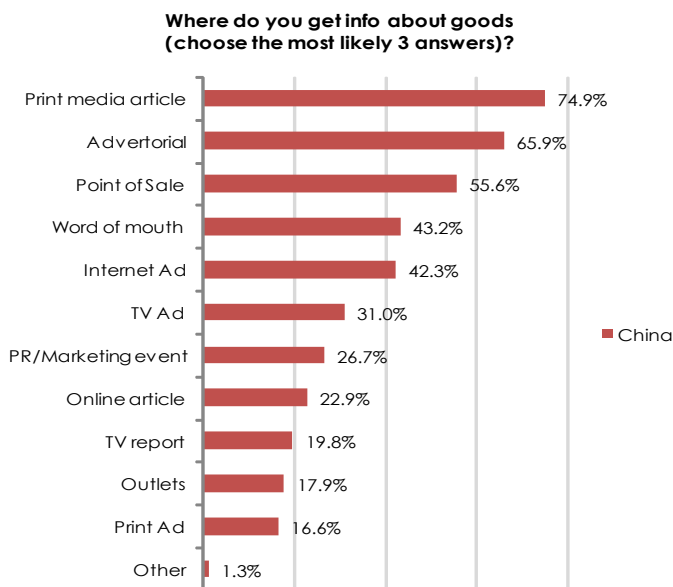


Chart 22

Good old face-to-face communication remains essential: information distributed at point of sale is ranked third, demonstrating that stores remain an important place where consumers gather information about luxury products. Another example of face-to-face communication is traditional word-of-mouth (WOM), which ranked fourth with 43.2%. Such a user-generated method confirms the power of people's voices in influencing consumers' decision making process. As online communities are springing up, this word-of-mouth effect has taken a whole new dimension and has spread via the internet, paving the way for the effectiveness of online communication.

Online media

The survey leaves no doubt as to the power of internet communication. Although luxury brands do not currently use the internet to sell their products, online communication is already proving to be more important than traditional media in some areas due to its instantaneity and interactivity. For example, when it comes to proactive searches for information, the internet is by far the most important information channel for consumers. Depending on the luxury categories, between 80% and 90% of the respondents say they use the internet to gain a better understanding of luxury brands and products. So brand visibility in search engines is crucial (see Chart 23).

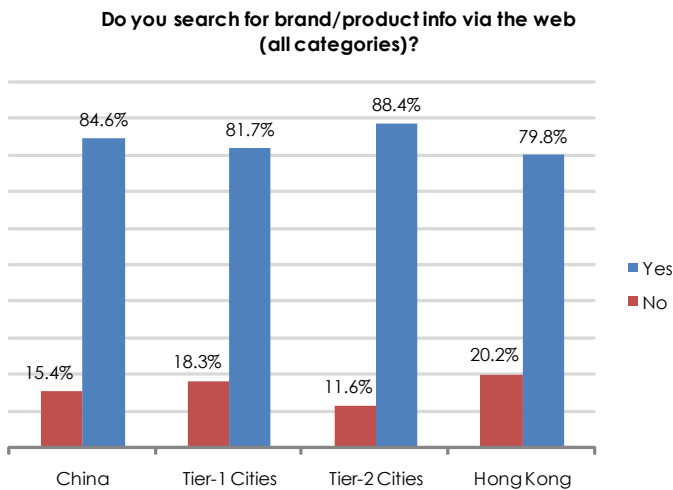


Chart 23

When asked about advertising channels, 42.3% of respondents said they obtain more information about luxury goods through internet ads than through TV and print ads (respectively 31% and 16.6%). Some new and innovative online advertising technologies (e.g. banner ads, online classified advertising, e-mail marketing, rich media ads and even social networking advertising) enable brands to deliver messages without geographical or time boundary, to present brands under a more entertaining light and engage a wider audience in a more interactive and fun way.

