

Luxury Goods & China: A Case Study

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China has become an economic powerhouse in recent years and continues on a fast-growth pace. This increased growth increases the consumption of luxury goods among the burgeoning upper and middle-class groups. This paper incorporates four modules to provide the student with an understanding of the economic and socioeconomic variables of this growing segment. There are increased opportunities for domestic and global companies to market their high-end products and services to Chinese consumers. The modules represent learning objectives and represent as a grading rubric for assessing objective grading performance. The module approach incorporates required segmentation sections. This allows the instructor to use this module format in marketing to various countries in developing and developed countries.

LEARNING OBJECTIVES

FIGURE 1 MODULE I

Module I-Doing Business in China-15%

Learning Objectives: Upon completion, student should be able to:

- Understand the size, growth, and potential of the Chinese market
- Explain the key benefits and risks of doing business in China
- Identify various sources for information on doing business in China

FIGURE 2 MODULE II

Module II-Chinese luxury-class demographics-25%

Learning Objective: Upon completion, student should be able to:

- Outline the key demographic groups
- Understand the comparative growth and potential buying power of the new upper and middle class
- Explain the socioeconomic drivers behind the Chinese rise in luxury good consumption

**FIGURE 3
MODULE III**

Module III- The Luxury goods markets-35%

Learning Objective: Upon completion, student should be able to

- ⇒ Identify the types of luxury goods desired in China. Understand expected trends
- ⇒ Measure the current and expected market for luxury goods
- ⇒ Outline the cultural perspectives and behavior of consumer toward luxury products
- ⇒ Assess the benefits and risks of marketing luxury goods in to Chinese consumers

**FIGURE 4
MODULE IV**

Module IV-Marketing luxury goods in China-25%

Learning Objective: Upon completion, student should be able to

- Outline the business structural options
- Explain the various channels or mediums for selling in China
- Outline the advertisement methods the associated pros and cons of each
- Articulate the need for brand awareness in the Chinese luxury market segment

THE CHINESE ECONOMY

The Chinese economy has been growing at over 10% per year for more than 20 years. This has been due to the massive amounts of foreign investment in manufacturing in the country. According to McKinsey Global Institute, 42% of their GDP is fueled by industrial investment from foreign firms. In a 2011 article in Forbes Magazine emphasizing the importance and power of the Chinese economy, Kenneth Rapoza stated "...China is to the world economy what Oprah Winfrey is to book sellers". As of 2010, China's GDP is \$5.9 trillion making it one of the largest in the world and it continues to grow at a comparatively rapid pace. Figure 1 shows the current U.S. and Chinese GDP along with their respective current growth rates. As the illustration demonstrates, in only 14 years, the Chinese economy will be over a trillion dollars larger than the U.S. With over 1.3 billion citizens whose standards of living are growing as well, that makes for an undeniably rich market for companies of all kinds.

**FIGURE 5
IN BILLIONS U.S. DOLLARS- (CALCULATED USING CURRENT GDP GROWTH RATES
AND A FUTURE VALUE GROWTH FACTOR OVER 14 YEARS)**

| | GDP | Current GDP growth rate | Number of years | Calculated growth factor | Project GDP in 14 years |
|--------------|-----------|-------------------------|-----------------|--------------------------|-------------------------|
| U.S. | \$ 14,582 | 2.9% | 14 | 1.49 | \$ 21,759 |
| China | \$ 5,879 | 10.3% | 14 | 3.95 | \$ 23,193 |

Exports dominate the Chinese economy. In 2010, 74% of exports were going to high income countries including the U.S. China trade surplus for 2010 is \$254 billion while the U.S. is challenged with a \$642 billion trade deficit and currently ranks number one in terms of dollar volume of exports in the world -the U.S. is ranked second (World Bank 2010). In terms of comparative trade, the U.S. imports

\$383 billion from China and exports \$92 billion in goods creating a consider trade deficit between the two countries. This deficit can also be viewed as an opportunity for growth. The Chinese consumer is still in the early stages of personal income growth and as this occurs, so will the consumption of goods and services from foreign countries. This topic is covered in more detail in Module II – Chinese luxury-class Demographics.

Doing Business in China Has Risks

Global business has challenges. It also has tremendous opportunity. If it did not, the trillions of dollars in international trade that exist today and started as far back as recorded business history would not exist. Countries need each other and desire goods and services that they feel are superior or are in fact, cheaper (or a combination of the two) then what they can produce domestically. In addition, some products or services are not possible to produce domestically such as the fruit from the Sonora Desert Cactus which is now exported to the United States for its reported health benefits.

