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Chair: Economic Development and Business In China

Luxury business in China:

overview and analysis post Covid-19

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Introduction

If we think about the current world panorama, about the nations that immediately come to our mind when talking about economics or commercial power and therefore that play a key role in the global economy, it is difficult to not think of China.

China has an enormous importance in the current world landscape in several areas, such as manufacturing, information technology, electronics, automotive and above all international trade.

China represents the second largest economy in the world after the United States and the growth it has had in the recent era allowed it to develop a huge manufacturing production, able to greatly expand exports and to drive rapid technological development.

Although all this touches and impacts all Chinese companies, from electronics to automotive, from telecommunications to energy, the following research work aims to analyze how the luxury business in China is evolving.

For this reason, after a careful analysis of the current Chinese economic context, both in terms of domestic and foreign policy, and an overview of how the economy is also affected by the digital revolution, the luxury market will be addressed in detail.

The luxury market, which embraces a wide range of sectors including fashion, jewellery, watches, luxury automobiles, cosmetics, hotels, fine dining, yachting and much more, manages to draw a continuous line across the globe.

However, it is important to note that the luxury market can be influenced by economic changes, social trends and consumer tastes and for this reason, after having given a definition and talked about the characteristics that represent it, the aspect of the luxury market will be deepened considering the Chinese market.

If from an investigation run on a Bain and Altgamma report¹ it is clear that Chinese consumers will represent 40% of all consumers in the world of luxury, we will go deeper how the market has grown and changed in the "Middle Kingdom".

However, it is necessary to be aware of how development, growth and the current situation in the luxury market must respond to the consequences coming from the Covid-19 pandemic, which has strongly shaken the entire market.

¹ <https://www.bain.com/about/media-center/press-releases/2022/global-luxury-goods-market-takes-2022-leap-forward-and-remains-poised-for-further-growth-despite-economic-turbulence>.

The research will carefully examine how the consumption of luxury goods has responded to the great emergency that the entire globe has experienced, with a focus on the Chinese market.

It will therefore be evident to see the remarkable growth that the Chinese market has had and we will analyze it.

1. China: overview of economic context

China is the second largest economy in the world after the United States and it represents a key driver in the global economy growth.

It is difficult to think about a sector that is not operating in China and that it's not high-performing, especially due to its large-scale manufacturing, the strong export ability and due to the rapid technological development.

Chinese companies have a significant presence in various industries, such as electronics, automotive, energy and telecommunications; and what about the luxury industry?

We have always known the strong link between Chinese consumers and luxury goods and it requires a specific focus in order to understand how much China weights in the world luxury market².

Is China really important for this segment? How much?

By quickly analyzing the economic context in which China has the possibility of operating, it is good to underline the importance of international trade, where it plays a key role.

The low production costs of manufacturing products are having a significant impact on global markets, strongly increasing exports of these products.

Furthermore, the "Belt and Road Initiative" has proved to be an important strategy for the consequent increase in Chinese abroad investments³, aimed at creating a network of commercial connections and influencing the global economy.

² <https://it.fashionnetwork.com/news/Lusso-la-cina-rappresentera-oltre-il-60-del-mercato-mondiale-a-breve-termini,1266645.html>

³ <https://www.worldscientific.com/doi/pdf/10.1142/S2377740018500240>
The Belt and Road Initiative China's New Geopolitical Strategy? Zhang Zhexin