Another interesting finding of the Forecast is that more than a third of respondents (see Chart 24) use a substantial amount of time (two hours or more) looking for information online, which means that consumers are becoming more rational in choosing luxury goods and more willing to carefully browse through various resources. The implication is that there is room for more in-depth information about brands and products to be placed online.

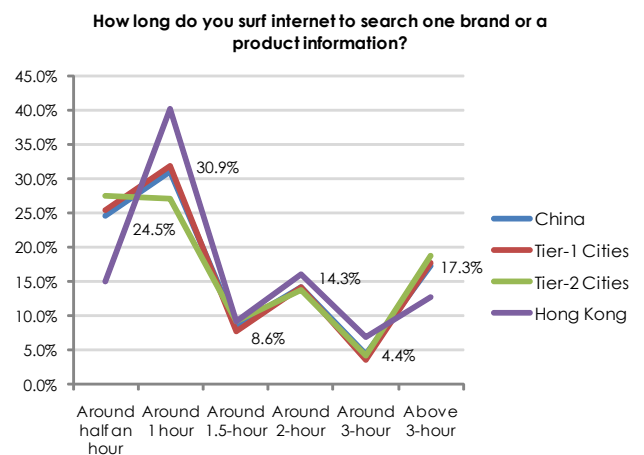


Chart 24

Public Relations versus Advertising

In both tier-1 and tier-2 cities, over 70% of respondents indicated that they are more likely to receive information about luxury brands and products through articles in print publications. This emphasizes the importance of print media and makes a contribution to the old debate regarding the importance of PR as compared to advertising. Advertising, which faces more mass online users, cannot guarantee strong Return on Investment (ROI) in the luxury field, which is targeting a niche market, while public relations can be used to engage consumers through traditional and new media, and also to increase luxury brands and products visibility. Chart 25 shows that public relations activities (print media article – online article – advertorial – PR/marketing event – TV report) are more trusted by consumers than advertising activities (internet ad – TV ad – print ad).

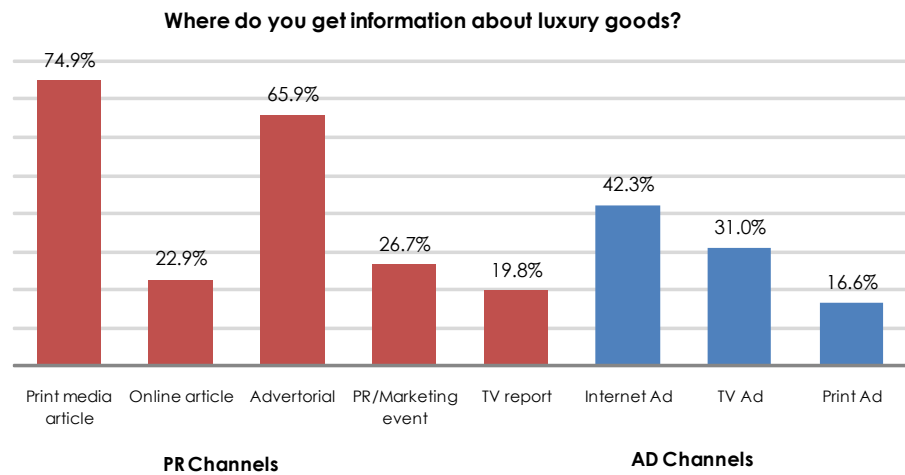


Chart 25

User-generated vs. brand-generated content

While user-generated contents and social media play an ever increasing role online to influence consumers' purchase decision process, the Forecast also shows that brands' official websites can't be ignored. 70.7% of respondents consider them as their preferred information channel for luxury brands. As discussed in the previous chapter, enjoyment and experience are the most important emotional factors influencing Chinese luxury consumers' decision and shopping process. We believe that luxury brands must leverage their official websites to enhance consumers' online experience through innovative programs. Visuals, videos, audio, customized online campaigns are to be created not just as product presentations but as themed stories demonstrating the brands' value and style in association with consumers' daily lives. Consumers could enhance their tastes and get satisfaction through the navigation of the brand website, which can't be replaced by other websites such as consumer evaluation websites or forums (see Chart 26).