China is growing so fast and tremendous investments are being made by large corporations, the level of competition a company will experience is very high putting business risk pressure on any endeavor. Although China's consumer market is considered untapped when compared to other developed nations, its potential is very well known. Currently the Chinese consumer spends about \$542 per person per year compared to \$11,511 in Italy (McKinsey, 2006). To exploit this underserved market, foreign companies spent over \$185 billion in foreign direct investment in 2010 to expand and position themselves to do business in China and from China (World Bank, 2011).

Finally, cultural risk, which includes home country management's ability to work with employees, managers, vendors and government officials has been shown to be a greater challenge than the financial risks especially for a company that has performed a good due diligence and understands the accounting and legal challenges. A CFO of a U.S. based mini-multinational company conducted a survey throughout its organization to discover that very fact. When asked, the majority of employees including management responded that the cultural challenges were greater than any of the other typical business challenges, such as financial or political (Barberio, 2011). Roy Powell, former EVP of Liebstone Inc., a distributor of plastic packaging for the textile industry in an interview by one of the authors and shared the following observations about doing business with China, and specifically about working with the people:

FIGURE 6 INTERVIEW WITH ROY POWELL, 2011

“Take everything you know about the business; deal making, interpersonal skills, financial, legal and add a layer of complexity and excitement. Working with my contacts and associates in Hong Kong and mainland China was challenging but also some of the best years of my career. China is about culture. It is about pride and making deals that benefit the country as a whole. Working with the people, there is a feeling of tradition that you don't typically sense as much in the U.S., or at least anymore in our country.”

The Due Diligence of Good Business Decisions

To conduct any business in China requires research and careful planning. Entrepreneurial endeavors are both risky and difficult and the added complexity of a foreign country only adds to the challenge and the need for good information. There are many places to get information and the purpose of this section is intended to provide the student with an understanding of the many sources that are available. Those familiar with statistics understand that two main types of research exist; primary and secondary. To gain information about your competitors, searching well known international periodicals like the Financial Times from the U.K. and the Wall Street Journal will yield some results however; additional and more targeted research would be needed. Once you collected some foundational data, the task of research

progresses to more detailed information, specific to not only the company's product, but also the best mode of entry for the firm's situation and needs, partnerships necessary to facilitate business, logistics, legal and financial considerations. As the collection and analysis of information proceeds, the level of information and expertise may require engaging consultants or professionals in each of the following areas:

Learning Objective

In Module II, the students will learn who the key demographic groups are and where they reside. Students will understand the growth and potential buying power of the new upper and middle class, as compared to other developed countries. Finally students will have knowledge of the socioeconomic drivers behind the Chinese rise in luxury good consumption.

The Luxury Consumer: Key Segments

As expected, China's biggest and most economically developed cities are where a disproportionate number of the wealthy are to be found. But this too is changing. The wealthy are concentrated in certain geographies namely the East and Central South regions. China's four richest "tier-1" cities (Shanghai, Beijing, Guangzhou and Shenzhen) account for around 30% of wealthy consumers; the top 10 are home to some 50% compared with around 25% in the top 10 US cities (McKinsey & Co. 2009).

Research indicates that within five to seven years, many of china's smaller tier-2 cities will be comparable to today's biggest tier-2 cities in terms of the number of wealthy household living there. Three-quarters of the growth in the wealthy consumer segment will come from consumers who do not currently live in tier-1 cities (McKinsey & Co. 2009).

While hard work and plain living have been revered virtues of the Chinese people for generations, there has been a growth in demand for foreign-branded or imported goods. With the growing habit of consumption in China is the traditional propensity to save. Though luxury consumption is growing, for most the dominant social idea is still prudent consumption and undertaking no more than you can perform (KPMG, 2007).

Research suggests that while the emerging middle class will continue to save heavily, they will also spend increasing amounts of money. This is consistent with trends that suggest that China's younger generation of teenagers and twenty-somethings show less of the caution of their parents and grandparents, and far more inclination to spend than to save (KPMG, 2007).

Urban migration, paired with a wealthier overall population, has led to the emergence of new luxury customers in China. These comprise a diverse group from youth to the middle-aged, from business executives and white-collar employees to the lowly educated, and from actors and actresses to the nouveau riche. These newly luxury shoppers represent more than 960,000 with wealth of over 10 million renmimbi (RMB) (Huran Reports, 2011).

The Traditional Business Elite

The typical male over 35. This male is more likely to hold senior position with a domestic company or a government agency. They are well connected socially. They have been consuming luxury products longer than any other segments their taste in some respects are more sophisticated than those of other luxury shoppers. The traditional shopper is demanding more value for the money and is choosing to not only indulge themselves but also their families (KPMG, 2007).

