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# CHINA AS A MARKET: LUXURY BRAND CONSUMER BEHAVIOR

## Abstract

According to theory, luxury consumers are the same all over the world, representing a global segment. However, depending on the cultural context, consumer behavior may differ in this worldwide segment. In fact, cultural distance still matters in global markets (Ghemawatt, 2001; 2007),<sup>1</sup> and research on the relationship between culture and consumption is growing exponentially (Ogden D., Ogden J. and Schau HJ. 2004).<sup>2</sup>

In many studies, China is considered a collectivistic society in which people see themselves as interdependent with others, usually behaving according to social norms (Triandis, 1995).<sup>3</sup> This is opposed to an individualistic society in which personal goals take precedence over the group's objectives (Hall's, 1976; Hofstede, 1980; 1984; 1991; 2001). However, Triandis et al. (1995) and Triandis and Gelfand (1998)<sup>4</sup> suggest that this dichotomy is too simplistic to account for personal differences within members of individualist and collectivist cultures. To this end, Triandis proposed a four-fold typology. In this author's classification, China can be seen as a "Horizontal Collectivism Culture" influenced by its historical, political and economic setting which emphasizes egalitarian and group-centered values (Sivadas, Bruvold & Nelson, 2008).<sup>5</sup>

Based on a review of specialised literature, the purpose of this paper is to explore how culture influences consumer behavior in the Chinese luxury market. To achieve this aim, the author has carried out a review of the literature and an exploratory study using written questionnaires. The respondents were full-time and part-time MBA students at Beijing International MBA (Peking University - China). In this paper the author shows the first results of this study and introduces the next steps of the research.

**Keywords:** China, luxury brands, consumer behaviour, culture, international marketing.

## **INTRODUCTION**

Already representing 12% of the world's purchase of luxury goods, China is the third market for luxury products behind the US and Japan.<sup>6</sup> Most importantly, it is the most dynamic, with annual growth rates approaching 20%, a figure which, according to Goldman Sachs, will convert China into the leading luxury product client in 2015, with a 30% market share.<sup>7</sup> As a result, global luxury brands such as Louis Vuitton, Gucci, Chanel and BMW are rushing to get their share of the pie.

This paper will first examine the social meaning of luxury for the Chinese consumer market. It will then describe the most important characteristics of the Chinese luxury market. Finally, some conclusions are presented regarding new consumption trends in the Chinese luxury market as a result of an empirical study conducted in April 2009 at Beijing University.

The aim of this research is to analyze the concept of luxury in the mind of Chinese consumers. In order to achieve this objective, the study consists of three stages. The first stage concerns the perception of luxury for the Chinese consumer. The author analyzes this concept through the identification of the main words that Chinese consumers associate to this concept. The second stage involves an analysis of the main luxury brands in the consumers' mind. For this objective the focus is to identify a list luxury brands ranked by awareness in China using a middle class consumer profile as the sample. In these two research stages the sample consists of 140 part-time and full-time MBA students at Beijing University organized into 28 groups.

The third stage is currently in progress. The aim of this final phase is to analyze consumer attitudes towards luxury brands. For this purpose a written questionnaire is being used on a sample of 210 people with the same profile as that of the sample used in the first two stages. The main difference is that in this phase the questionnaire will be used individually and not with groups.

## **LITERATURE REVIEW ON LUXURY BRANDS**

Research regarding the creation and development of luxury brands is limited,<sup>8, 9</sup> and previous studies have recognized a lack of clarity with respect to what defines a luxury brand.<sup>10</sup> Conceptualizations of luxury are derived from either a consumer perspective<sup>11</sup> or from an application such as a product branding device.<sup>12</sup>

From the consumer perspective, a significant share of the literature seeks to explain luxury consumption in terms of a symbolic function<sup>13</sup> that operates at the individual and collective levels. In this context, luxury is associated to a psychological value, a highly-involved consumer experience, the person's self-concept and the luxury item's function as a status symbol.<sup>14</sup> As such, research activities in this stream focus on the motivations behind the purchase of luxury goods.