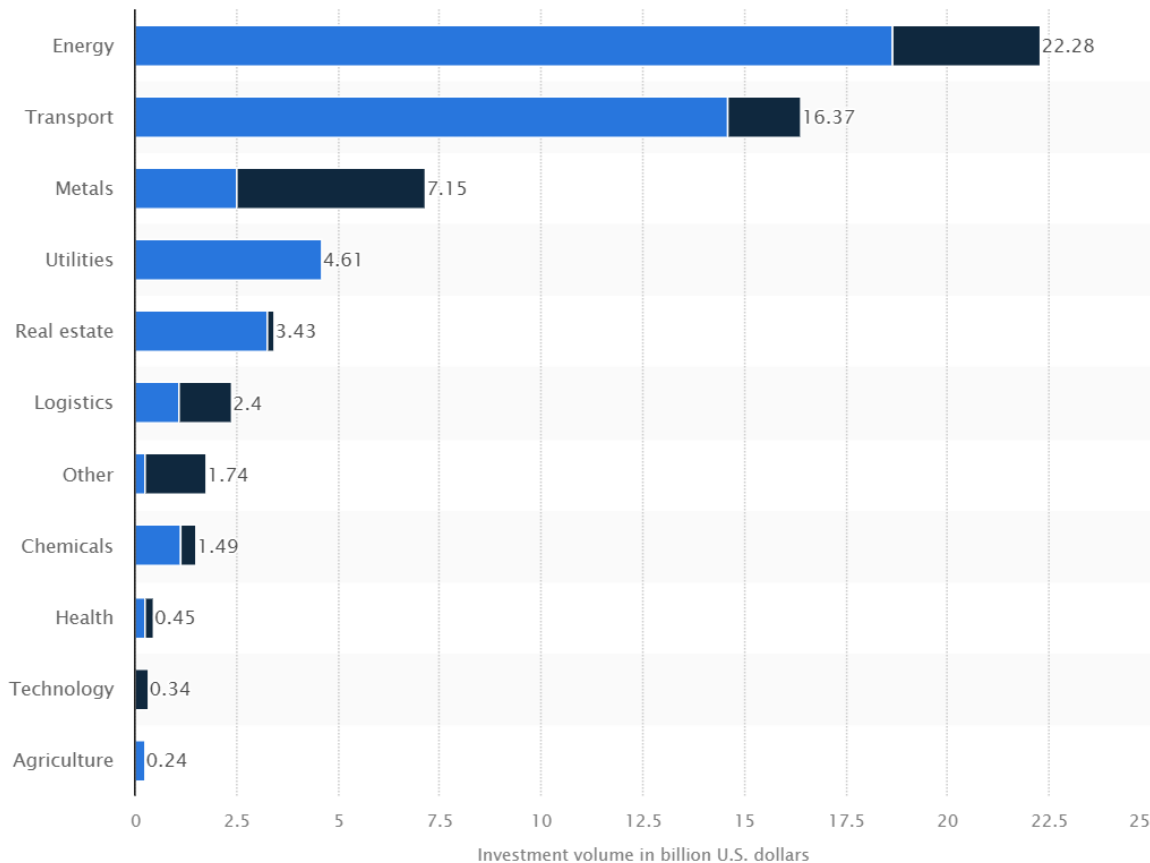


Figure 1. Volume of Chinese investments in countries of the Belt and Road Initiative (BRI) in 2021, by sector

Inserire qui titolo e fonte della figura

China also plays an active role in global politics, where it participates in international organizations such as the United Nations and the World Trade Organization⁴.

The government's goal is to assume the role of world leader in high-tech sectors, also leveraging on "Made in China 2025" initiative, the industrial plan with which Beijing sets to become self-sufficient in high technology⁵.

It is an industrial plan that aims at transforming the country into a "manufacturing superpower". This industrial policy will challenge the economic supremacy of today's leading economies and international companies.

⁴ THE BELT AND ROAD INITIATIVE: INSIGHTS FROM CHINA'S BACKYARD by Terry Mobley, FS-01, Foreign Service, U.S. Department of State A Research Report Submitted to the Faculty In Partial Fulfillment of the Graduation Requirements Advisor: Dr. Dawn Murphy 27 February 2019

⁵ CHINA MANUFACTURING 2025; Putting Industrial Policy Ahead of Market Forces

The strategy targets virtually all high-tech industries that strongly contribute to economic growth in advanced economies: automotive, aviation, machinery, robotics, high-tech marine and railway equipment, energy-efficient vehicles, medical devices and information technology.

Smart manufacturing will be of crucial importance, for this reason it will be promoted and disseminated as the main strategy, drawing on the German concept of Industry 4.0 and the Industrial Internet formulated in the United States.

Through vigorous modernization of the mostly backward industrial processes of China's manufacturing sector, the Chinese government hopes to enhance the competitiveness of its enterprises in domestic markets and spur their global expansion⁶.

Since 2015, and therefore in just ten years, the program aims at transforming the Chinese production center into a mega-industry 4.0, thanks to targeted investments.

This confirms the desire not only to be in a good position within the global economic landscape, but to want to be at the top of it; how?

By 2025, as well as reiterating the 10 priority sectors previously identified by Premier Li Keqiang, such as next generation information technology, aerospace and aviation, agricultural machinery, new energy vehicles, biomedicine and high-performance medical devices, the Made in China 2025 plan also indicates:

- 82% of companies will must have ultra-broadband connections;
- the percentage of expenditure on research and development will have to go from 0.95% (2015) to at least 1.68%;
- China should not depend on imports in the strategic sectors for the production industry (high-tech components, new generation vehicles, renewable energy etc.)

⁶ MADE IN CHINA 2025; The making of a high-tech superpower and consequences for industrial countries; Jost Wübbeke | Mirjam Meissner | Max J. Zenglein Jaqueline Ives | Björn Conrad; December 2016

The "Made in China 2025" plan highlights 10 sectors:

	New generation information technology		New energy and energy-saving vehicles
	High-end computerized machines and robots		Energy equipment
	Aerospace		Agricultural machines
	Maritime equipment and high-tech ships		New materials
	Advanced railway transportation equipment		Biopharma and high-tech medical devices

Figure 2. China's Industrial Policies (2015-2025); "Made in China 2025" Industrial Policies: Issues for Congress

Digital economy

The ambition of the "Made in China 2025" initiative, analyzed in the previous paragraph, underlines that China intends to continue its economic development relying heavily on innovation and fully riding and supporting the digital development.

To be digitally affirmed, the entire population, together with big companies, must contribute with their own actions.

If we think that the possibility of paying with a smartphone is already an advanced process and can allow some nations to consider themselves digitally affirmed, it is good to analyze how the "Middle Kingdom" is moving towards a digital authoritarianism, which is also conquering the West.

The digitization of transactions is strongly pushed both by tech giants such as Alibaba and Tencent and by the state.

In fact, the local government, state-owned enterprises and public institutions in Changshu, in Eastern China, are starting to pay employees with the digital Yuan, with the objective not only of dematerialization of payments but also to reduce the existing digital divide between large technology centers and rural areas, providing them an easier access to financial services.

In support of the importance of the digital economy, a document was published in 2020 aimed at accelerating the overall strategy for computerized nation development in the new era.

For the first time, within the entire economy of a Country, a production factor related to the IT reality has been considered; for example, the Big Data, which has been counted as the "fifth factor of production" together with labor, land, capital and technology⁷.

