



## CHINA: REASONS TO BE CHEERFUL?

To be a brand owner, commercial director or marketer over the last ten years, in the context of China, has been a fascinating time. A rising tide of prosperity and the creation of a seemingly limitless number of HNWI and UHNWI individuals made profit trajectories reach dizzying heights and organisations develop an appetite for rapid expansion from Hong Kong to 'Tier 1' and on to 'Tier 2' cities throughout the Chinese Mainland. New brands appeared overnight, stale brands were rejuvenated and the powerhouse fashion brands appeared unstoppable. All of which makes the last six months of luxury brand introspection and industry-wide concern at 'faltering' performance seem premature at best and, at worst, a sign that some brands have failed to understand what is now their biggest market. Luxury consultant **Mark Izatt** assesses the state of the nation

### Some numbers

The opportunity in China for luxury brands has never been greater as is the potential for brands yet to establish a presence. McKinsey numbers suggest that China now represents 27% of luxury goods consumption (home and abroad) in 2012, a number which is predicted to rise to 34% in 2015. A full 50% of future global luxury growth will come from China and over 70% of consumers are optimistic that their family income will increase. Growth may have slowed, in some sectors more than others, but it is still an extraordinary rate of growth which luxury brands can share in and indeed owe something to for their survival in the more challenging trading period in the rest of the world.

### A changing landscape

A recent discussion in London on 'Re-Imagining the Chinese Dream' was addressed by the ever-prescient author and Asia commentator Jonathan Fenby. Fenby has just refreshed and republished his book 'Tiger Head, Snake Tails - China today, how it got there and why it has to change' and spent some time addressing the eight 'dream' items on President Xi Jinping's list:

- national rejuvenation
- party strengthening
- national unity
- improved living standards
- officials closer to the people
- military modernisation
- regional and global weight
- crackdown on corruption

As history has shown, what the China leadership states as an intention today usually comes to pass tomorrow. This makes the references to unity, living standards, closeness and corruption an important context for luxury brands in the years ahead.

All of this suggests that the landscape will change more substantially than a superficial 'crackdown on corruption'.

Strengthening national unity, improving living standards and bringing officials closer to the people is a warning that brands that have exploited the previously dominant desire for highly visible branding may continue to find the months ahead challenging. The effects of this have already been felt by the makers of that most overt of luxury items: the expensive wristwatch. Aggressive 'watch tracking' by users of social network sites has seen too many officials being caught with a number of different valuable timepieces on their wrists that are way beyond their earnings - this could impact a brand such as Vacheron Constantin but provide an opportunity for a brand like Omega which still has cachet but at a lower price point.

Automotive could well be experiencing a similar trend. Bentley is down 20% in the first quarter of 2013 compared with 2012. It's hard to hide a car.

Brand owners need to make a judgement on the longer-term political context, but certainly evidence would suggest that this is more than a temporary cessation of gifting around the change of government, which was cited as the main reason for a slowdown in sales towards the end of 2012.

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What we can be more certain of is the rapidly changing demographics which provide an exciting opportunity for brands both established and new, although early entrants are facing the challenge of adjusting their strategy to keep pace with a changing consumer landscape. In essence the Chinese market is both growing and changing. All at a much more accelerated pace than a traditional dynamic market.

Individuality is on the rise, with those who prefer 'low key / less flashy' increasing along with those who believe that showing off is bad taste. Although the need for purchases to support 'status' is still a key driver, it is a motivation which is declining as the behavioural needs of 'connoisseurship' and 'self-reward' increase. In simple terms, the power of the logo on the product is waning. Luxury must still remain aspirational but it must be positive and affirming. Crucially, those early adopters of luxury who have been affluent and engaged with the larger brands for longest are showing most fatigue. They crave new options.

The rapidly emerging new middle class, an increase in female purchasing power and widening credit card use provide an opportunity for niche brands and new entrants without the benefits of first-mover advantage. Mass premium brands such as Coach are successfully tapping into this new market with a 40% growth in annual sales announced in the first quarter of 2013.

In essence China is transitioning towards a mature luxury market which cannot be managed with broad strokes. It requires nuance.

### Six things for consideration

#### 1. STRONG BRANDS NEED STRONG PRODUCTS AND PRESENCE

Established brands need to deepen their penetration in tier two cities and sweat their tier one assets, developing an e-commerce platform which reassures the consumer to purchase online or push towards flagship stores. Products need to be as powerful as the brand, distinctive and compelling in their own right and relevant to the Chinese consumer. The days of gratuitously embellishing a product with Chinese symbols is over - that's not to say that brands should not be respectful towards colour and numerology - but global brands and products should behave like just that - global. New entrants should establish a strong digital platform, eschewing heavy investment in physical stores until they understand their target customer and identify strong Chinese partners who they can trust. A retail presence in Hong Kong first is still the safest route and the opening of the high-speed mainline from the mainland into Hong Kong in 2015 will only increase that city's role as a shop window.

