



The Next Phase of China's Luxury Consumption

Luxury consumers in China are moving from show-offs to appreciators of the finer things. Brands will have to make their products less conspicuous to capture them.

Walk into a Nespresso boutique and you might be greeted by a picture of George Clooney, pleasantly smiling over a cup of jet black espresso coffee. The poster child of the now high-end coffee brand oozes confidence and exclusivity. Customers feel part of his world and buy into the experience as well as the product.

Nespresso is giving coffee its “luxury moniker” back after it fell out of luxury and was transformed into an everyday, mass product in the early 20th century. Coffee was once a delicacy enjoyed by the nobility in the 17th and 18th century European courts. Such is the cycle of luxury, where products can move in and out of being perceived as high-end status symbols or experiences.

The ways in which consumers acquire and use luxury products highly depend on the social, cultural and economic environment that, in turn, impact perceptions of luxury brands.

China's luxury growth

China is a hotbed of these moving forces. With profound recent socio-economic changes and the rise of a new elite, the face of luxury consumption is changing. About half of luxury consumers are affluent households that have recently acquired their wealth and spend between 12 percent and 20

percent of their income on luxury goods – a total of RMB 20,000-60,000 (US\$3,000–9,000) on luxury goods a year, as a recent McKinsey report pointed out. And luxury role models, who only represent 1 percent of luxury consumers, will account for 24 percent of spending in 2015.

With many of them living in Beijing or Shanghai and having ties overseas, their social circles include friends with second-generation wealth – so they have had long-term exposure to luxury brands and are both sensitive to China's original values and history and to Western values. Overall, these socio-economic changes are bound to change the nature of Chinese luxury consumption, from the types of product that are associated with luxury to the ways in which luxury can be communicated effectively.

This is not to say that Chinese luxury consumption will not keep a few key specificities. For instance, more than half of all luxury goods are purchased as business or personal gifts, not for the buyer's own consumption and this trend is set to remain; similarly, the Confucian perception that luxury represents a social glue that binds together rather than separates people is here to stay. Finally, Chinese customers mostly buy luxury outside China, in part because of high taxes on luxury items at home.

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The next phase of luxury

Other signs, however, suggest that China is entering a new phase of luxury consumption. For instance, the Internet revolution has given birth to a hyper-connected generation with more sophisticated consumption patterns and deeper knowledge of luxury products than the previous generation. In addition, many Chinese have received an education abroad or have contacts with Western culture in their professional lives. Similarly, recent trends suggest Chinese customers' conspicuous use of luxury items is fading, at least in some areas that have experienced sustained growth and social stability over the last ten years.

This is consistent with research in sociology, psychology and marketing suggesting that when socio-economic factors stabilise (i.e., slower growth, stable social strata), luxury consumption shifts from being conspicuous to inconspicuous. In this later stage of luxury consumption, people consume luxury more parsimoniously and more for its aesthetic value than its status value. In China, this manifests itself by increasingly greater attention being paid towards experiential luxury, and decreasing attention being paid to the purely material aspects of luxury products and services. Overall, Chinese customers are increasingly evolving from simple luxury takers to tastemakers.

How to deliver experiences

What are the implications of these changes for luxury brands? Firstly, luxury brands should invest massively in predictive tools that can help them anticipate and estimate quantitative and qualitative changes in luxury consumption. For instance, macro factors related to socio-economic changes and careful listening and monitoring of online conversations about luxury brands can reliably predict the type of products or the level of conspicuousness most likely to be associated with luxury. Secondly, luxury brands should change their management focus and take into account the moving frontiers of the Chinese luxury space. For instance, brands should anticipate and monitor unwanted associations (for example, luxury watches and political scandals). Thirdly, luxury brands should aim to marry Chinese and Western values. Some brands have already responded to this challenge. For instance, to turn sales around and anchor Yue Sai, a cosmetics brand acquired by L'Oréal in 2004, as a true Chinese luxury brand, **the brand decided to include ingredients borrowed from Chinese traditions** and mix it with L'Oréal's positioning and focus on innovativeness.

Luxury consumption in China is bound to change quantitatively and qualitatively based on moving societal forces, and only the brands equipped to

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anticipate and manage these changes will take full advantage of the evolving perceptions of luxury.



David Dubois is an Assistant Professor of Marketing at INSEAD. Follow David on Twitter **@ddubois**.

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