⁷ Study on the effect of digital economy on high-quality economic development in China; Wei Zhang, Siqi Zhao, Xiaoyu Wan, Yuan Yao; 2021

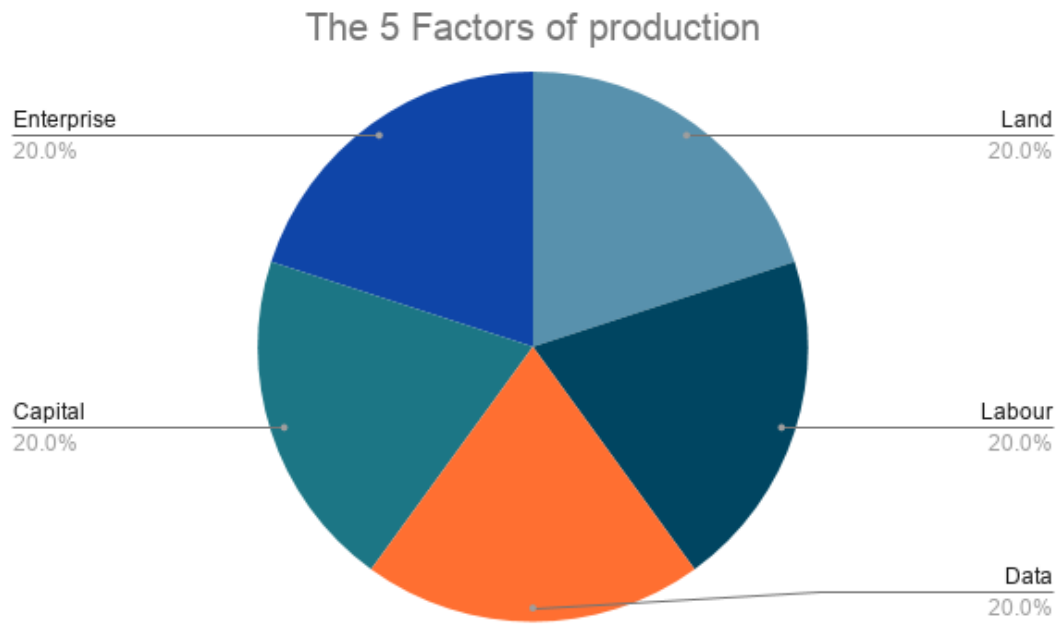


Figure 3. <https://www.linkedin.com/pulse/data-5th-factor-production-leon-clarke-2e/>

The digital economy, which has grown exponentially in recent years, has now become a new economic form aimed at improving the quality and efficiency of the entire country.

The United Nations "Digital Economy Report 2019" shows how the digital economy represents between 4.5% and 15.5% of world GDP and China, with the United States, represents 40% of it.

In fact, China's digital economy's share of GDP increased from 14.2% to 39.8% from 2005 to 2021⁸.

Despite this rapid development and the important weight that the digital economy has, a unique standard academic definition of what the digital economy is has not yet been defined.

⁸ White Paper on the Development of China's Digital Economy (2022)" published by the China Academy of Information and Communications Technology