From a product perspective, luxury brands are frequently defined in terms of their excellent quality, exclusivity, premium prices, distinctiveness and craftsmanship.<sup>15</sup> Other key research areas within this stream include brand development,<sup>16</sup> protection<sup>17</sup> and extension.<sup>18</sup>

## Relevant Literature

<b>Two main perspectives</b>	<b>Consumer perspective:</b>	<b>Product perspective:</b>	<b>Other key research areas</b>
<b>Main authors</b>	Psychological value High involvement Person's self-concept Status symbol	High / excellent quality Exclusivity Distinctiveness High transnational value / Premium price Craftsmanship	Brand Development Brand Protection Brand extension  Doyle (1990) Silverstein, Fiske and Butman (2003) Nobbs, Birtwistle & Fiorito (2004) Moore & Birtwistle (2005) McDonalds & Roberts (1994) Clarke & Owens (2000) Glynn & Brodie (1998) Chen & Liu (2004) Beverland (2004) Okonkwo (2007)

Within the literature, however, there are also references to a number of reoccurring and divergent key attributes to succeed in being positioned as a luxury item in the consumer's

mind; here, the brand concept is considered fundamental.<sup>19</sup> Together with the brand concept, various other attributes are considered crucial to create a luxury brand. The majority of the authors included in this stream list the following: tangible and intangible (e.g., design) quality,<sup>20</sup> craftsmanship<sup>21</sup> and innovation in terms of creative and unique products.<sup>22</sup>

Despite the fact that many of the dimensions of luxury branding are identified in the literature, it is unclear whether and how these dimensions are connected.

## **THE TRADITIONAL LUXURY CONCEPT**

The luxury concept is the starting point to understand behavior in a specific cultural context. The first aspect is related to the activity sector.

The luxury market is usually considered to encompass four main activity sectors<sup>23</sup>: perfumes and cosmetics (38%), leather goods and accessories (16%), jewellery and watches (16%) and fashion (14%). However, luxury spans a much wider range of products and services, including *arts de la table*, furniture and decoration, gastronomy, wine and liquors, hotels, cars and art objects. In the 1990s, in a study conducted for the *French Comité Colbert*, McKinsey<sup>24</sup> identified 35 luxury sectors. What do these very disparate sectors have in common?

The Latin etymology of the word "luxury" implies difference or distance. Through the purchase of luxury goods, consumers differentiate themselves from the mass and from one another due to the emotional value that the purchase of high-quality and exclusive products conveys.<sup>25</sup>

The etymology of the word also underlies the fact that luxury can only be defined in comparison with a norm or a standard. As a consequence, the notion of luxury is always relative to a specific context in terms of space and time. Each society or culture has its own idea of what luxury is, based on its own principles and values. Luxury encompasses the symbolic dimension of consumption and it has a social meaning. As a consequence, it is influenced by the cultural factors that shape collective representations.<sup>26</sup> So, how is luxury perceived in China?

It is often wrongly assumed that luxury was invented by and is the prerogative of European countries like France and Italy. Surely, the West invented a certain form of luxury which is dominant today due to the success of western luxury brands. But luxury is not new to China.

Long before Europe, China produced luxury items, not only for itself but also for its neighbors and Europe. In the 8th century, a dark and troubled period in Europe, the Tang Dynasty in China saw a period of extreme refinement and luxury. There was also a surge in literary culture, and this period is still considered the golden age of poetry, coupled with that of calligraphy art and painting. During this time, many luxury products flourished and extended well beyond China through trade with Persia, India, and Central and South Asia. Under the Tang Dynasty, clothing was also very important as a status symbol within the elite and vis-à-vis the rest of the society. Five centuries later in the 13th century, Marco Polo would describe in *Livre des Merveilles* his “discovery” of Chinese refinement and some of its inventions. Porcelain, silk, jade, furniture are only the most famous of these products that were prized by wealthy and refined Europeans, from Roman patricians to French kings.<sup>27</sup>

Historical Chinese luxury goods were based on traditional, prestigious crafts made by using ancestral techniques transmitted from generation to generation. China had a number of historical luxury firms dating back to the Empire. Most of them were created in historical cities with a rich cultural heritage like Beijing, Shanghai, Yangzhou and Guangzhou. Because luxury firms serviced the imperial palace, the aristocracy and high public servants, many of these firms were concentrated in Beijing. Shanghai, by contrast, is a relatively young city but its economic role in the 20<sup>th</sup> century turned it into the centre of glamour.

Chinese history during the 20<sup>th</sup> century put a brake on the country’s economic development. In those 100 years, the country saw the end of the Empire and semi-colonization, the beginnings of modern capitalism, the communist era and its planned economy, the reintroduction of the market economy and, finally, dazzling economic growth. So many upheavals in such a short period of time have left their mark on the Chinese luxury economy and culture. The development of Chinese capitalism is recent. Even if modern capitalism can trace its roots as far back as the late 19<sup>th</sup> century, it was not until the end of the communist era that a phase of continuous development began in China.

