

Luxury Goods Marketing in Emerging Countries: An In-depth Analysis of Chinese Luxury Buyers

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Abstract

Changing economic epicenter from the west towards the east is accompanying the luxury goods markets and the Chinese market is becoming impossible to overlook for the luxury goods brands. This study tries to focus on the distinctiveness of Chinese consumers and how to target them effectively. Based on systematic literature review, content analysis of academic and professional publications and partial empirical data, luxury marketers need to include Chinese social, economic and cultural factors while formulating marketing strategy in this rising market.

Keywords: Luxury brands, emerging market, luxury marketing, luxury strategies

1. Introduction

Luxury goods purchasers are different from the buyers of usual consumer products. In consequence, taste, motivations and factors of luxury goods purchasing process differs from the buying process of usual consumer products. Role of luxury goods in French export basket is important. The reputation of French luxury products is undisputed in international market and the demand of these products is ever increasing specially in the advanced emerging markets such as Brazil, Russian, India and China (BRIC). According to Boston Consulting Group (BCG) (2009), China will be the biggest market for luxury products in 2015. Latest data of post-economic-financial crises of 2008-2010 shows that China's share in luxury goods consumption rose to 27% (Deloitte, 2009, Accenture, 2009) and trailing just behind the largest market, Japan. Together, Asian countries are becoming the destination for 60% (Chevalier and Lu, 2010), of world luxurious products. On the background of this scenario, it's very important for luxury goods producers to know and understand the buying behaviors of Asian luxury goods consumers specially the affluent Chinese, new consumers of luxury goods. Rapid economic growth, public policy and cultural factors have made Chinese affluent customers different from their peers in the most developed markets in the West as well as in the east (i.e Japan). Despite the ever increasing opportunity of marketing luxury goods in China, academic research on Chinese affluent consumers buying process is rare or inexistent. This paper is trying to fill this gap and will propose an effective business model for prospective as well as existant luxury goods exporter to China. Though the empirical study for this paper is on going and yet to receive all the data, this paper is basically developed theoretically based on content analysis of previous academic as well as professional literatures.

2. Literature Review

Luxury products have often been associated with the core competence of creativity, exclusivity, craftsmanship, precision, high quality, innovation and premium pricing destined for high-end consumers of the upper echelons of the society. The attributes of the luxury products give the buyers the satisfaction of not only possessing expensive items but the extra-added psychological benefits like esteem, prestige and a sense of a high status that reminds them and others that they belong to an exclusive group of only selected few, who can afford these pricy items. The concept of luxury is complex, as it is subjective and primarily built on consumer perceptions, as the meaning of luxury is determined by personal and interpersonal motives (Vigneron & Johnson 2004).

The word “luxury” came from the Latin words “luxus” and “luxuria” (Roux and Floch 1996). According to dictionaries, luxury compares with extravagance, opulence (UBC Sunsite n.d.), and rankness (University of Notre Dame). The word luxury should have a positive value of splendor to it. However, it takes on the negative meaning of decadence when used in association with “private” and “excess”, and put into a social context (Roux and Floch 1996). Luxury is to be seen as a “manière de vivre” (a way of life). It is about pleasure, refinement, perfection and rarity, as well as appreciation, but not necessarily price (Roux and Floch, 1996). Luxury is commonly defined through very limited supply and recognition of value by other people. Dubois, Laurent and Czellar (2001) proposed a definition of the nature and characteristics of the concept of luxury, and identified six facets: 1) Excellent quality; 2) Very high price; 3) Scarcity and uniqueness; 4) Aesthetics and poly-sensuality; 5) Ancestral heritage and personal history, and 6) Superfluosity.