Where do you prefer to search information online?

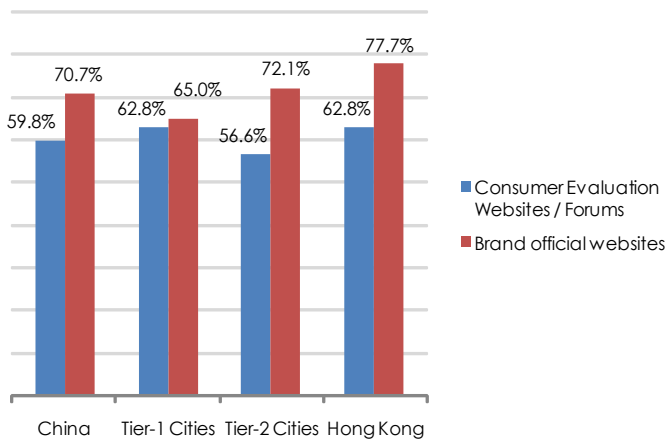


Chart 26

The importance of content generated or 'hosted' by brands online is further illustrated by the top three factors selected by respondents in Chart 27: online consumer campaigns, online advertisement and online press releases or features are more likely to entice consumers to purchase luxury items than blogs, BBS/forums, social networks and online videos. Nearly half of the respondents are likely to participate in online interactive events organized by the luxury brands (see Chart 27).

What kind of online promotion entices you to purchase?

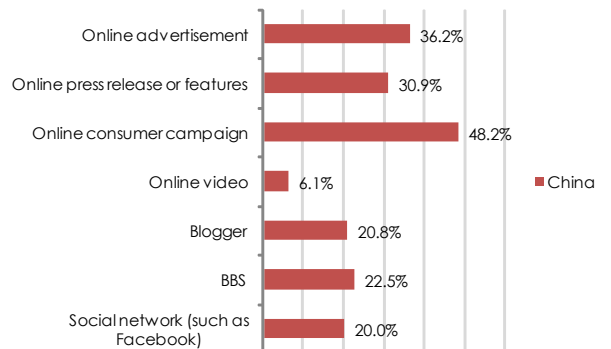


Chart 27

From corporate website to 'corporate social website'

Channels presenting user-generated content are complementing those with brand-generated content. In terms of website categories, consumer evaluation websites and forums rank second behind official websites. More than 20% of the respondents confirmed the influence of BBS, blogs and social networks (e.g. Facebook) on their purchase decision process. Experience and opinions shared by the online community, in other words online WOM endorsement, play an important role in the purchase evaluation process. It is also an effective way to attract new consumers to the luxury market due to its outreach capability⁵.

5 A case in point is Beijing, with respectively 30.3% and 39.5% of respondents selecting blogs and BBS as important online promotion channels influencing their purchase decision. Beijing proves to have a special attitude, wary of official websites and more attracted by BBS than other cities.

The debate is not anymore on using Internet or not, but on how to efficiently leverage the whole range of sophisticated tools it is now offering. As driving traffic to corporate websites remains a top priority for online communication, we recommend that luxury brands review their corporate websites, taking into account the phenomenon of social networking and seizing the opportunity to provide vivid information and create a community of fans. We see corporate social websites are as a natural evolution from traditional corporate websites.

Tier-2 Cities and Information Channel

Choosing the most relevant information channels to communicate with consumers in tier-2 cities is crucial for luxury brands looking to strengthen their position in these markets. We have found out that differences are narrowing between tier-1 and tier-2 cities in the way consumers use information channels: print media articles (76.5%), advertorials (66.5%) and department stores (64.5%) are the three top channels to obtain luxury information and tier-2 cities respondents are as likely as their tier-1 cities counterparts to check information online.

Face-to-face communication still the key

But tier-2 cities still have their own characteristics. Point of sale is especially important in these cities, where it is favoured by 64.5% of respondents against 48.9% in tier-1 cities. This can be partly attributed to the longer exposure of tier-1 consumers to luxury brands, while tier-2 city consumers are not as familiar and need more personal advice (see Chart 28).