The communist government of the 1950s promoted the establishment of an egalitarian, classless society, which translated into the reduction of consumption and the elimination of the elite class through the rationalization of the economy and the nationalization of the affluent class’ goods. Luxury was disapproved of because it was considered extravagant, exclusive and arrogant.

Moreover, the cultural revolution of the 1960s left the economy in shambles and most of its population starving. As a consequence, and despite the existence of a class of high public servants who lived comfortably, the economic setting and the ideology of the power in place left little space for the development of a consumer market for luxury goods.

The government took control of the country's resources and allocated them based on its priorities. Of course, luxury was not one of them.

As a result of these disruptions, the historical Chinese craft firms and brands dating back to the Empire were incapable of developing commercially. Some of these have managed to survive until today, but they can no longer be considered luxury brands. Despite their recognized name, know-how and the traditional values they convey, they occupy a rather average position in the market.

The Chinese are now fully aware of the commercial potential of these historical brands that have travelled through time and history, and they are providing the financial and political resources to support them, especially local governments. The "Chinese time-honored brands" label (*lao zi hao*) was created in 2006 to legally protect traditional and valuable Chinese brands. To be labeled "time-honored", a brand needs to meet the following criteria: it was founded prior to 1956, its know-how has been transmitted from generation to generation, and it has a rich cultural heritage, high quality products and significant notoriety in its field of activity. Even if these brands are not considered luxury products, this label is a sign that historical Chinese firms are being promoted with a view to preserving and developing them. 434 brands received the distinctive label with its creation in 2006.

Despite these efforts, however, few of these traditional firms have the potential to become aspirational luxury brands. No matter how hard they try to rebuild the image of luxury, few have the potential to become luxury brands over the mid-term. They are more popular than premium, and it is difficult to build an image of luxury from an already deteriorated base.

## **THE MODERN LUXURY CONCEPT**

As we have seen in the literature, luxury cannot be defined in absolute terms. However, we can approach a certain idea of modern luxury by looking at the characteristics that are commonly attached to recognized luxury brands. Some of these traits are shared with

mass market brands while none of them alone is enough to make a product a luxury good.<sup>28</sup> However, a combination of several characteristics is always found in major luxury brands.<sup>29</sup>

a) SCARCITY

In today's fast-changing society, the concept of "abundance" is more and more ephemeral. The luxury products consumed by the elite soon stop to being considered such. This has happened with cell phones, a luxury that only a few privileged people could afford before it became popular and turned into a necessity for almost all. For this reason, the concepts that best define luxury nowadays are scarcity, uniqueness and exclusivity. Exclusivity is conveyed, among other things, by selective distribution channels.

b) QUALITY AND PRICE

A high price automatically blocks access to luxury products, generating exclusivity. In the consumer's mind, the price is justified and reflects the product's superior quality: high quality of the materials used, technical excellence and the time spent by skilled workers on its fabrication, investment in communication and flawless service. All of these elements contribute to the feeling of exclusivity, uniqueness and distinction that the consumer gets from purchasing a luxury object.

c) DREAM AND IMAGERY

Being exclusive, expensive and flawless will never push a product into the luxury category if it doesn't have an appealing imagery. This trait is what structures the imagination and makes it possible for a brand to have resonance with the collective unconscious. The luxury product is aspirational, it is an object of dreams and desired through the values and symbols it conveys. Some of this aspiration is created by the intrinsic product qualities; some of it is derived from the fame and collective aspiration for it. This is why visibility is important: the luxury good must provide some kind of prestige to its owner.

A brand's imagery and identity is often sustained by the prestige and personality of the founder, elevated to the rank of legend. The brand Chanel, for instance, still relies on the haunting figure of its founder, Coco Chanel. Sometimes, it is the prestige of famous and glamorous past customers that is transferred to the brand. Chaumet, for instance, used to make jewellery for Napoleon and his wife Josephine.



#### d) LONG HISTORY

The most successful and renowned luxury brands have a long history behind them. Major luxury brands all date back to before 1950. The ones linked with high craftsmanship skills (jewelry and watches) all appeared in the 19<sup>th</sup> century and the fashion brands in the early 20<sup>th</sup> century. Even if some younger brands have managed to make their way into the luxury universe (e.g., Armani, Versace, and Lacroix), generally, there is a correlation between a brands' prestige and its history. A long history transports the consumer back to a mysterious, fascinating period in the past. It also creates a sense of timelessness and immortality.