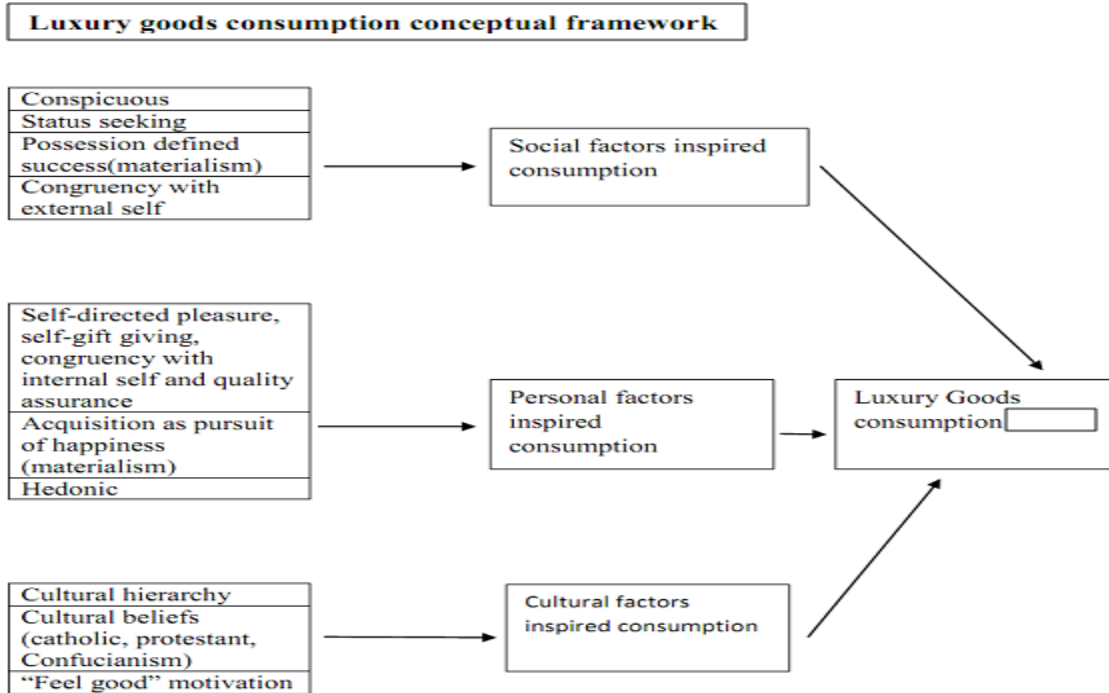
Authors like Bourne (1957) defined luxury goods as exclusive products not commonly owned or used, which are more conspicuous than necessity products. Luxury goods are primarily branded goods purchased for psychological needs such as increase of esteem; functional needs seem to only play a secondary role in purchase decisions (Arghavan and Zaichkowsky 2000). Luxury brands can be described as premium priced brands that consumers purchase for their psychological values (symbolic and hedonic), and not predominately for their economical and functional value (Nueno and Quelch 1998). Thus, luxury brands can be characterized as conspicuous, unique, social, emotional, and of high quality (Vigneron and Johnson 1999). Due to different interactions on a personal and social level, consumers will develop different perceptions

of luxury brands. In other words, the definition of luxury brands varies according to combinations of motivations based on values.

The luxury product can be considered as a multi-dimensional object which was studied and analyzed in academic research by economist (/management), sociologist as well as marketing experts. While sociologists and economists have been centered on the explanation and definition of luxury, marketing scholars have mainly focused on consumer perceptions and attitudes towards luxury brands and luxury-brand consumption (Dubois and Paternault, 1995, Kapferer, 1997-98). Roux and Floch, (1996) described luxury as two facets such as “anti-economy vs. poly-sensuality” and Vigneron and Johnson (2004) described it as personal vs. non-personal.

Marketing theories on luxury goods consumption and marketing emphasized on the relationships among luxury, income and culture. The applied marketing literature emphasize on cultural traits as a demand factor that deserve more research on as the markets for luxury goods are spreading from the traditional markets towards the emerging markets with diverse culture (Hofstede,G., 2001 & De Mooij, M., and Hofstede, G., 2002),. However, according to Dubois and Duquesne (1993), the empirical measurement of culture and its impact on luxury goods demand is not easy task. On the other hand, Mohiuddin, M., et al., (2009), found that with the appropriate cultural diversity management, firms can enhance their marketing effectiveness to the culturally diverse clients and creates competitive advantages for the firms. Dubois and Duquesne (1993) in their studies on relationship among luxury, income and culture have found a strong relationship with culture and the combination of income and culture explained almost 78% of the variance in the penetration of luxury goods consumption among those surveyed in their study. They advised to the marketers of luxury goods to explore the values expressed by their brands and products, to analyze their customer’s value systems, and to assess their current brand strategies as to cultural affinities and their evolution.

Theoretical discussions of luxury products from cross-cultural point of view of luxury goods consumers with some empirical data from professional publications of various consulting firms led us to believe the grandiose market opportunities in China and the different mode of luxury buying process of Chinese affluent consumers. Integrating Chinese luxury consumer’s distinctiveness, we propose the following conceptual framework for luxury consumption process in China.