The New Luxury Shopper

This group of luxury shoppers represents a range of different customers including entrepreneurs, business people and celebrities. What sets them apart is the fact that they are newly rich – very often first generation in their family who can afford luxury goods. They tend to be younger than the traditional luxury shoppers. Although younger does not mean richer, unlike other Chinese consumer segment they will spend a great proportion of their income on luxury goods than those in the U.S. and Europe. With an optimistic view of the future, these consumers seem to be less concern about saving for old age. The

modern luxury shopper has a mindset that is different from their parents in willingness to spend. These educated consumers can tell the difference between fakes and real design (KPMG, 2007).

Empowered Women

Until recently 90 percent of all luxury spending in China was dictated by men. Today, women in China are gaining economic independence and are reaching a point of having their own money to spend on luxury items. Young Chinese women are now emulating businessmen in the age category of 35 and over as the main buyer of these goods. As they grow in social and economic independence. These women are developing more style over time, looking for more expensive items that are understated versus flash logos. With the number of millionaires escalating in China, women do not need to prove themselves with overstated designer clothing and accessories (Burkitt, 2012). The rise in luxury goods and luxury purchases will rise as women outperform men in academic achievement, career mobility and business ventures (China Daily, 2005 & www.luxuryinstitute.com).

Little Emperors

The “little emperors” are the most brand conscious of all China’s consumers. They are the (only-child) children now entering their teen years and early adulthood. This generation is particularly evident in larger urban centers where the one-child policy was most strictly enforced. What is particularly different with these children compared to the only children in the West is that they typically have six sources of disposable income with parents and grandparents all contributing to meet this one child’s every need(KPMG,2007).

UNDERSTANDING THE GROWTH AND POTENTIAL BUYING POWER OF THE NEW UPPER AND MIDDLE CLASS AS COMPARED TO OTHER DEVELOPED COUNTRIES

The first wave of consumption of branded luxury goods began in Europe 100-200 years ago, followed by the second wave in the U.S., starting 50 years ago after World War II, followed by the third wave in China, starting about 30 years ago. There are now about 960,000 millionaires in China and a growing middle class that has discretionary income, both of which are ready to spend money on luxury items.

The demographics of Chinese luxury consumers differs from their US and European counterparts, in age and sex: the average luxury goods consumer in China is male and in the 30-‘s 40’s. Chinese consumers equate luxury with success and purchase luxury items to give the appearance of success (Globalization of Luxury, 2011).

With an estimated annual growth rate of 23%, China will become the world’s largest domestic market for luxury goods worth E.74bn (\$108bn) – or 0.06% of the country’s total GDP –over the next decade (McKinsey Global Institute, 2006).

The share of emerging and developing economies in world GDP in purchasing power parity terms (PPP) is expected to overtake advanced economies by 2014, according to the IMF. China is forecast to be the biggest contributor to world GDP growth by 2017, overtaking the USA and accounting for 18.4% of world GDP in PPP terms from 7.1% (McKinsey Global institute, 2006).

As a global driver of world economic output and one of the most populous states in the world, China, India as well as Indonesia hold the biggest potential. The increase in the educated population is a key component leading to strong average incomes. In 2010, households with annual disposable incomes of US\$5000-15,000 as a percentage of total households is expected to be 31.7% in China, 14.6% in India and 35.7% in Indonesia. This will reach 46.2% in China, 41.1% in India and 58.3% in Indonesia in 2020 (McKinsey Global Institute, 2006).

According to the McKinsey Quarterly 2006, there are two phases in the growing class of China, with waves of consumers in distinct income brackets emerging. The first wave, in 2010 will be the lower middle class defined as households with an annual income of 25,000 to 40,000 renmimbi (RMB). A decade later the upper middle class with an annual income of 40,001 to 100,000 RMB, will follow.

Researchers stated that around 2011 the lower middle class will number some 290 million people, representing the largest segment in urban China and accounting for 44 percent of the urban population.

THE SOCIOECONOMIC DRIVERS BEHIND THE CHINESE RISE IN LUXURY GOOD CONSUMPTION

The socioeconomic drivers behind the Chinese rise in luxury good consumption will be led by the middle class. The features that will drive this rise in the emerging middle class are already particularly notable. Compared to developed markets, whose highest earners tend to be middle aged, in China it will be the young. In the United States, for example income generally peaks between the ages of 45 to 54. Since higher-paying jobs, on average require a higher level of education and training than what older generations have obtained, the Chinese government currently makes substantial investments in higher education for the younger cohorts, meaning the country's wealthiest consumers will be from 25 to 44 years old.