#### e) CREATION AND INNOVATION

Some professionals feel that luxury is about constantly creating and innovating. This is especially true in fashion where innovation is vital. One of the consequences is that luxury brands often create new trends, defining what is fashionable and setting the codes of the moment.

A luxury brand's competitive advantage is based on the continuity of the resources and skills it has built up over time. Faced with imitators, an established luxury brand benefits from four main assets<sup>30</sup>: (1) its brand capital, built up over time; (2) a critical mass resulting from the scope of its activities (range of products, stores, worldwide implantation, etc.); (3) strong consistency between its products, stores, brand image and history; and (4) tacit knowledge resulting from a long, collective learning process. In a nutshell, it is the company's historically unique culture, one that is rare and inimitable, which is valued by luxury clients.

### **THE CHINESE LUXURY MARKET**

The Chinese luxury market shows the typical characteristics of an immature market. These are analyzed in this part of the paper.

#### a) EMERGENCE OF A CUSTOMER BASE FOR LUXURY GOODS IN CHINA

For political purposes, the Chinese Communist Party tried to separate China from its history, denouncing the past and traditions as evil. This movement reached a peak with the Cultural Revolution (1966-1976) when literary works were burnt, art objects destroyed,

individual identity scorned and cultural values denounced. Everything related to the *art de vivre*, the search for beauty and pleasure, and the expression of individuality was considered a malefic value stemming from feudal China and occidental capitalism. During this dark period, all the roots of Chinese luxury were destroyed. The elite class was also decimated, there was no group of reference, and the majority of the population lost every notion of the *art de vivre* spirit and luxury consumption.

It is only in the late 1970s that the government began implementing a series of political and economic reforms that eventually served as the basis for mainland China's rapid economic growth starting in the 1990s.<sup>31</sup> China started prioritizing raising its citizens' personal income, bringing back the concepts of consumption and individualism. In the meantime, China was amazed by the speed and scope of the emergent new affluent class that was capable of affording luxury goods. Like many developing countries, China has witnessed a rapid growth in consumption in recent years, as more people embrace the lifestyles and buying habits common to the world's wealthier nations.<sup>32</sup> The country's "consumer class" totals some 250 million people. Top-brand consumers account for about 13% of the population, or 169 million people, according to Yang Qingshan, Secretary-General of the China Brand Strategy Association. For China's *nouveau riche*, consumption is shifting from a struggle to meet basic needs to an "Enjoy Now" phase where higher-end purchases are no longer out of reach. Young urban professionals are increasingly willing to pay for luxury items. Driving this trend are a rapid rise in disposable incomes, an acceptance of new lifestyles, and a growing ability to buy products using credit.

The boom has proved more glorious for some than others. China's once egalitarian society has developed a wealth gap that is among the widest in the world. By most estimates, the richest 20% of China's population controls more than 80% of the country's wealth. Rupert Hoogewerf,<sup>33</sup> who tracks the net worth of China's richest individuals for AsiaMoney, estimates that as many as 50,000 Chinese have accumulated fortunes of more than \$10 million, while as many as 200 have amassed \$100 million or more. At a World Bank conference in Shanghai this year, President Hu Jintao boasted that China has reduced the number of people living in absolute poverty to 30 million from 200 million two decades ago. But many poor Chinese hover just above this threshold. The World Bank estimates that more than 400 million live on less than \$2 a day.

Only a very small proportion of the Chinese population can occasionally or frequently access luxury products.<sup>34</sup> Industry experts estimate that for now only approximately 1% of China's 13 billion population earns enough to consider purchasing high-end luxury-brand products.<sup>35</sup> Despite similar consumption motives revolving around social recognition, the attitude varies along the scale of revenues.<sup>36</sup> The upper middle class, made up of white collar workers (*Bailing jiceng*), purchases luxury items occasionally, but their thirst for status and aspirational consumption give them the potential to become frequent consumers. The Chinese elite (*Fu Hao Ren* or *Quizu jiceng*) consisting of 320,000 people earning more than \$1 million<sup>37</sup> is very receptive to brands and is what can be qualified "mature" in terms of its luxury consumption. Members of this last segment travel a lot and have a shortlist of already well-positioned brands in their mind for each product category.