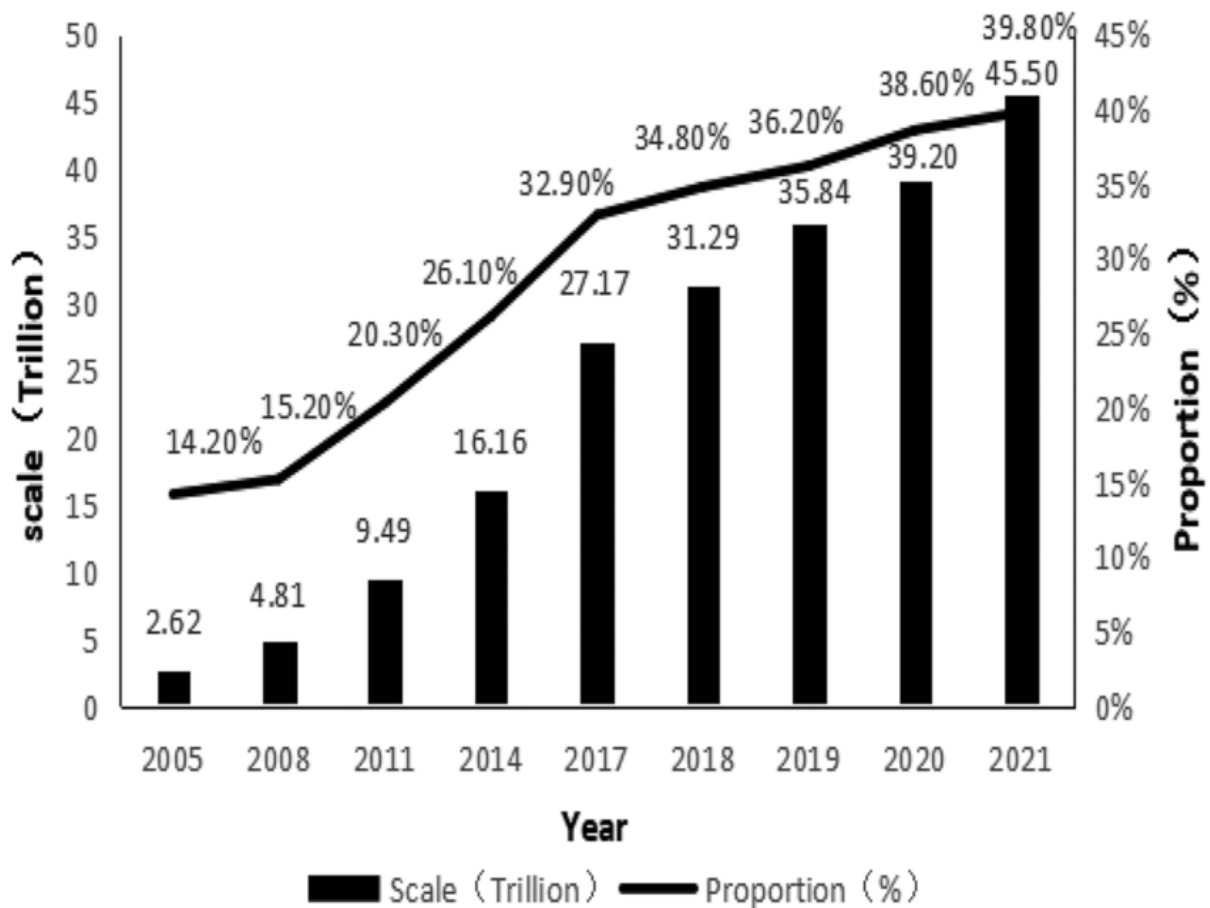


Figure 4. https://www.researchgate.net/figure/Chinas-digital-economy-and-its-proportion-in-GDP-SourceChina-Academy-of-Information_fig1_369505379

To really understand how China's digital economy is big, it is necessary to review the international measures of the digital economy, going to compare them with the ones developed by Chinese officials.

The Spanish economist Alicia Garcia Herrero, who is leasing the Asia Pacific region for Natixis Bank has tried to measure it in terms of value added and employment, using China's input and output and census data to come up with an internationally comparable estimate of the size of China's information and communication technology (ICT) sector⁹.

Based on the analysis and on the measurements done, the studies show that China's digital economy is not proportionally larger compared to its overall economy than the average among OECD countries. This is particularly true concerning employment in the information and communication technology (ICT) sector. While this finding might be surprising given the common perception of China's digital economy, it's important to note that there are significant regional variations.

⁹ How big is China's digital economy? Alicia Garcia Herrero and Jianwei Xu

Specifically, regions like Beijing, Guangdong, and Shanghai are performing better in terms of their digital economies compared to the OECD average.

Furthermore, it's noteworthy that labor productivity within China's ICT sector surpasses the country's average labor productivity by approximately 1.8 times. In contrast, labor productivity within the digital sector in OECD countries is only 1.6 times higher than their respective averages. This implies that the digital sector is making a more significant contribution to China's economic expansion compared to its role in OECD nations.

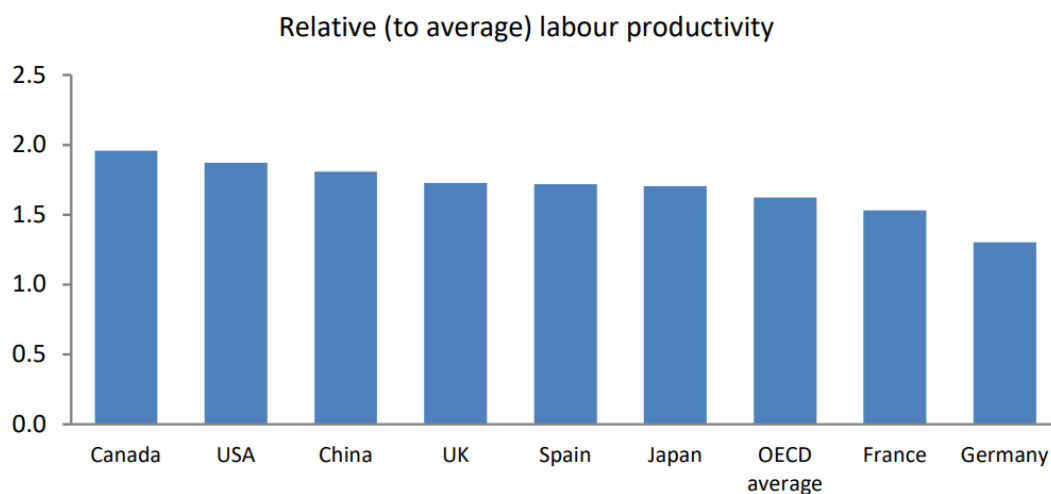


Figure 5. Sources: Natixis, OECD

The research has stated that the Chinese digital sector holds significant potential for growth. This potential is driven by a few key factors. Firstly, due to the ongoing urbanization process, the digital share of the economy is anticipated to increase as digitalization is more prevalent in urban areas, and China's rural economy is substantial. Secondly, China exhibits higher relative labor productivity in digital sectors compared to the average in OECD countries, underscoring its substantial role in bolstering the economy. Thirdly, there exist disparities in digital advancements across China, with developed regions like Beijing and Shanghai having even greater employment shares in the ICT sector compared to OECD countries. On the other hand, less developed Chinese regions lag considerably. If the progress in digital development observed in leading regions extends to other areas, it could usher in a fresh wave of high-tech advancement in the future.

2. Luxury industry

Before focusing on the luxury market in China and how it has grown over the years, it is useful to analyze what luxury is and what are the main characteristics that characterize this universe of exclusivity.

Concept and characteristics of luxury industry

It would be impossible to not associate the world of luxury to high quality, exclusive and expensive products and services, thought for a clientele seeking excellence, exclusivity and prestige.

Specifically, the luxury sector is characterized by a series of distinctive elements that differentiate it from other sectors, which we can enclose in the following areas.

Superior quality: factor of primary importance. Products and services must be made with fine materials and often with craftsmanship, ensuring high durability and a feeling of luxury in the user experience.

Exclusivity: luxury brands tend to limit availability and their products or services, creating a demand that exceeds supply in order to confer a sense of privilege to those who manage to purchase them.

This exclusivity can be achieved through limited production numbers, careful selection of distribution channels and the use of unique materials or design.