Second, the urban middle class will dwarf the current urban affluent segment in both size and total spending power. From 2010 onward there will be a distinct sub segment among the affluent - including the mass and global affluent categories. Their total consumption will equal 5.7 trillion renmimbi (RMB), 41 percent of the middle class consumption.

The emerging middle class will continue to save more heavily and they will also spend increasing amounts of money. The growth will be driven not only by the rapid increasing urbanization rate but also by a substantial annual increase in per capita consumption. As the income rise, spending patterns will change.

OVERVIEW

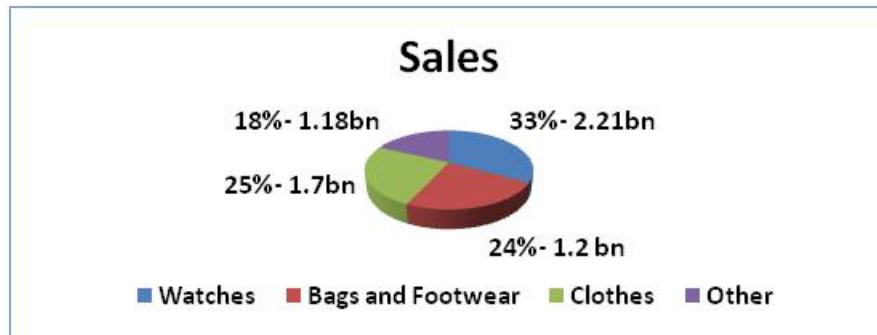
China has experienced a tenacious spike in its overall consumer buying power in the last twenty years. These consumers are coming in leaps and bounds to the forefront of luxury spending and idealizing the Western culture along the way. Luxury brands which have been rooted in mainland China find themselves on one of the most competitive stages in the world competing for the dollars and cents of a people who hold over 1.11 million millionaires and growing (Balfour, F 2011).

In this learning module we will learn about the basket of luxury items which the Chinese focus their buying powers on, then we will move to understand the current market today and where we expect the market for luxury goods to be in the future (break down the luxury goods specifically), briefly take a look at cultural perspectives and behavior of consumers toward luxury products, and wrap it up by assessing the benefits and risks of marketing in this exciting luxury market.

Types of Luxury Goods Desired In China

The apparel and accessories luxury market contains about half of the luxury items sold in China and we will look at each three segments specifically.

FIGURE 7
SOURCE: CHINA LUXURY INDUSTRY REPORT, RIC 2010



High End Clothing

In 2010, the high end clothing market in China ranks in the upper echelon of luxury consumer focus taking in total revenue of 1.7 billion dollars. Brands such as Lacoste, Valentino, Armani, and Chanel/Bally are some of the most sought after brands in the market (Bialobrzeski, P, 2007). Assuming second highest sales in the luxury market, high end clothing poses to be a steady rise in the future among top end consumers.

Bags and Footwear

Prada, Gucci, Louis Vuitton, and Burberry are just some of the successful luxury brands that consume much of the Chinese sales. Burberry even plans to expand its stores within the next five years from the current 57 to a total of 100 stores (Branigan, T, 2011). “Prada shoulder bags and Gucci clutches are essential props for many businessmen. And if they are not carrying their own status symbol, young men may wield one on behalf of a girlfriend (Branigan, T, 2011).” These high end bags are viewed as a status symbol and purchasing one of these items for a woman in China shows the men off to be serious husband material.

Watches

Rolex, Omega Cartier, Vacheron, Constantin, and Breitling give us the top five brands of watches sold in China (Bialobrzeski, P, 2007). It has become such a show of upward movement in the social strata that 22% of the luxury buyers in China own a Rolex and 66% of male luxury buyers have purchased a watch within these top five brands in the last six months. The average dollar amount spent on one watch is 2,253.00 (Bialobrzeski, P, 2007).

Pens

The market for high end pens in China has increased dramatically. Businessmen are using and purchasing luxury pens as gifts to appeal to the more sophisticated side of business activity. For instance, the photo above is a picture of the “Golden Dragon” pen which is sold by Parker Pen Co. This pen retails for 39,888 yuan or 7,500 dollars (Mcwhirter, C., & Burkitt, L, 2011). Sales for Parker Pen Co. have risen 20% in only three years across five hundred stores in the booming China market (Mcwhirter, C., & Burkitt, L, 2011). The Pen is here to stay.

Cosmetics

Another booming market is the cosmetic and skin care products. The top three players in this market are Estee Lauder, Lancôme, and Guerlain. More than 50% of luxury buyers own the top two lines in Estee Lauder or Lancôme (Bialobrzeski, P, 2007). The face is the identity of a person, and in China much prestige and dignity is built upon this foundation. Being as this is so important to the Chinese it comes as

no surprise that the average dollar amount spent on one single skin care product in this luxury market is 280.00 dollars (Bialobrzeski, P, 2007).