#### b) OSTENTATION

Luxury is opposed to functionality. In terms of usage value, the consumption of luxury products is perfectly superfluous. Luxury goods and services, however, can provide two types of satisfaction. The first form can be called "social luxury": it is a social and collective pleasure, one that is motivated by social differentiation and ostentation and only gains validity under the scrutiny of others. The main purpose is to communicate one's social position to the others. "Individual luxury", on the contrary, is an egocentric, intimate, self-indulgent experience linked to the aspiration of refinement and satisfying one's tastes. The aim is to enjoy the special quality of a product for oneself rather than to show it off. Both forms of consumption are interrelated but their relative importance in social representations can vary sensibly from one culture to another. In particular, "mature" luxury consumers tend to focus on the individual dimension of luxury while "emerging" luxury markets are characterized by the predominance of social aspects.<sup>38</sup>

As a young luxury market, China is characterized by the predominance of "social luxury". The Chinese have always had a tremendous appetite for status, ritual and luxury. After decades of socialism and poverty, they are suddenly keen to show off their newfound wealth.

The strength of luxury products is that they add an intangible excellence to their tangible qualities, enabling them to express social status and financial success, much in the way described by Thorstein Veblen as "conspicuous consumption". Formulated in 1899 in *The Theory of the Leisure Class*, this concept is defined as lavish spending on goods and services acquired mainly for the purpose of displaying income or wealth. In the mind of a conspicuous

consumer, such display serves as a means to attain and/or maintain social status. Veblen used the term to depict the behavioral characteristic of the *nouveaux riche*, a class emerging in the 19<sup>th</sup> century as a result of the accumulation of wealth during the Second Industrial Revolution. The concept of "conspicuous consumption" has seldom found better ambassadors than the "new affluent" Chinese.

Indeed, China's enrichment translates into the fast development of conspicuous consumption which is crystallized in luxury goods because people want to show what they have achieved. This shows how far the country has moved from the socialist ideals of Mao Zedong since the early 1990s after Deng Xiaoping uttered the phrase that quickly became the credo of the new China: "To get rich is glorious".<sup>39</sup> In this type of social luxury, the point of owning a valuable object is to have others recognize, appreciate and admire it. Exhibiting the luxury product is a form of communication with others, showing one's social status and the position one occupies in society. It is important to signal the possession of the new values coming from abroad through the display of distinctive signs. As a consequence, luxury products need to be very famous, recognizable and expensive.

#### c) THE IMPORTANCE OF THE GROUP

The propensity of the human being for ostentation depends on various factors, including the degree of legitimacy of wealth and the standards of social recognition and valorization. Whereas in the West, the ostentatious motivation is partly individual, underlining the person's certain singularity within a given social class, in China, ostentatious consumption is deprived of any individualization as it aims exclusively to symbolize an identifiable and potentially desirable position in the social hierarchy. The culture of ostentation is embedded in China, emphasizing the importance of the group over the individual. Conformity is neither bad nor a given constraint but a structuring and reassuring element in the consumption process. Indeed, Confucianism promotes the values of family, interdependence, and conformity between others. All of this has great implications for the consumption of luxury items. The individual exists only in relation with the group it belongs to and he/she has to comply with the group's rules and codes. Status and relationships between individuals and between groups are marked by hierarchy. The "face", synonymous with reputation, plays a central role through the concept of *manzi*, "the reputation one acquires by going through life with success and

ostentation." Chinese people always consult the opinion of the group, seeking approval. The concepts of "privacy" and "individualism" are rather new to Chinese society.

All this serves to illustrate the importance of acquiring famous brands and displaying visible logos and other features that make the product recognizable to all. Most moneyed people consider luxury products a token of fashion and they set off in search of the latest collections or products, without showing much consideration for the added value behind the luxury products when they pay for them. This explains their preference for foreign brands and heavily branded objects.

#### d) MISUNDERSTANDING THE LUXURY CONCEPT

The utilitarian motivation of luxury consumption is just one symptom of a broader misunderstanding of the luxury concept. For the historical reasons mentioned above, younger Chinese consumers have not been educated through a direct transmission of the traditional *art de vivre*. In the absence of historical milestones and points of reference, the new affluent middle class fulfils its quest for identity and recognition through western codes and values of which they have little understanding.