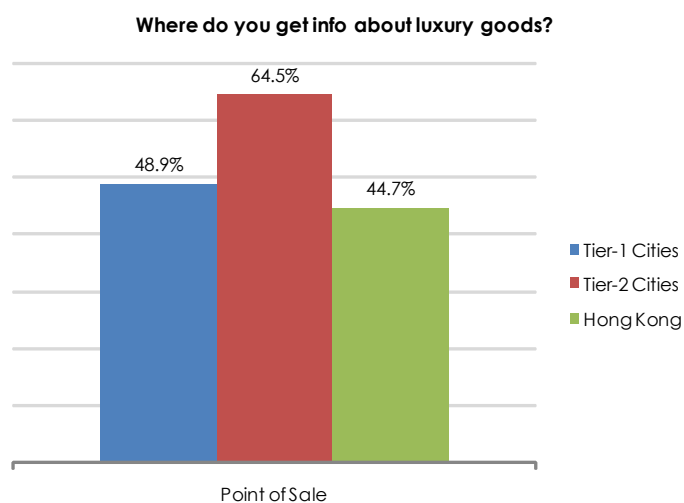


Chart 28

Official websites and online consumer campaigns

Another difference is the higher reliance on official websites to search information online (72.1%) than in tier-1 cities (see Chart 29). There seems to be an inverse correlation between the physical presence of luxury brands and the importance of official internet for consumers: figures are highest in South China (79.4%) and West China (75.0%) (see Chart 30).

Where do you prefer to search information online?

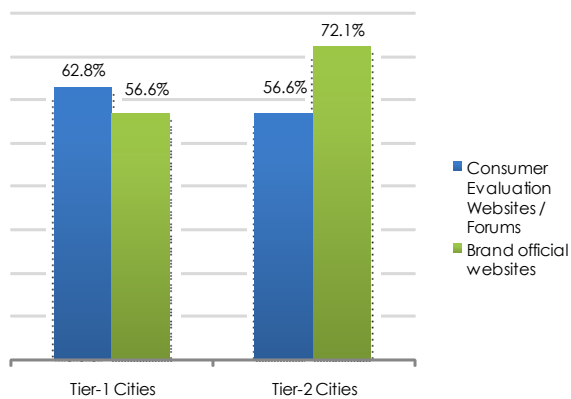


Chart 29

Where do you prefer to search information online?

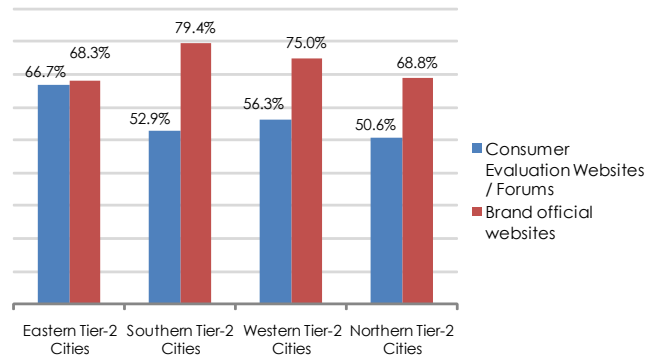


Chart 30

Of all the online promotion channels, consumer campaigns are the most attractive to tier-2 cities' respondents (57.0%), while less than half of consumers choose this option in tier-1 cities, giving hints that they are even more efficient in tier-2 cities than in tier-1 cities (see Chart 31).

What online promotion entices you to purchase?