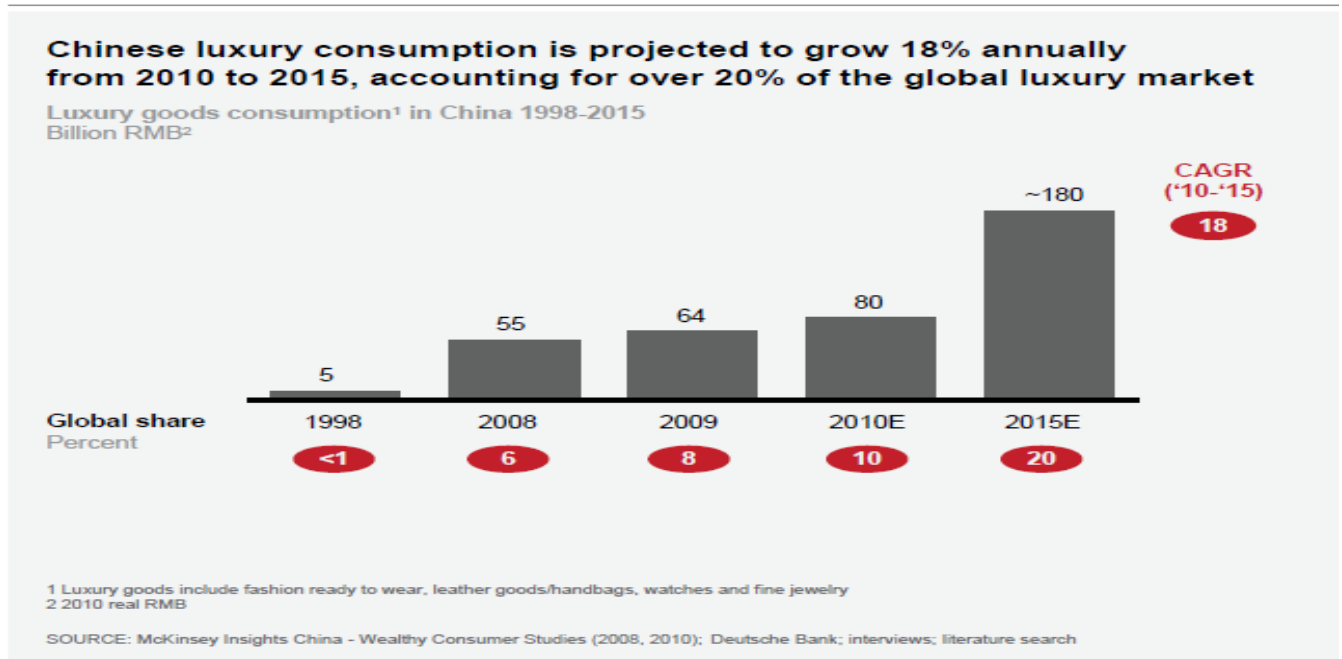
Measure the Current and Expected Market for Luxury Goods

Looking back to 2004, according to a Goldman Sachs Report, China represented 12% of global sales in the luxury items market (Bialobrzeski, P, 2007). Even in the recession period during 2009, Chinas experienced an increase of 16% in the sale of luxury items. It is projected by 2015 that China will account for 20% of all luxury item sales worldwide (Leibowitz, G, 2011). That translates into roughly 27 billion U.S. dollars (Atsom, Y., Dixit, V., Leibowitz, G., & Wu, C, 2011).

Moving forward in 2011, if we had to create a marketing hook specific to the Chinese market, we'd have to title it "The Sky is the Limit". If we can consider the fact that we are dealing with the third or fourth largest group of millionaires in the world and quite possibly the fastest growing, it would help paint a picture as to how high the sky actually is for this luxury market in China. "Millionaire households jumped 31 percent in 2010 from the previous year to 1.11 million, the BCG Global Wealth Survey released yesterday showed (Balfour, F, 2011). It's important to note that as sophistication level increases, meaning knowledge of luxury products, what they are, and where to purchase them, so does overall spending. It's a natural coincidence. Vehicles to increase knowledge are trends such as increased travel overseas which grants them exposure to more products, less censorship of the internet to increase brand awareness, and increased purchasing which allows for more hands on experience, has drastically affected the sophistication of the luxury consumer.

FIGURE 8
SOURCE: MCKINSEY & CO. THE COMING OF AGE, CHINA'S NEW CLASS OF WEALTHY CONSUMERS, 2009

Exhibit 1



The chart below represents the expected buying trends for the major tier I cities, tier II cities, and calculates the mean. This chart also gives us a look at how the money is allocated throughout the major basket of luxury goods (KPMG, 2007).