For now, the luxury goods market is dominated by brands coming from countries whose cultures are unfamiliar to the Chinese. Western luxury brands started flooding the Chinese market in the early 1990s, introducing the Chinese population to the western way of life. Before the democratization of modern communications media and the wave of Chinese students' diasporas, the Chinese had very little knowledge and understanding of foreign cultures. Moreover, in the 1990s, luxury consumers were found mainly among the newly affluent, who initially had a low level of education. In medium and smaller cities for instance, the spontaneous notoriety of major luxury brands is still very low.

#### e) STRONG PREFERENCE FOR FOREIGN BRANDS

Chinese consumers used to resent the bad quality of most national products. To secure their purchases, they used to make their decisions based on advertising and commercial brands which translated into a preference for foreign brands. The preference for foreign brands is especially strong for luxury goods. A recent study conducted by VisaCard Worldwide

based on a survey of 1,800 respondents with an annual income exceeding \$16,000 in Beijing, Shanghai and Guangzhou identified the top brands of affluent consumers in key spending categories, such as automobiles, wine, consumer electronics and fashion. The top 10 auto brands were all foreign, with German brands, BMW, Volkswagen and Mercedes Benz, at the top. The only Chinese brands that managed to make their way into the top category within Chinese consumers' minds belong to the categories of white alcohol and tobacco, but they are renowned only in China and are linked to local customs.

As we have seen before, for historical reasons, the generation of young affluent Chinese were separated from their traditional culture and deprived of national references for *art de vivre* and consumption. As a result, they have turned to the West to find codes and models, despising what is left of the Chinese luxury tradition. For many Chinese shoppers, foreign brands that are well-known are still regarded as superior and a status symbol. Acquiring products from somewhere else is the whole point. "I want luxury fashions we don't have here, things you can get only if you have some kind of overseas connection," says 26-year-old Shenyang ad agent and part-time model, Wang Siman. Wearing international brands is a way to demonstrate their good taste and open-mindedness. To succeed in China, foreign luxury products need to be heavily branded.

High-end designers have learned that it pays to play up their foreign origins. When Armani opened his Beijing store in 2001, the designer ordered a large red-lacquer door to be installed, a nod to traditional Chinese architectural motifs. But Chinese patrons hated it, and the door was later replaced. To attract Chinese consumers, the brands need to be recognized and famous and be able to capitalize on their foreign origin.<sup>40</sup>

#### **WHAT CONSUMERS WANT: SOME OUTPUTS FROM PRIMARY SOURCES**

The aim of the first stage of this research is to analyze the Chinese perception of luxury. In order to achieve this objective we asked 140 people divided into 28 groups to associate 3 words to luxury using a written questionnaire (Question 1: Try to agree with which three words you would identify with luxury). The results are summarized in Table 1.

**Table 1:**

Words you identify with luxury	
Social Class / Status / Prestige / High class / Lifestyle	23
Expensive / High price	20
Famous / Fortune / Success / Noble / Symbol / Image /Wealth	8
Exclusive / Unique / Prestigious / Rare / Value / Ever-lasting	8
High Quality	7
Rare user /Minority/Elite / Niche /High-end market	6
Taste	4
Style / Elegant / Beauty / Vanity	4
Low volume / Scarcity / Limited supply	3
Self-actualization	1
	84

In the second part, the aim was to list the most popular luxury brands in China. To fulfill this objective, we asked to the same groups to identify between 10 and 20 luxury brands using a questionnaire. (Question 2: Try to identify the most important luxury brands in your market. No less than 10 and no more than 20).

Results are classified in 4 categories: cars, fashion designers, watches and others. Brands by category are ranked in Table 2 in alphabetic order.

Table 2: Luxury brands by category			
Cars	Fashion designers	Watches	Others
Aston Martin	Armani	Bulgari	Bimba
Bentley	Bally	Cartier	Club Med
BMW	Bulgari	Chopard	Dubai

Bugatti	Burberry	IWC	Dunhill
Cadillac	Chanel	Lotus	Four Season
Ferrari	Chloé	Omega	Grand Hyatt
Hammer	Christian Dior	Patek Philippe	Harley
Jaguar	Coach	Piaget	Hilton
Lamborghini	Dior	Rolex	La Mer
Maserati	Dolce & Gabbana		Lancome
Mercedes Benz	Fendi		MaoTai
Porsche	Giorgio Armani		Moet Hennesy
Rolls Royce	Gucci		Mont Blanc
	Hermes		Panda
	Hermes		Park Hyatt
	Jimmy Choo		Peninsula
	Loewe		Remy Martin
	LV - Luis Vuitton		Ritz Carlston
	Max Mara		Sisley
	Prada		Tiffany
	Ralph Lauren		Vertu
	Salvatore Ferragamo		
	Tod's		
	Versace		
	YSL		
	Zegna		

Taking into account the number of citations in the four categories, in the following table we show 10 selected brands. These brands will be used in the third stage of this research to analyze the Chinese consumers' attitudes towards the luxury brands.