Prestige and status symbol: the purchase of a high-end product or service often represents a status symbol. Consumers choose luxury brands to demonstrate their financial and social success. Owning luxury items can be considered a sign of wealth, refined taste and belonging to a specific social elite.

Personalized experience: luxury companies are committed to offer to their customers a personalized and tailored experience.

Customers can request customizations, adaptations or additional services to meet their specific needs. The goal is to create a privileged relationship with the customers and retain them over time.

Innovation and craftsmanship: innovation is often combined with traditional craftsmanship, which is still a key point over the years.

Luxury companies try to maintain the balance between advanced manufacturing techniques and the attention to details that only craftsmanship can offer. This approach allows them to offer unique, rare and high-quality products, linked with the points seen previously.

Marketing and communication: marketing strategies are often based on aspiration, desire and the creation of a charming atmosphere around the brand. Communication campaigns focus on the excellence, elegance and lifestyle associated with the luxury product or service.

Confirming the importance and weight that this exclusive market has in the world, it is important to note that even though the luxury market can be influenced by economic changes, social trends and consumer tastes, thanks to the continuous pursuit of excellence and innovation, the luxury sector remains one of the most dynamic and profitable industries in the world.

It is present in many sectors, such as fashion, jewellery, watches, luxury cars, cosmetics, hotels, high quality restaurants, yachts and much more, attention to quality, exclusivity and excellence are a constancy and certainty in this market.

In confirmation of what has just been analyzed, the etymology of the word luxury derives from the Latin "luxus", which can literally be translated as excess but can also be interpreted as pomp or intemperance¹⁰.

It is curious how the word takes on an ambiguous meaning and therefore can both represent something majestic, but it can also take a negative value or an extreme of something that is not socially accepted and superfluous¹¹.

¹⁰ https://www.treccani.it/enciclopedia/lusso_%28Enciclopedia-Italiana%29/

¹¹ Consumer Meaning Making: The Meaning of Luxury Brands in a Democratized Luxury World - Liselot Hudders Liselot.Hudders@Ugent.be, Mario Pandelaere, and Patrick Vyncke; 2013

The research carried out in this paper has the objective to analyze the interpretation of the word from the point of view of consumer satisfaction and not as an ostentation of wealth. For this reason, we will focus on the aspects that guarantee a unique experience and a feeling of well-being thanks to the consumption of goods or services.

Before focusing on the Chinese market, it is useful to analyze how the future of luxury is and how it will have to face the digital development we are experiencing.

Although we are talking about a well-defined market with strong traditional roots, brands today must rethink their business models and the strategies with which to display and sell their products.

All this above is because of a new consumer, belonging to different generations and who, even in the luxury market, is changing expectations and requests by following a digital lifestyle.

Digital experience, games, augmented and virtual reality are just few examples of the trends that luxury brands have already begun to explore, often also by collaborating with purely tech companies¹².

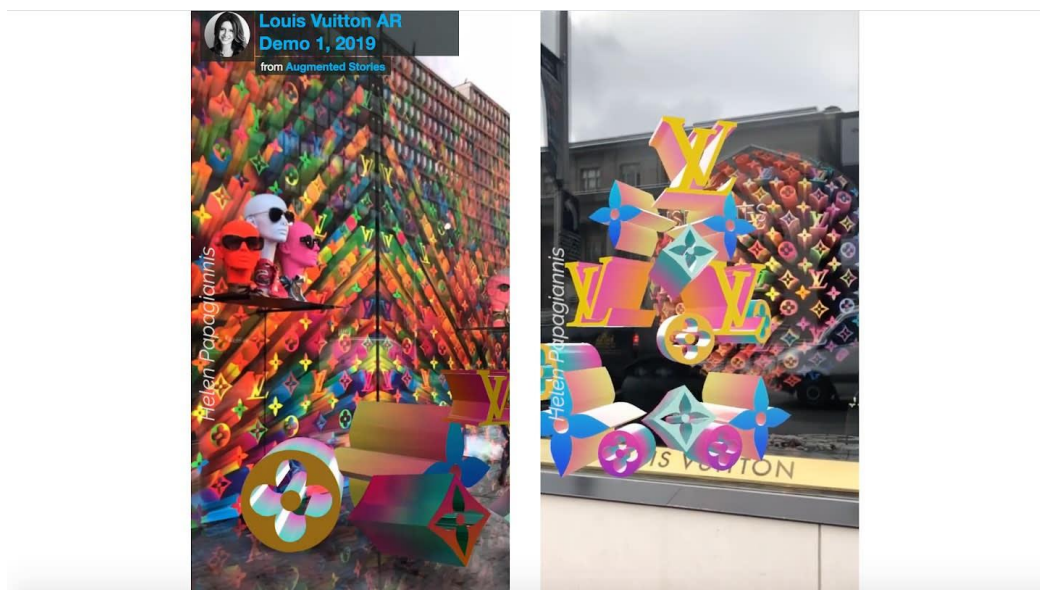


Figure 6. Louis Vuitton augmented windows; augmentedstories.com

¹² Digital future of luxury brands: Metaverse, digital fashion, and non-fungible tokens; Annamma Joy, Ying Zhu, Camilo Peña, Myriam Brouard; 2022



Figure 7. Gucci Try On; Gucci



Figure 8. Burberry embedded experiences; Burberry



Figure 9. Gucci Gaming Academy; Il senso di Gucci per i videogiochi, La Repubblica

Being aware now of what luxury represents and of the challenges that have arisen in the course of its evolution, the next paragraph aims to illustrate how the Chinese market, which has always been influential in this sector, has evolved.