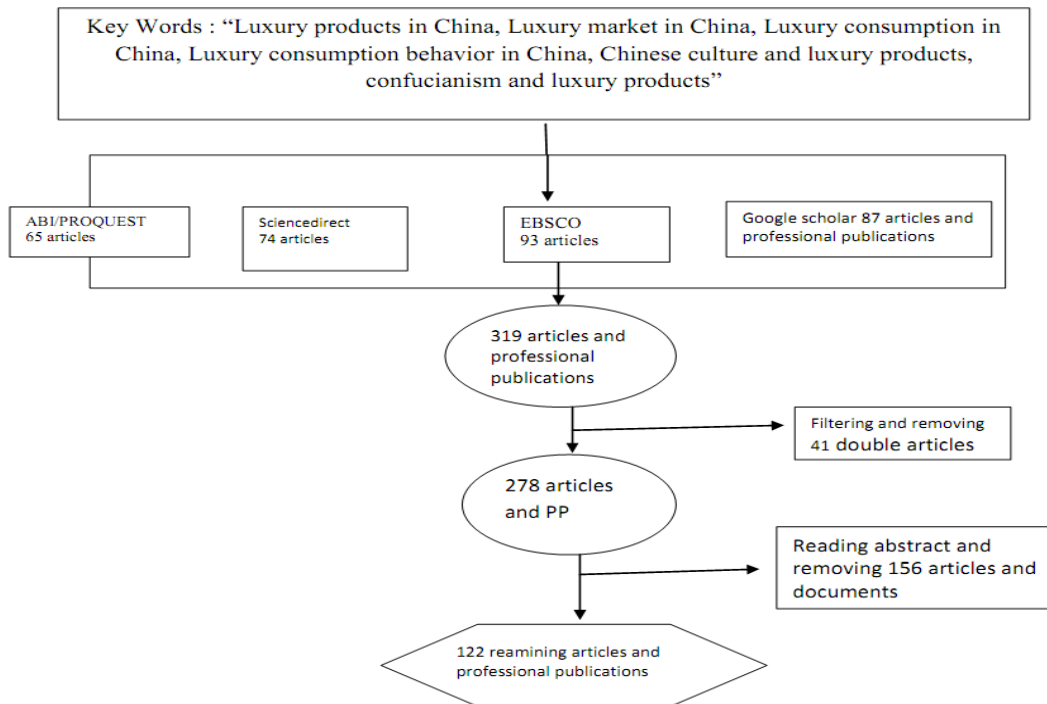
3. Methodology

This exploratory research approach was based on previous published academic and professional literature on luxury goods marketing in the emerging countries including China. From the beginning, it shows that few academic articles were written on “Challenges and Strategies of Luxury goods marketing to China”. This is very understandable as the history of luxury market in China is relatively recent. Though many articles were written on luxury consumption behavior from the matured market’s point of view, few or rare were written on the purchasing behavior of Chinese High-net-worth-individuals (HNWIs) for luxury goods. On this background, during the selection process of previous literature, we have included not only academic publications from academic journals but also the publications from leading consulting firms. There are considerable study of many well reputed consulting firms such as Abrams Research , Accenture, BCG, Deloitte consulting, KPMG, TNS, Global industry Analysts, UBS etc. which have done the study on luxury goods marketing in the emerging countries. The methodology used for this work was based on critical literature review and content analysis of the published academic and professional articles.

First of all, we have developed the research questions based on the topic “Strategies of luxury goods marketing in China”. From this research question, we have developed key words such as “Luxury products in China, Luxury market in China, Luxury consumption in China, Luxury consumption behavior in China, Chinese culture and luxury products, Confucianism and luxury products”. With these key words, we have searched documents in databases like “google scholar, Scencedirect, EBSCO, ABI/proquest” and found many links. We searched till 15th pages of each database and selected the most appropriate articles based on the title. Details steps of selection process are given in the following figure.

- **Article extraction method**

Academic articles and professional publications (management consulting firms) on “Challenges and strategies of luxury goods marketing in China” were extracted from the leading data bases in international business & management.



The extensive literature review enabled us to better understand the topics, research gap and fit in the wider research field of luxury goods firms' strategy in a new market targeting the first time luxury consumers "nouveau riches". This critical literature review is a summary of research that uses explicit methods to perform a thorough literature search and critical appraisal of individual studies to identify the valid and applicable evidence. Through the content analysis of the articles and professional publications, we tried to develop the back ground of luxury products, theoretical aspects of the luxury consumptions, luxury goods markets. From this critical literature review, we tried to make a conceptual framework of luxury products. Based on the content analysis of articles, we have developed few propositions on Chinese luxury goods buying behavior, consumption patterns and distinctive characteristics of Chinese wealthy first time luxury product consumers and the strategies for luxury firms in Chinese market. These propositions are going to be tested with the empirical data which are still being in the collection and analysis stages.

