



Getting back to basics in a world of luxury

As China's middle class expands, does consumption behaviour change? According to Sir David Tang, founder of Shanghai Tang, consumption behaviour doesn't shift with economic development; it is only perceived to do so.

"I don't think economic development has ever changed human nature," says Tang. "China is able now, with a rising middle class, to start thinking about all the bourgeois things, about life of the next-door neighbour. And that's why, in a way, consumption behaviour is perceived to be changing."

He says people everywhere, regardless of economic stature want good value and when they get richer, they will buy what they perceive will be able to give them status. They will always be comparing themselves with each other in terms of the daily necessities.

As for cheaper items, they want the best value for money. For example, if a foreign retailer such as Tesco goes to China and sells apples which are sweeter than the local ones, the Chinese consumer will ask if they are more expensive before deciding whether they're worth buying.

"With the rising middle class, status comes to mind", Tang says. "They need to know what Mr Wong has next door. Is his refrigerator as big as mine? Is his bicycle as smooth as mine? Is the car he is buying more expensive than mine? And then they shift that and ask: Should I be buying a real Rolex as opposed to a fake one?"

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This is one reason why Tang believes that the mainland Chinese are behind the continued growth of Hong Kong's retail business. "It's the 15-16 million Chinese who are coming into Hong Kong who are buying up all the stuff."

So if it is necessary to understand how people think in order to win the hearts and wallets of this massive population of consumers, what kinds of Chinese behaviour and culture should be incorporated into a company's value proposition to influence its products and services?

Tang told INSEAD Knowledge that there is no formula; all that is needed is common sense. If you want to sell something, make sure that somebody is going to buy it. "Make sure it is the right price; and if you want to sell something that is good and enduring, make sure that that is so."

"There is actually no secret in doing business: you sell a product that is good, at the right price, good value for money; in addition, the luxury market has the perception that they are actually getting more than they are paying for because it lifts their status and their own psychology. That's it – that's what you do," he argues.

Tang's business empire includes the Shanghai Tang

fashion chain; China Clubs and China Tang restaurants; and Cuban Cigars.

The important thing, he says, “is to provide the *right* product and the *right* service, especially when I know that they are successful. What I need to do is not look at the customers any more but how I can sustain the quality of the product and the quality of the service so that more people will come if I open more outlets,” he says.

Revenues from his stores in major cities around the world (outside of China) have been growing but he believes that sooner or later, the biggest market is going to be China.

His business has fared better so far, however, in developed rather than developing countries. “Selling cigars in developing countries, for example, is quite difficult but it’s on the rise steadily.”

But he says it’s not a matter of comparing whether you go to the developed countries or the developing countries. One needs to come back to basics: What am I selling? Is it good? Is it the right price? Is there a class of people who will buy it? And is it going to endure? “Those are more important questions about doing business,” Tang says.

Sir David Tang was a speaker at *The Economist’s Emerging Markets Summit* which was held in London September 15-16, 2010.

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