Chinese luxury market: overview and growth

The importance of the Chinese market for the luxury sector is easily understandable from the weight that companies give to it and from the continuous improvement strategies they implement to obtain an advantage over their competitors.

One of the reasons is that the demand for luxury goods is extremely diversified at a geographical level, with Asian customers possessing some peculiarities that distinguish them from consumers from other areas of the globe. Following these analyses, China's numbers are too important for brands operating in the luxury sector.

Today in China there are 46 million super-rich people, who have a total wealth equal to 44% of global wealth¹³.

Going into detail, the global market for personal luxury goods is worth 262 billion euros in 2017, with China accounting for 8% and Chinese consumers, on the other hand, 32% of the total.

These data show the high propensity of Chinese consumers to purchase luxury goods especially outside the borders of their own nation, highlighting a boost to luxury goods tourism.

The main categories of consumption of luxury goods concern cars, the kitchen, the hotel sector and furnishings. Sales of art objects, private jets, yachts and cruises have remained constant, while the purchase of wines and spirits has decreased¹⁴.

Figure 1: The global luxury market grew to nearly €1.2 trillion in 2017, up 5% from 2016

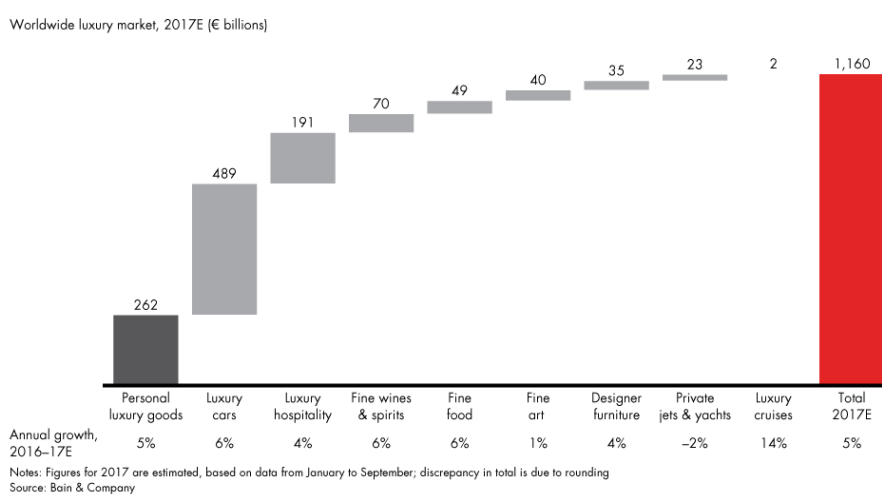


Figure 10. Worldwide luxury market, 2017. Bain & Company

¹³ Global Wealth Report 2022 | Credit Suisse

¹⁴ Claudia D'ARPIZIO et al., Luxury goods worldwide market study, Fall-Winter 2016. As luxury resets to a new normal, strategy becomes paramount, BAIN&COMPANY, 2016, pp. 1-34

China has been an important focus for luxury brands for several years, as in the years between 2010 and 2015 it literally pushed the entire luxury sector towards significant growth and helped many companies to overcome the 2008 crisis.

It was essential to examine the consumption of luxury goods by the Chinese customer precisely for survival reasons: Chinese consumers have in fact represented the only driver for market growth global luxury sector, with the slowdown in consumption by European and American consumers, which would otherwise have led to a contraction of the market between 2012 and 2016.

This important growth phenomenon due to an increase in consumption by Chinese citizens has been called "**Chinese Bulimia**" by industry experts.

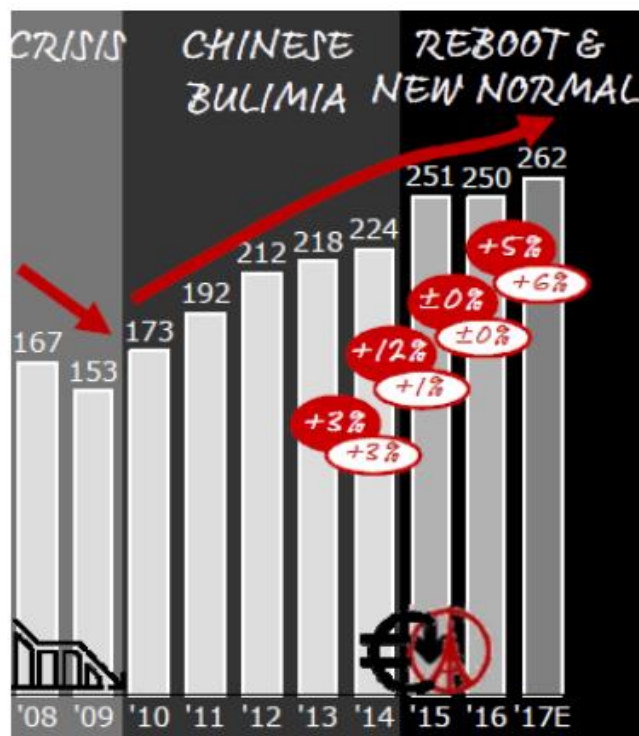


Figure 11. Worldwide Luxury Market Monitor; 2017; Bain & Company

3. Luxury goods industry before and after Covid-19

If it is true that the luxury sector has spent decades transforming, growing and creating a perfect ecosystem to be worth almost 400 billion dollars, the Covid 19 pandemic has upset the trends.

Redefinition of luxury consumption

The pandemic has led to a sharp reduction in sales, with an obvious consequent drastic reduction in revenues, thus questioning the meaning of "luxury".