#### 2. RICH STORYTELLING AND UNIQUE EXPERIENCES

Bringing alive product and brand is essential in a market where storytelling is an important part of life. The store environment needs to reflect both product truths and cater for the customer's needs. The 'private shopping room' for both the individual shopper and his or her friends remains relevant.

In April this year Ralph Lauren held an 'up-close' fashion show in its Shanghai flagship store for an intimate group of 30 guests. Other brands are undertaking similar activity, each one attempting to outclass the other, understanding the principal that providing the right, memorable experience to the right person will deliver multiple reach as that individual talks to his or her circle of friends. Tapping into the importance of peer-to-peer transfer of knowledge and insights means that even the smallest brand can gain traction without the traditional advertising spend available to bigger brands.

#### 3. AUTHENTICITY, HERITAGE AND PROVENANCE

Authenticity based on heritage and provenance is as relevant today as it has ever been. European brands which can draw upon deep reservoirs of heritage should do exactly that and bring this alive in the store and digital environment and on the product itself. Product labelling remains important real estate and should be used. The current need for traceability of food stuffs in the context of health scares will only reinforce the belief that quality comes from imported goods with established and communicated provenance.

#### 4. LEARN FROM AND GROW WITH CHINA

Look closely at employing native Chinese marketers and designers back at headquarters, not just in the 'local' office - customer insight work and the occasional market visit is never enough. This also has the benefit of presenting Chinese staff with additional career opportunities in their field without the need constantly to jump from employer to employer. Rotate staff around so they genuinely understand the dynamics of the marketplace and dig deeper to establish the needs of the next wave of customers. Consider establishing craft-based apprenticeships, returning something back to the community and gaining fresh perspective for the future.

#### 5. SECOND SCREEN AND PEER SUPPORT

The rate of smartphone and tablet adoption in China is stratospheric. Second screen behaviour - browsing and engaging with peers on the tablet while watching or reviewing on the other screen - ties in with the well-established need to share future purchase decisions with friends. Over 70% of Chinese consumers will search and review online luxury brands at least once per month and although only a small number will transact through e-commerce (if available) the experience will be converted into a purchase in a physical store or, at the very least, will shape future purchase behaviour. This explains 'abandoned' baskets and low transaction numbers and this must be factored into success metrics. E-commerce in these circumstances is still delivering sales, just not in the usual manner. The consumer is using the platform to price, compare and share. Marketing support should deliver shareable and relevant content.

Social networking, meanwhile, is a permanent part of the landscape and brands need to embrace and nourish all channels - friends will discuss their future and recent purchases enjoying the reassurance and affirmation that this brings.

Android is the dominant operating system but Apple's iOS remains a 'badge' essential for the travelling consumer communicating status - therefore designing apps and targeted mobile advertising specifically for that platform is an efficient way of gaining the attention of the HNWI as they shop around Europe, ideally with strong calls to action to visit a store, have a glass of champagne and see the items which have been specially curated for them.

#### 6. HOME AND ABROAD

Less than 10% of Chinese HNWI who travel to Europe on a visa come to the UK because of the difficulty in securing the additional, UK-specific visa. An easing of restrictions is going to see an upswing of visitors with a corresponding commercial opportunity. That new customer needs to be met with more than a token Chinese member of staff and the 'Union Pay' logo. The experiences they have been exposed to back home must be repeated and enhanced. With careful planning a brand should know when a particularly valuable customer is travelling and offer, in advance, additional experiences and encounters. For example, a whisky brand flying the customer from London to Scotland or a behind-the-scenes visit to an atelier. Despite the challenges of accurate data collection a CRM database is an essential for every brand, big or small.

It is also time for the larger brands to reconnect with their non-Chinese customers. Aggressive growth and a seemingly insatiable demand has pulled scarce product, focus and money east with the result that some brands have a pitifully low European following. This is dangerous territory, not only for domestic European business but for the Chinese tourist who seeks some affirmation that the item she is buying is worn in Paris, Milan or London.

### The best is yet to come

The greatest days for a brand in China are in the future and not the past. China's dynamism needs to be treated with respect and brand-building should be pursued on the basis of intrinsic value and not simply eye-watering price points. Pivoting commercial plans in-line with the changing landscape and the brand will succeed; moreover you may even learn a thing or two to deploy elsewhere.

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