<b>Table 3: SELECTED BRANDS</b>
<b>Rolex</b>
<b>Chanel</b>
<b>Prada</b>
<b>Mont Blanc</b>
<b>LV - Luis Vuitton</b>
<b>RR - Rolls Royce</b>
<b>CR - Dior - Christian Dior</b>
<b>Mercedes Benz - Benz</b>
<b>Omega</b>
<b>Dunhill</b>



Two different perceptions live side by side in the mind of Chinese consumers: on the one hand, Chinese people have historically regarded the foreigner as someone that cannot be expected to behave appropriately; on the other hand, there is a great fascination for what the western world represents, translating into an interest in dialoguing with us, our brands and our lifestyle, though without renouncing at all their strong and powerful identity. Throughout history, China has had a conflictual and rival relationship with the West. Contrary to the Japanese, Chinese consumers are attracted to western brands not because they are fascinated by the West but because these brands currently represent modernity and success.

Regarding luxury brands, symbolic and emotional aspects play a major role in their purchase decisions. The frenzy for occidental brands might be a superficial and temporary caprice of a generation, and this context may change extremely rapidly especially given the political unknowns. As China gets the feeling of its huge power, the temptation will grow to reassert its values instead of borrowing those of others. National pride runs deep in China and pride in the nation's accomplishments has resulted in many consumers preferring local brands, all other things being equal, for motives of national identity.<sup>41</sup> Indeed, realizing that national products are comparable to foreign ones, Chinese consumers are willing to choose the local alternative. When national luxury brands emerge, Chinese consumers are likely to turn to them, causing a challenge for western brands playing on their respective countries' image. Foreign brands will then be able to sustain their position only if they offer a significantly higher value than Chinese brands.

There are signs that consumers are reaching maturity: they have learnt to give more importance to the value and functionality of the product rather than to its brand image. Attitudes towards domestic brands have changed as state-owned companies have been privatized and better quality products are now being produced. Brands like Borne, Li Ning and Hong guo are very popular locally. Hong Kong brands like Giordano are also popular though their market share has decreased recently. According to the VisaCard Worldwide study mentioned above, while international foreign brands are preferred for watches, fashion, sportswear and sports footwear, Hong Kong brand Chow Tai Fook emerges in top place for jewelry, well ahead of the second-placed Cartier. Air China is the dominant brand when it comes to both domestic and international travel. Among electronics brands, Sony ranks first for cameras, Nokia for mobile phones and Haier for household appliances. In wine, 80.7% of

the respondents prefer French wine, with Chinese brands third after Italian wine and ahead of Spanish, Australian and German wines. Among Chinese liquor brands, Wuliangye is the top, closely followed by MaoTai.

Vivienne Tam, a Hong Kong-born designer now based in New York, said local staff howled when she insisted on stocking her new Shanghai boutique with items featuring the same Asian design elements she uses outside China and keeping labels identifying her clothing as "Made in China." But Tam has held her ground. She says she looks forward to the day when "Chinese people have enough self-confidence to support their own luxury brands and stop buying stuff just because it comes from somewhere else."<sup>42</sup>

### **TRENDS IN THE LUXURY MARKET: INCREASING MARKET HETEROGENEITY**

China is only in the infancy of its luxury consumption. The future enlargement of the potential luxury market is going to cause major changes. Economic growth will multiply the number of new wealthy individuals throughout the country, driving luxury good consumption quantitatively and changing it qualitatively. The perception of luxury in China is already quickly evolving, becoming richer and more complex. Chinese consumers' attitudes toward brands have changed dramatically in just a few years. Four years ago, a survey found that "flaunting your status" was the number-one priority in choosing a brand. This year, the number-one priority was design.

Morgan Stanley analyst Claire Kent, noting that luxury-brand purchases tend to rise steeply after average incomes reach \$2,500, predicts that China could eventually have as many as 100 million luxury consumers and rival Japan as the most lucrative luxury market in the world.<sup>43</sup> China is rapidly developing but its huge territory and population can only result in great heterogeneity within the luxury sector as some segments move to the higher end and become more sophisticated in big cities while others are barely starting to mature in second-tier cities and to emerge in third-tier cities. Attitudes towards luxury products vary widely depending on the various social and geographical segments that make up the Chinese market. We can thus identify three segmentation variables.