But it is also true that these trends changes have redefined the concept and habits that consumers have towards luxury, with more attention and importance to the environmental and social impact.

Companies have thus had to review and to redefine the concept of luxury, aiming for a less showy and more inclusive vision, investing in new sales methods and new services by rethinking a new customer experience, created ad hoc for the post-pandemic consumer.

The Covid-19 pandemic has had a strong impact on both the economic and social choices of consumers, thus changing the trends that brands have been focusing on for years without changing their strategy and vision.

The companies themselves, before planning the post-pandemic and redefining their future, had to deal with a complicated present, with the priority of safeguarding, supporting and helping their employees and their consumers.

It was in fact evident how many companies have been committed in public health needs; for example, by starting to produce face masks and disinfectants and stopping the production of scarves and perfumes, and actively participating in important donations to hospitals and health organizations¹⁵.

¹⁵ <https://www.mckinsey.com/industries/retail/our-insights/a-perspective-for-the-luxury-goods-industry-during-and-after-coronavirus>

If new opportunities arise from problems and setbacks, in this way companies had to react to an unexpected pandemic, in a moment where the sector was rapidly growing.

The demand of sustainability has greatly increased: more and more consumers are looking for companies and labels that manage to appear as ethical and capable of respecting the environment. Brands thus have a moral obligation to choose local materials, to reduce emissions and to provide support to local communities and support animal rights.

The style to be pursued is easier: after a period of crisis, consumers need a period of comfort and to be less flashy. This does not seem valid for China.

The local clientele has become of fundamental importance: the drop in tourism first and the redefinition of it later have led to a decrease in tourist sales.

Digital channels are even more important: if an e-commerce could impact 10 to 12% before the pandemic, the crisis has now led to an online sales boom, both during and after the crisis period.

The changes we have just talked about are contained in two main macro consequences: **the digitization of luxury** and a **new consumer of Luxury Retail**¹⁶.

Going to analyze the digitization of luxury, it would be great to start from a primary cause that has led to this change.

The Covid 19 pandemic has had serious consequences on people's social lives and has led to months of distance and lockdowns all over the world.

Given that physical stores have been forced to lower their shutters for a long time, e-commerce has become a crucial channel in order to try to keep sales high, to not interrupt the contact thread with customers and building a community still strongest around the brand.

¹⁶ <https://www.bcg.com/publications/2020/new-era-and-new-look-for-luxury>

The objective in this period has been to shift the priority towards the creation of new services, with the aim of shifting the average customer spend to online channels.

An unlikely scenario if we think that until a decade ago the consumption of luxury goods and digital channels had always been defined as incompatible.

If the customer experience is defined as a "customer journey" there will be a reason and the difficulty in letting customers to experience the emotional aspect, the relationship of trust between staff and customer have been the brakes on the digital trend for the luxury market.

A rapid digital development has played as an advantage for luxury brands and an "omnichannel" culture made possible that customers are now looking for new and more easily accessible touchpoints.

By having understood this need, the real challenge was to exploit the power of the digital sector, from e-commerce to social media, trying not only to simplify purchasing procedures but also to create sensory experiences.

This transaction and this new route were facilitated by customers from the luxury sector, who have positively embraced the combination of the two worlds.

Speaking precisely about the customers who have appreciated and accompanied this change, the second point that we anticipated earlier concerns the new luxury retail consumer.

The profile of the new consumer is characterized by a lower average age. Millennials and Generation Z in fact account for over 40% of the luxury goods market, 10% more than in 2016.

These are the customers who have not only embraced the digital reality, but that were born and raised in it, with very high expectations from the shopping experience.

These categories are very frequent travelers and for this reason they mainly use the mobile channel to approach the purchase phase.

The mobile channel is important for them both for an initial online search (and consequent offline purchase) that for a digital purchase.

Geographically speaking, due to their nature as frequent travelers, they are global consumers, who touch all the key cities of luxury, from Paris to Milan to Singapore.

The spending capacity is even higher than in previous generations but the real challenge for brands lies in understanding what a consumer like the one we have just analyzed is going to expect.

The expectations of new customers are and will always be higher, the following will be required:

- Customization
- in-store experiences
- attention to ethics
- product availability
- technologies that simplify the shopping experience

How China's luxury market reacted to pandemic

The health emergency has been the government's way of shaping Chinese leadership, so much so that during the United Nations General Assembly, Xi Jinping affirmed that Covid-19 would have been an important test of the ability to govern countries.

China immediately showed itself intent on supporting a zero-tolerance policy against Covid-19, by immediately adopting very strict measures and by implementing tracking and control systems even imposing quarantine on entire cities, only for a few cases.

If from a political point of view the superiority of the Chinese system under the leadership of the Communist Party has been tested, from a social point of view, this leadership has had a negative impact on the daily life of citizens, also questioning that unwritten pact between the government and the people: guaranteeing economic well-being by supporting the CCP leadership.

With the end of the prohibition of foreign products in China in the 1980s, the expression "revenge spending" was launched and it is a moment that can be paralleled to that experienced in the post pandemic.

An example? The record of Hermès revenues, which on the day of the reopening of the Guangzhou store, Saturday 11th April 2020, collected 2.7 million dollars¹⁷.