4. PROPOSITIONS

The extensive literature review and partial collection of empirical data allowed us to make following propositions:

Proposition 01: Chinese luxury buyers are the first timers and few have knowledge about the luxury goods image and luxury values. They do look for mix of functional utility with luxury aspirations. Hence, the role of publicity and education of luxury brands in China are very important.

Proposition 02: Rapid economic growth, collectivist society and Confucianism believe made Chinese affluent luxury consumers as mix of east and western tastes and aspirations. Hence, marketers need to include these dimensions in their marketing strategy.

Propositions 03: Chinese luxury consumers are the first generation affluent consumers and rising. Many are not yet in an affluent class as par western standard but they feel themselves as the "nouveaux riches" in Chinese standard. Hence, marketers need to offer the mid-level luxury brands instead of the high-end brands like in the matured market.

5. Strategic Management of Luxury Brands in China

The emergence of China as a major luxury market has attracted many luxury firms to open their shops there and in consequence, it has created fierce competition especially in Shanghai and Beijing. The country's busiest streets, such as Nanjing Road in Shanghai, are witnessing fierce competition among the world's luxury brands. In this competitive environment, luxury firms in China as well as new entrants need to focus on following managerial issues:

- **Targeting the right wealthy consumers**

Luxury consumers are the main focus point for any eventual strategy of targeting luxury consumers and sell to them the luxury products. These wealthy consumers, however, is not the single group which can be influenced by some policies of "One size fit all" doctrine. In order to better understand these potential consumers and formulate appropriately the winning strategy, we need to know them very well. According to the McKinsey global institute (2009), the Chinese consumers can be divided into 6 groups: Luxuriant, Demanding, flashy, urbane, climber, down to earth, Enthusiast. While formulating strategy for one of this group of wealthy consumers, marketers must first decide their target group and formulate appropriate strategy taking into consideration of their particularities. A better understanding of these seven groups can lead to more effective marketing spending. Advertising, for instance, can be targeted at a number of relatively similar segments. Consumers in the Enthusiast and Flashy segments both tend to be willing to pay for the best and enjoy showing off what they buy. Brands are very important for them, logos and marketing generally ought to be bold. They are very attached to their favorite labels and insist on latest products and styles and expect sales people to reflect the brand image in appearance and behavior.

Consumers from Luxuriant and Urbane group are far less interested in showing off. They put more importance on the attributes of a product or service than on the glamour of brands. Firms that serve these clienteles need to offer a strong product line and excellent service. VIP programs and special marketing events for selected customer instead of mass marketing can be more effective. The seven segments mentioned here give guidance on which consumers to target as well as how to

target them in terms of product, price, marketing and media strategy. Most successful marketers need to understand the differences among these segments of potential wealthy consumers and prepare their strategy accordingly.

- **Marketing**

Low level of awareness of luxury brands in China means clients needs to talk to the sales staff and purchasing depends largely on this staff. Well trained sales staffs can play an important role in luxury marketing in China. Luxury brands need to invest in advertising not only to promote their brands but also to inform Chinese consumers about “Luxury” and why they should pay a premium for products offered by luxury brands. Frequent luxury events are needed for reaching to both aspirational and dedicated luxury purchasers.

- **Diffusing strategies**

Successful diffusion strategies in the matured market are brought to China by some luxury brands. One of such strategies is product diffusion lines which are destined for less affluent clients and raise brand recognition among the aspiring young clients. This strategy may not successful for the moment as China is still developing market but as the market becomes more mature and competitive; more luxury brands in China may consider this approach.

- **Local lines**

In a collectivist society such as China, even wealthy consumers are sometimes do have nationalistic and have preference for brands with local flavour. Some luxury brands in China are seeking local relevance, creating products for Chinese market. For example, Louis Vuitton offered a range of Lantern Charm accessories based on the traditional Chinese lantern got warm welcome from the luxury consumers. Other existing or potential luxury firms can use such strategy. Luxury car makers use this policy in China.

- **Local Manufacturing**

Many luxury brands are shifting part of their production value chain to China in order to profit out of Chinese low-cost-high-value innovations. This policy can lower a bit the price of luxury goods destined for first time buyers in China. This can be a good strategy for, at least, those products which are destined for Chinese market. Successful luxury firms like Hermès, Zegna, Coach, Paul Smith, and Armani have adopted this strategy in China.