A McKinsey report shows in 2008 of consumers polled, only 23% were familiar with the top luxury brands compared to an astounding percentage of 50% of the same survey done in 2010 (Leibowitz, G, 2011). This is a 27% increase on margin in knowledge base alone. This increase can be explained in two parts. First off, as we noted, there is a spike in overall knowledge of products through various means, and secondly comparing a millionaires population in 2008 of 414,900 (Balfour, F, 2008) to a 2010 millionaires population of 1,110,000 (Balfour, F, 2011) it's obvious why the increase exists. Figures broken down into raw numbers are as follows:

**FIGURE 9
LEIBOWITZ, G. 2011 & BALFOUR, F. (2011)**

| China | Population of Millionaires | % of millionaires aware of luxury brands | # of informed |
|--------------|-----------------------------------|---|----------------------|
| 2008 | 414,900 | 23% | 95,427 |
| 2010 | 1,110,000 | 50% | 555,000 |
| 2011 | 1,243,200 | | |

The 2011 population figures represent a reported 12% increase in millionaires (Broom, G., & Ody, E (2011).

Outline the Cultural Perspectives and Behavior of Consumers Toward Luxury Products

“Among Chinese consumers, 64% of them think that luxury brands denote success, and just 1% think they denote superficiality,” said Pierre Xiao Lu, professor of marketing at Fudan University in Shanghai and a consultant for international luxury firms (Wharton, 2008). The figures indicate this trend as the Chinese as a whole, judge consumer luxury spending in a positive light. The graph below shows a survey for which individuals determined to be luxury consumers were asked about their attitudes towards consumption of luxury goods. Keep in mind that the figures not only include the statistics of the luxury class who actually purchase luxury goods but it also takes into account those who are considered to be part of the luxury class who refrain from purchasing these luxury items (KPMG, 2007).

Assess the Benefits and Risks of Marketing Luxury Goods in To Chinese Consumers Benefits

China has a more developed and balanced industry than many developing countries. China has developed very strong and effective state machinery which has been a key contributor to its modernization and infrastructure. Simply the size of China makes it an appealing developing country to break into. China also has a great advantage in its legacy of land reform which has been more impressive than even India’s land reform since the 1980’s. Factors of **land reform** are areas such as literacy rate, death rate, and life expectancy (Loong-Yu, A, 2007).

More wealth developing outside of large cities. According to a McKinsey report rolled out March 8th, 2011, “Rapid urbanization and growing wealth outside of China’s largest cities is driving the emergence of several geographic markets with sizeable pools of luxury goods consumers. Our research indicates that over the next five years, the number of such cities will double, from 30 to 60.” (Leibowitz G., 2011).

Risks

Overall ease of doing business in China has never been in the upper echelon and has slipped four spots from 87th in 2011 to a 91st in 2012. The rank is out of 183 economies around the world (World Bank Group, 2011). To break into the luxury market you need to establish your business first and starting

a business in China is certainly not the easiest as it ranks 151 out of 183 and has slipped one spot since 2011 (World Bank Group, 2011).

Not understanding the norms that inhibit innate risks in offending the consumer which could cause the consumer to shop elsewhere. For instance, At the First Annual Luxury Brands Forum at the China Europe International Business School (CEIBS) in Shanghai, it was expressed by many who spoke at the forum that the word “luxury” was not preferred in labeling products. Rather they preferred terms such as “prestige or high end” which implied good quality and at a high price (Wharton, 2008).

Business Structures

There are many business structures or entry modes that will enable a company to transact business in China. While comprehensive coverage of this topic is beyond the scope of this material, it is important for the student to understand the basic business forms and entry modes. Please refer to Module I – Doing Business in China for additional information on business structure and modes of entry.

There are many ways to do business in another country, including China. Six different modes of entry exist; exporting, turnkey projects, licensing, franchising, joint ventures, or setting up a new company or acquiring an existing company in the host country (Hill, 2011). For the purposes of selling luxury products, all of these modes could apply with the exception of turnkey projects, although the most likely are exporting, licensing and acquiring or building a business in the host country.

Exporting is the most sought after entry mode. By transporting product through various shipping processes and distributor networks or outsourcing the entire logistics function to a firm that specializes in this function, a company can get its goods to the Chinese consumer. It is the typical approach companies use to begin global expansion. With today’s technology and lower global trade barriers, conducting foreign business through exporting has become more accessible for companies of all sizes. Exporting to China has reached \$74B for the first nine months of 2011 and is expected to continue to grow (U.S. Census, 2011).