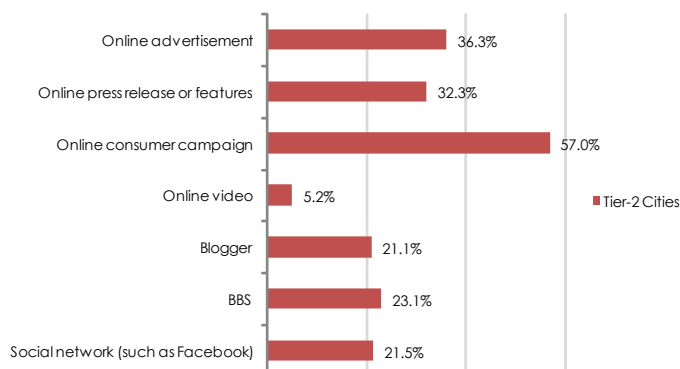


Chart 31

PART 5 LUXURY HUBS

KEY FINDINGS

- Hong Kong remains the most attractive hub for luxury purchase in China.
- Shanghai is gradually becoming a hub in its own right, especially for Eastern China.

Two cities deserve the title of what we call “luxury hubs”: Hong Kong has long been the only one for Chinese consumers but Shanghai is now increasingly evolving into a credible alternative.

Hong Kong remains by far the preferred and most attractive destination for Chinese consumers to buy a luxury product. Over 43.2% of respondents declare that they purchase or will purchase luxury goods in the SAR (see Chart 32).

In which country/city do you usually purchase luxury goods?

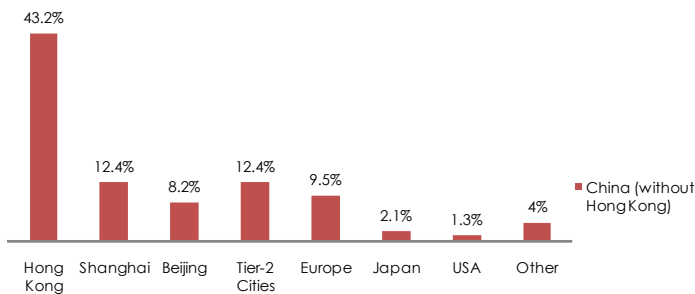


Chart 32

Hong Kong does not only attract tier-1 cities' respondents, it is also a great magnet for tier-2 cities' luxury consumers: in these markets, four in ten respondents say that they intend to travel to Hong Kong to purchase luxury goods. The percentage is particularly high in Southern cities due to the geographic proximity. Hong Kong is considered to be the ideal place for a better deal, and this is mainly due to the lower tax and the wider selection on luxury brands and goods. Likewise, the easy access to Hong Kong reinforces its status as a shopping hub for Mainland Chinese. Guangzhou consumers are the most likely to purchase in Hong Kong while consumers from Shanghai and Beijing also view Hong Kong as a place of choice for purchasing luxury items (see Chart 33).

% of respondents who purchase in Hong Kong

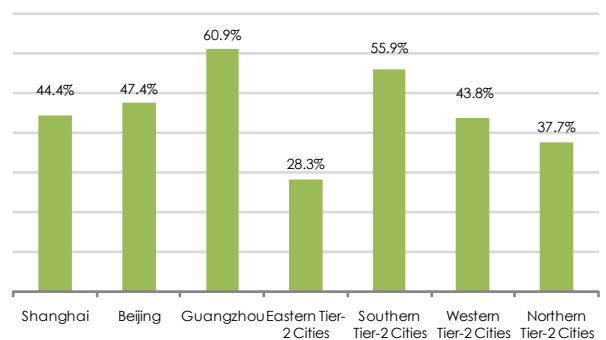


Chart 33

The attractiveness of Hong Kong is supported by the figures released by the Hong Kong Tourism Board: in the first half of 2009, a total of 8,261,925⁶ mainland travelers visited the territory, which was a year on year increase of 4.6%. And mainland travelers are considered to be heavy spenders, with a per capita spending of HK\$5,676⁷ in 2008, over half (57%) of this amount being spent on shopping. Thus, we anticipate that the strong luxury demand in mainland China will continue to boost luxury sales in Hong Kong and that the SAR will remain the major Chinese hub for the sales of luxury goods in the foreseeable future.