- **Store formats**

Most of the luxury brands have made the choice of not changing their formats when operating in China as they believed that even minor change will damage their parent company's image and global positioning. In China, this has been working as Chinese luxury consumers are embracing international retail concepts. Luxury brands are operating mega-store formats with large ranges that have been shown to educate new wealthy consumers about a brand and fuel an appetite for spending

- **Rapid expansion**

Most of the world's leading luxury brands are expanding brands in second or third tier of cities. Initially, Luxury brands used to target the Mega-metropolitans but since sometimes they are targetting second or third tier cities and some study shows the eagerness of clients from second tier cities are approaching to the same level of first tier cities. With rapid economic development, expanding to second tier and even third tier cities can escape some firms from fierce competition in the mega-Metropolitans.

- **Using Local partners**

To enter in a huge market like China, firms need huge financial and human resource investments in China. Big luxury firms like Louis Vuitton can afford it as their parent company, LVMH, helped them to establish in China operations. However, for others, getting a local partner can be interesting for their knowledge on local consumer behaviours and other cultural issues.

- **Rigorous Quantitative study on China market**

The emergence of huge market and promising green signals from second and even third tier cities across China attracted to many firms to do there expansion to these cities without any rigorous market research. Quantitative research with data on current demographics and the expected evolution of wealth are needed for better management of expansion decision making process. Study needs to include also the data on competitors, number of customers at each point of sale, retail environment and available partners.

- **Acquiring tools for wining at the point of sale**

As Chinese luxury consumers are not well versed with luxury brands, the role of sales associates is crucial to attract these clients and to close a sale to them. Sales associate needs to have high training so that they can tell what qualities consumers in different segments look for luxury products and should be able to distinguish the brand's features from those of the competitors. Having analysing capacity of customer preferences and purchases and introducing the strategies accordingly are crucial to increase number of loyal customers.

6. Conclusion

Spectacular luxury market development in China has attracted my luxury firms and management consultants from all over the world including from Europe and France. Given the comparative advantages and competitive advantages of France and its luxury firms, this vital sector has lots of opportunities to reap profit out of this new luxury market development in China in an era when the demand and prospect of luxury products markets are diminishing in the traditional matured market. On the other hand, this new market does not always follow the same way of doing business like in matured market. Not only economical differences but also the cultural and heritagical factors play important roles. While in matured market, keeping the rarity and exclusivity are very important, in

emerging market like China is not fit for this type of strategy even though its in luxury sectors. Nouveau riches and aspirational riches in China are buying luxury products sometimes what we called “Trading up” from their perspective and what can be considered in mature market as “trading down”. While mature markets are very inclined towards conspicuous, Clients in emerging countries love a mix of conspicuous and functionality and utilitarian value from their luxury purchases. Marketing professionals from the French luxury sectors need to understand these differences if they want to succeed to this highly promising market. Strategies of location inside China can also play important roles in success or failure of any luxury company. While mega-metropolitans like Beijing and Shanghai have about similar number of HNWI like cities in the west but these mega-cities in China are also crowded already by many luxury firms. There are also sign of domestic luxury brands which are emerging slowly specially in fashion, clothing and jewellery sectors. The HNWI of these cities are highly mobile and they do an important portion of their luxury shopping from abroad. Second or third cities are promising but they lack skilled professionals and other service providers for luxury sectors. Foreign Luxury firms while formulating their strategy for China need to concentrate to all of these particularities of this market. Professionals having experience in China can contribute to the policy and practices for the aspiring luxury firms to enter to Chinese market or for expansion in second or third tier cities. Building long term cooperation’s with local firms and service providers are very important for this market. Introducing programs and policies for brand awareness and luxury taste (i.e. Luxury Knowledge) among the Chinese HNWIs are very important for success in long term in this market. Gaining experiences in luxury products retailing in an emerging market like China will in future be helpful while these luxury brands will enter to new emerging countries in Asia and elsewhere. Though study on Chinese market is gaining momentum, there are some other regional markets such as South-east Asia, India and Gulf cooperation countries can also be interesting destination for French luxury products.

This study was mainly based on previous academic and professional publications and data. The data and the context of these publications are a little bit outdated as the economic scenarios are changing very fast, shifting centre of gravity from West to east. Some of the conclusions or ideas of the publications may not any more valuable for the current and coming future. There is also short coming of empirical data of this study. The quality of this study could be enhanced manifold with the use of questionnaire survey among the Chinese HNWIs, existing luxury firms

in China as well as aspiring firms likely to enter to Chinese market along with the rigorous statistical analysis.

This paper sheds light on distinctive characteristics of Chinese affluent consumers and will help managers of luxury goods exporter to prepare their strategies and adapt the existing theories and application from other luxury markets and customers integrating Chinese rapid economic growth, demographic factors such as little emperor and relatively young age of Chinese affluent consumers as well as cultural factors such as Confucianism believe mixing with modern Chinese market values.

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