#### a) SOCIAL SEGMENTATION

We are witnessing the apparition of a more individualistic and less ostentatious Chinese *bourgeoisie* which is aligning itself with its international counterparts. The explanation lies in a growing number of white collar professionals with increasing revenues. They are well-educated and employed in well-paid professions. They live and work in urban areas. Another group is the *nouveaux riche* that have been praised up to now.<sup>44</sup> The soaring Chinese economy has created a group of newly rich people who have accumulated enormous amounts of wealth in just a couple of decades.

#### b) GENERATIONAL SEGMENTATION

There is a gap between extravagant, individualistic and hedonistic young adults with high revenues and the older generations.<sup>45</sup> The dividing line was drawn with the implementation of the “Only Child” policy, which accounts for the emergence of a new market of 18-30 year-old consumers. Most of these young consumers have higher educations in finance or communications, enabling them to quickly earn a lot of money in opposition to the traditional scheme of incomes increasing with age.

#### c) GEOGRAPHICAL SEGMENTATION

China's affluent population is urban and mostly concentrated along the southern Pearl River Delta, in eastern seaports, and in the Yangtze River Delta. In Beijing and Shanghai, luxury is increasingly associated to culture, art and education. Beijing's affluent class is receptive to the esthetic dimension of luxury products: it is no longer about showing off one's social position but rather one's culture and tastes. This trend is even more visible in Shanghai, where luxury is easily associated to the notions of creativity and modernity, making this city the most mature capital of luxury in China. Hong Kong, open to international influences and with lower taxes, is the favorite destination for shopping and gives a hint of the future of Chinese luxury consumption. Second-tier cities like Chengdu are less mature: they suffer from a lack of information, and luxury is still synonymous with ostentation. In smaller cities, there is no culture of luxury, and consumers can barely name any luxury brand.<sup>46</sup>

### **SOME CONCLUSIONS AND MANAGERIAL IMPLICATIONS**

China's luxury market is expanding quickly, and both local and smaller global brands are entering the market in different categories, from liquors to boutique watchmakers. This

increase in the consumption of luxury goods is matched by their spread across the nation. Second-tier cities such as Shenyang and Chengdu are becoming luxury shopping hubs for their regions. The first implication for companies is the complexity of this market, consisting simultaneously of an immature market and a mature market. In fact, attitudes towards luxury products vary widely depending on the various social and geographical segments that make up the Chinese market.

The age of buyers is also changing. The traditional Chinese luxury shopper is a middle-aged individual who occupies a top management position, famous people and public figures. But luxury shoppers are also educated, young, white-collar workers who save to splurge. The implication for companies is that they need to take into consideration this new consumer profile mix and match their luxury purchases, buying European products and local products, too. This is extremely important for companies because many official sources indicate that middle-class consumers will become the main force behind luxury goods consumption in the future.

In conclusion, the expansion of the luxury sector, encompassing more and more diverse realities, will require luxury brands to adapt to and account for the cultural specificities of more and more diverse clients, clients who can't be approached with a single strategy. This evolution creates new challenges for luxury brands. Chinese brands might be better positioned than foreign ones to capture the subtleties of these diverse client segments. Luxury companies are more interested in young people, *yuppies* and *hipsters*. For this young segment, companies are introducing more niche brands for consumers called "sophisticated urbanites" and more up-to-date offerings for people in and around second-tier cities.

### **Limitations and next steps in this research**

This study has some limitations. The first is that it is developmental. The first two stages represent an exploratory study used to identify the topic which is the focus of the next step. The next objective will be to specifically study the new market of 18-30 year-old consumers, with higher education in finance or communications, enabling them to quickly earn a lot of money in opposition to the traditional scheme of incomes increasing with age. In this new stage of the research, we will use the luxury brands identified (the 10 selected luxury brands shown in Table 3) as a starting point in order to obtain a ranking based on individual

questionnaires of 210 people (with the same profile as the interviewees in the previous sample) and thus get an in-depth knowledge about consumer attitudes towards luxury brands in China.

A second limitation refers to the sample: it over-relies on student samples and lacks appropriate external control. We will take these factors into consideration in the next phase of the research.

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