Even if Hong Kong's status is not threatened, another city is now playing a similar role in mainland China: Shanghai emerges from the Forecast as a real alternative for some consumers. 12.4% of surveyed respondents say they usually purchase luxury goods in Shanghai while Beijing lags behind with 8.2%. This demonstrates that Shanghai has become the preferred destination for luxury purchase among mainland cities. Shanghai fares especially well among Eastern tier-2 cities' respondents (see Chart 34).

6 Resource: Half-yearly Visitor Arrivals for 2009 release by Hong Kong Tourism Board
http://partnernet.hktb.com/pnweb/jsp/doc/HKTB_listDoc.jsp?charset=&doc_id=123683

7 Resource: Figures released by the Hong Kong Tourism Board in April 2009
http://partnernet.hktb.com/pnweb/jsp/doc/HKTB_listDoc.jsp?charset=&doc_id=120630

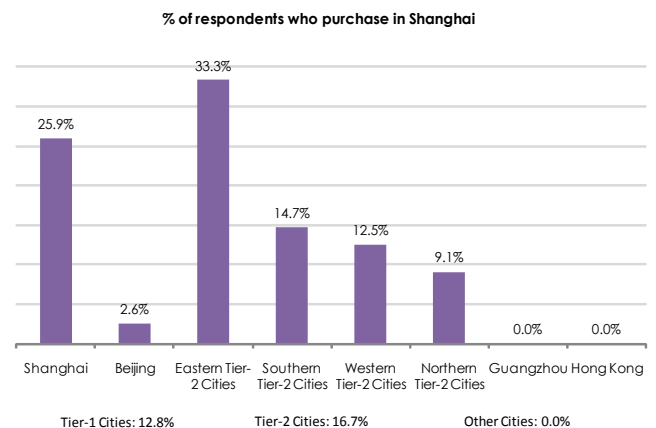


Chart 34

Most international luxury brands such as Gucci, Louis Vuitton and Cartier, which are expanding their business in China, have set up their flagship stores in Shanghai. We anticipate that the strong purchasing power of Shanghai and Eastern tier-2 cities consumers, the continuous economic growth and optimism of the region, along with the sophisticated luxury shopping atmosphere created by sumptuous boutiques and shopping malls, will contribute to Shanghai's growing status as a hub for luxury consumption in mainland China.

RECOMMENDATIONS

China is a promising and flourishing market. But given the current global economic environment, luxury players need more than ever to carefully plan and allocate their investment. Based on this survey's findings, we recommend the following steps and actions:

INVEST IN TIER-2 CITIES

Global luxury brands have increasingly recognized the importance of the Chinese market, and the current economic downturn has not slowed down the economic development in these regions. As we have seen in this survey, while brands continue to allocate image-building resource to tier-1 cities, tier-2 cities are anticipated to be the key to the long-term and sustained success of luxury brands in China; an integrated and sustainable marketing strategy with online and offline elements is critical when expanding in tier-2 cities.

Furthermore, we advise luxury brands to consider each tier-2 city consumer as an individual and develop with him a personalized relationship, focusing not only on customized service, but also on sales people's attitude and professional advice. Thus we strongly recommend that more resources be allocated for the training of sales people, especially at the point of sale. The point of sale is a place in which tier-2 cities customers gain knowledge about both novelties and products. By training sales advisors in key aspects such as brand and product knowledge, ability to find out customer's motivations and compliance with item selection guidelines (all parts of a high-end luxury service), they will be able to create sustainable brand awareness and high-end reputation in tier-2 inhabitants' minds.

DEVELOP AN APROPRIATE INFORMATION STRATEGY

Part 4 of this survey has showed the influence of Internet. It is growing fast and online communication has become an essential part of the overall communication strategy. We do not expect luxury brands to develop online sales channels overnight as there is a reluctance to purchase luxury goods online. However, we recommend that luxury brands review their corporate websites and study the possibility of incorporating the phenomenon of social networking. This passage from corporate website to corporate social website would be an opportunity to integrate a community of fans and to build up interest and loyalty for a brand.