Partnerships and Joint Ventures

Allow a domestic company to combine operational, financial and legal efforts in a new company jointly owned by the domestic and foreign organizations. The domestic firm benefits from having a local partner who understands the market and culture. This can shorten the learning curve a company may otherwise experience without this relationship and allow it to take advantage of consumer demand by staying ahead of the competition.

Foreign Direct Investment (FDI)

FDI occurs when a foreign company directly acquires a company in the country they plan to do business or whereby a foreign company builds or creates a company in the foreign country. To do business in China, the government requires a minimum of two steps. First, the company must obtain a certificate-of-approval from the local Chinese business ministry. The certificate is intended to provide detailed information about the company, its operations and industry.

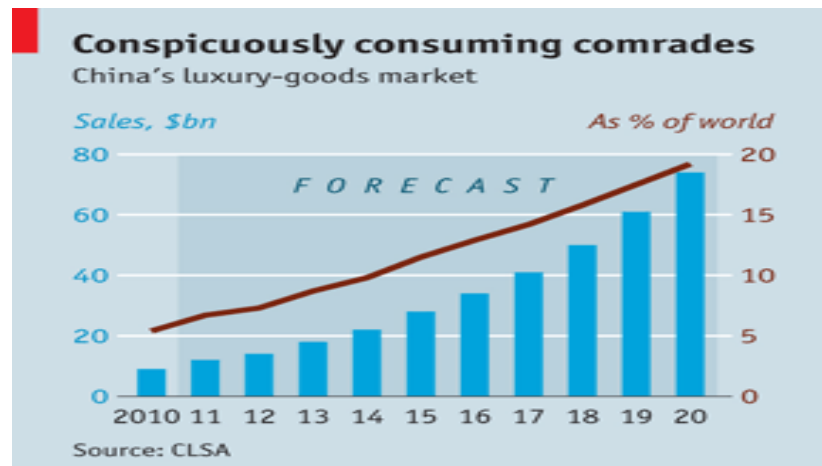
Second, a business license is required and must be requested through the State Administration for Foreign Industry and Commerce or SAIC (FIE, 2011). Both of these documents are necessary to establish a business in China. In contrast, the U.S. requires only the articles of incorporation to legally establish a business.

Channels and Mediums

China has become the world’s second largest consumer of luxury goods surpassing Japan with annual growth in demand of 20% (China Globaltimes, 2011). Today’s China has an estimated 18 thousand billionaires, 440 thousand multimillionaires, and a fast rising middle class of around 250 million who have high purchasing power and are eager to spend on luxury goods. These wealthy Chinese spend USD 8 billion on luxury goods in 2007 (Morisset and Lee, 2008).

McKinsey, the consultancy, released a report forecasting that spending on luxury goods by Chinese consumers would grow by 18 percent annually to 27 billion by 2015. Also, Aaron Fischer, an analyst at CLSA, estimates that annual growth in luxury sales in greater China will be 19 percent, accounting for 44 percent of global sales by 2020.

FIGURE 10
SOURCE: CLSA-CONSPICUOUSLY CONSUMING COMRADES



China, being the second largest market in the world for luxury goods, means that no established or aspiring international luxury brand can ignore the Chinese market. Luxury brands, to become successful, must win in China to continue growing in the rest of the world. Given the scale of the Chinese market, luxury brands that are able to gain and maintain a preferential share of the Chinese affluent consumers will be able to sustain their global image and compete in equal terms with the future emerging Chinese luxury brands (Degen, 2009).

Chinese consumers are driving the demand, buying everything from expensive watches to imported cars. Enjoying the sudden economic freedom, the newly rich capitalists are eager to demonstrate their social standing by buying luxury goods. A KPMG survey found attitudes toward luxury goods to be generally positive in China (See Module III). Many people on the mainland wish to buy luxury goods, and relatively few of them have negative opinions about people who own and flaunt expensive handbags, handmade Swiss watches, pricey cars and other luxury products. By and large, most of them simply wish to buy those products themselves.

This unique buying culture is one of the key drivers of luxury goods sales in China, says Tom Doctoroff, author of the book, *Billions: Selling to the New Chinese Consumer*. "Luxury sales as an aggregate are absolutely booming in China, and the reason is that luxury brands are tools for further advancement," he explains. "China is a very hierarchical society, and very ambitious, so luxury products [not only] mark where you have traveled up to, but they also give you permission to continue succeeding. In China, success breeds success, so you can see that luxury brands in this context are very important. This leads to a much broader swath of the middle class population being seduced by the items."