STRENGTHEN YOUR BRAND REPUTATION IN LUXURY HUBS

Hong Kong and Shanghai play the role of magnets for Chinese luxury consumers. Thus, we advise luxury brands to keep investing in those two cities to reinforce their brand reputation not only in targeting local residents but also consumers travelling from other cities and regions.

We strongly recommend that the customer service offered in luxury stores in Hong Kong should pay more attention to mainland travelers. In many cases, a visit to a Hong Kong luxury store is the first contact with a luxury brand for a tier-2 city consumer. As stated in Part 5, we also anticipate that Shanghai will keep growing in importance as a primary hub for luxury consumption in mainland China. Investing in Shanghai can therefore shape the reputation of a brand in the mind of tier-2 cities' consumers.

Finally, luxury goods, unlike other products are first and foremost about dreams. Brands need to be innovative not only in building an image associated with positive values but also in fulfilling consumers' dreams and appealing to their imagination. This is a delicate process that can be achieved by careful communication through channels such as brand promotion, sales training, client relations management etc.

FUTURE EDITIONS OF THE FORECAST

In future editions of the China Luxury Forecast, to be conducted on a yearly basis, we will continue to monitor the perceptions and habits of luxury consumers under evolving economic conditions while taking into consideration a wider range of luxury categories. Regarding information channels, we will be watching closely whether traditional media hold their ground or if – as in so many other industries – they will be challenged by the internet and its interactive, user-generated content.

ABOUT US



About Ruder Finn Asia

Ruder Finn is one of the world's largest independent public relations firms. Headquartered in the United States, Ruder Finn has been synonymous with excellence in communications for more than 60 years. At any one time, the company is working with top "Fortune 500" names as well as other international corporations and institutions. Founded in 1989, Ruder Finn Asia conceptualizes and implements strategic and thoughtful public relations campaigns throughout Asia Pacific through its offices in Beijing, Shanghai, Guangzhou, Hong Kong and Singapore. Ruder Finn Asia offers a compelling value proposition to all clients - the advantages of a global agency with an extensive network combined with the flexibility and speed of operation found in local agencies. Its communications expertise encompasses brand marketing, corporate communications, premium consumer practice, healthcare communications, technology communications, financial communications, travel and tourism communications, crisis management and corporate social responsibility.

Ruder Finn Asia has an established lifestyle and luxury brands practice in China. Retained by luxury brands such as Cartier, Hermes, and Bang & Olufsen; jewelry brands such as Platinum Guild International; top menswear labels such as CANALI; food and wine brands such as Veuve Clicquot, Glenmorangie, Hennessy XO, Hennessy Prestige Range and automobiles including Audi; Ruder Finn Asia enjoys a strong reputation as the leading public relations agency in China's luxury industry. At Ruder Finn Asia, we work hard to create a sense of exclusivity, quality and dominance for any luxury PR campaign. Our media relations covers not just tier-1 cities (Beijing, Shanghai, Guangzhou) but also all the important tier-2 cities across China. With our expertise and years of experience in dealing with clients in the luxury industry, Ruder Finn has also witnessed and participated in the development of China's luxury market.



About Albatross Global Solutions

Albatross Global Solutions' initial mission is to improve sales quality in Asian shops. We use mystery shopping as a tool to help sales advisors understand their areas of improvement and provide a better service. Forty of the most famous luxury brands in the world use our services.

Our mystery shopper database is a panel of trusted luxury consumers which allows us to provide additional marketing services to our customers. Our analysis capabilities and online information systems make it easy for us to provide valuable information to our customers.

Albatross Global Solutions is a recognized market research company on the luxury industry segment throughout Asia. With seven offices in Asia, correspondents in 90 cities and a 10,000 luxury customer panel, Albatross offers solutions to aid luxury brands in their understanding of the Asian market. We use services such as quantitative survey, qualitative surveys (focus group discussions, face-to-face interviews), and consumer satisfaction surveys.

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