Advertising and Media

While many luxury brands use central communication methods with very imagistic advertising, very few brands are tailoring their communications for the Chinese in China. Tom Doctoroff believes that advertising should be more directly aimed at the unique aspects of the China market. "Most fashion and luxury brands associate themselves with a feeling, an emotion, a lifestyle, without ever taking the structured disciplined approach to unearth insights," he says. "So you have a lot of ice goddesses staring

down from billboards on commercial streets, but nothing that provokes or engages. That is a big problem, because unless you can establish loyalty with all the new brands coming up, you will be hot one minute and cold the next. What you have now is a tide that's coming in for luxury, and the entire luxury market rising collectively, but very few powerful brands."

Online Advertising

With the largest population of internet users in the world, China is a digital playground for marketers. According to iResearch, China's online advertising market increased 23 % year-over-year and reached RMB 13.7 billion in 2011. Also, search engine advertising has steadily been increasing (thechinaobserver, 2011). The potential for buying luxury goods online is huge, but not enough brands take advantage of e-commerce opportunities. Recently Emporio Armani launched a Chinese-language online shop, emporioarmani.cn. With the opening of this web shop the company helps to reassure people that they are buying genuine items--not a small concern in a country full of fakes. McKinsey Global Director An Hongyu pointed out that "China's young consumers spend a lot of time on the Internet to collect information about brands and products, read other people comments on the product, so brands can use social media agencies to monitor and respond to consumer online chat, and participate in discussion."

Lower price is another advantage of shopping online; however, because of the lack of a stable supply of goods, some websites tend to purchase the luxury upon getting an order. Thus, consumers have to wait for a long time to receive the articles they ordered. After fulfilling ordinary people's needs to own luxury goods, online sellers of luxury goods should solve important issues such as increasing the people's trust in their products and providing better shopping experiences.

Television Advertising

In recent years, television advertising has been the number one way to reach consumer in China. However, given the Chinese government's new regulations targeted at television advertising, online media's influence should grow stronger. Starting next year **television dramas will be aired without any commercial interruption** – only allowing for commercial spots in between television programs. These regulations come after China Central Television (CCTV) made RMB14.3 billion from companies such as Procter & Gamble, Alibaba and Unilever during this past November's television-advertising auction (thechinaobserver, 2011).

Print Media

Chinese newspapers and other print media often contain too many advertisements so most readers hardly notice a new luxury advertisement. However, the last finding of Huicong's, the Chinese market research firm, study is that print media remains the top choice for promotional investment among cosmetic brands. According to the firm's survey, Estee Lauder, Dior, Opera (Shiseido subsidiary) and Chanel spent more than 300 million yuan (US\$47 million) in 2010 (Shuging, 2011).

Importance of Brand Awareness

Luxury brands that want to succeed in China must obtain high brand awareness. Chinese affluent consumer, in his/her mind, links brand awareness to luxury products. For them a product may have all the necessary luxury attributes but, without brand awareness, it will be considered as a high-quality product or a work of art, rather than a luxury brand (Xiao Lu, 2008). Basically, they are unwilling to pay a high price on an unknown brand. Patek Philippe, Swiss watchmaker, is one of the companies who was adopted this approach. The company opened its first store on the Bund a luxury shopping area. After building the necessary brand awareness and name recognition among consumers, after two years, Patek Philippe opened its second store in Beijing.

FIGURE 11
MODULE I, II, III, IV. QUESTIONS- PREPARED BY AUTHORS
A. LANGLOIS & E. BARBEIRO

Module I Questions

From the material provided in this module along with additional research, list the GDP growth rate in China for the five year period from 2005-2010
Other than the risk discussed in this module, describe some additional risks of doing business in China. Please provide references.
Other than macroeconomic data, explain at least two specific categories of information a company should collect prior to doing business in China

Module II Questions

1. Why do you think the modern Chinese shopper have a different mindset from their parents?
2. Why do you think that the luxury market in China is still largely male dominated?
3. What is the reason behind the increased spending amongst female consumers in China?

Module III Questions

What microeconomic factors in China are root causes in the surge of luxury goods sales?
What is the overall attitude towards the consumption of luxury goods in China among the Chinese? Look at attitudes among luxury consumers and also the attitudes among those outside the luxury consumer class.
How do macroeconomic factors affect the future of the surging luxury consume class in China?
Among the basket of luxury goods, which segment assumes the highest amount of sales? What psychological factors, if any, play a part in this segment?

Module IV Questions

What strategies are luxury brands using to enter the Chinese market?
What are the most effective advertising methods for promoting luxury brands in China?
What do you predict for the future of Chinese domestic luxury brands?
Do you think Western luxury brands will restrict the development of China's domestic luxury?
Is the China luxury market a long-term gold mine, a short-term mine field, or both?

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