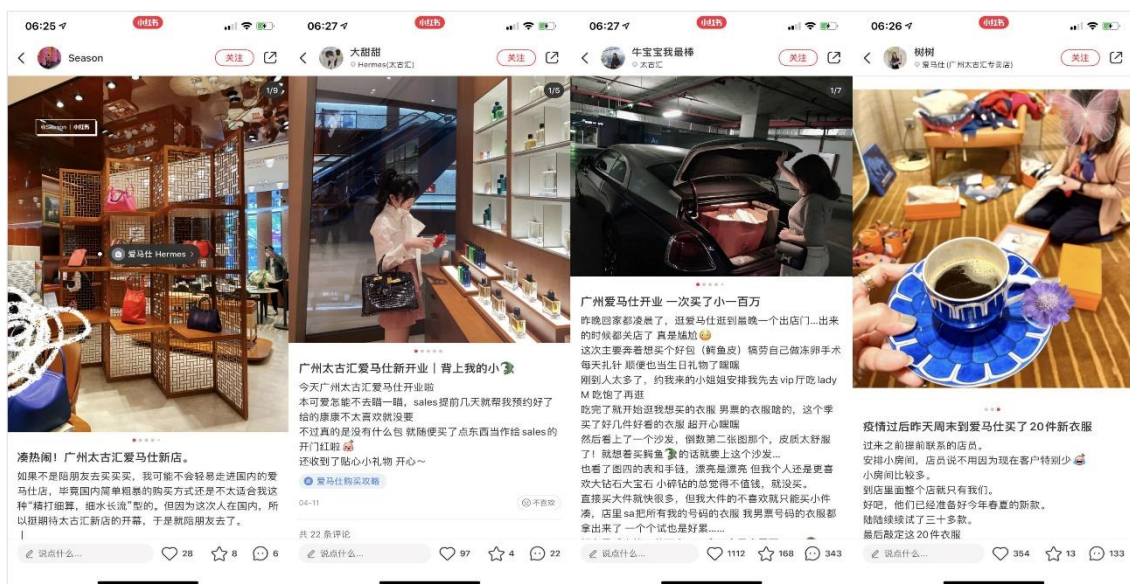


Figure 12. Screenshots of Xiaohongshu users sharing their experience shopping at the reopened Hermès flagship in Guangzhou, China. WWD

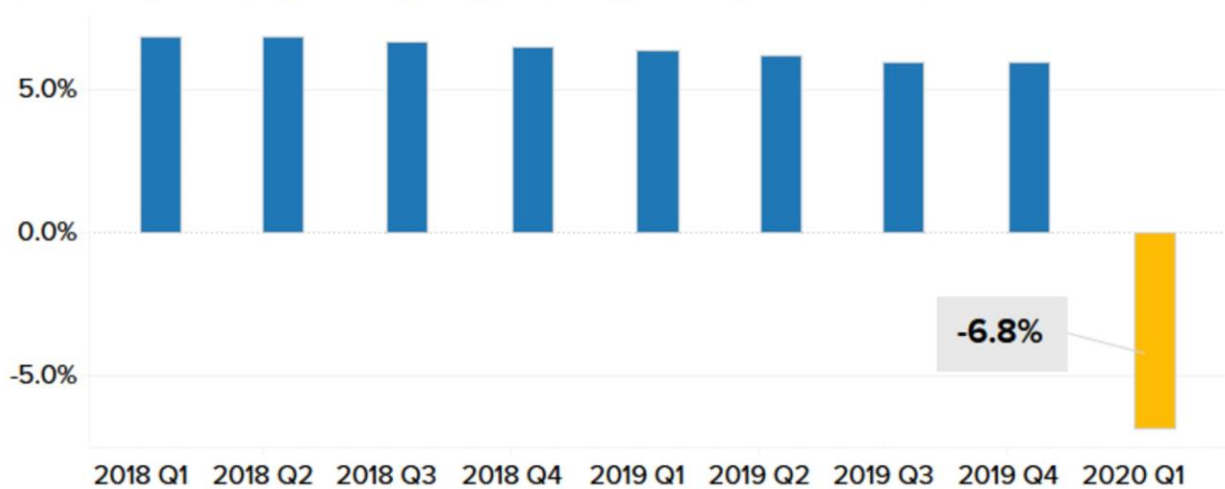
¹⁷

<https://www.luxuo.com/style/fashion/the-hermes-guangzhou-flagship-store-amassed-2-7-million-sales-in-one-day.html>

Although there have been signs of a strong recovery, luxury brands have pursued a very cautious approach, due to signals from the entire Chinese economy: a 6.8% contraction of GDP, something that has not happened since 1992.

China's economic growth

Chart depicts the year-on-year percentage change in real GDP



SOURCE: National Bureau of Statistics of China, Refinitiv



Figure 13. National Bureau of Statistics of China, Refinitiv

We have in the first section of the paper how important the Chinese market is for the luxury sector, covering up to a third of the global market and the point of attention comes when we analyze the Chinese consumer's buying habits, where the most took place abroad, a phenomenon linked to tourism.

In the post-pandemic, Chinese consumer has followed a more cautious approach, going back to buy but not immediately to travel¹⁸.

This is the biggest obstacle that companies have to overcome.

¹⁸ <https://www.pambianconews.com/2023/06/15/il-2023-sara-lanno-della-staffetta-tra-usa-e-cina-per-i-marchi-aspirational-pesa-linflazione-376915/>

The real challenge is being able to sell in China what Chinese tourists would have bought elsewhere. How? It is no coincidence that we talked about the digitization of luxury and in fact one of the answers seems to be e-commerce.

The primary reaction to the pandemic that luxury brands have had in China has first passed from the online world.

Louis Vuitton, for example, experimented with live stream sales on the Little Red Book social commerce platform at the end of March, involving local influencers like Yvonne Ching and brand ambassador Zhong Chuxi, but it obviously cannot be expected that the e-commerce market fully cover the losses of in-store purchases¹⁹.

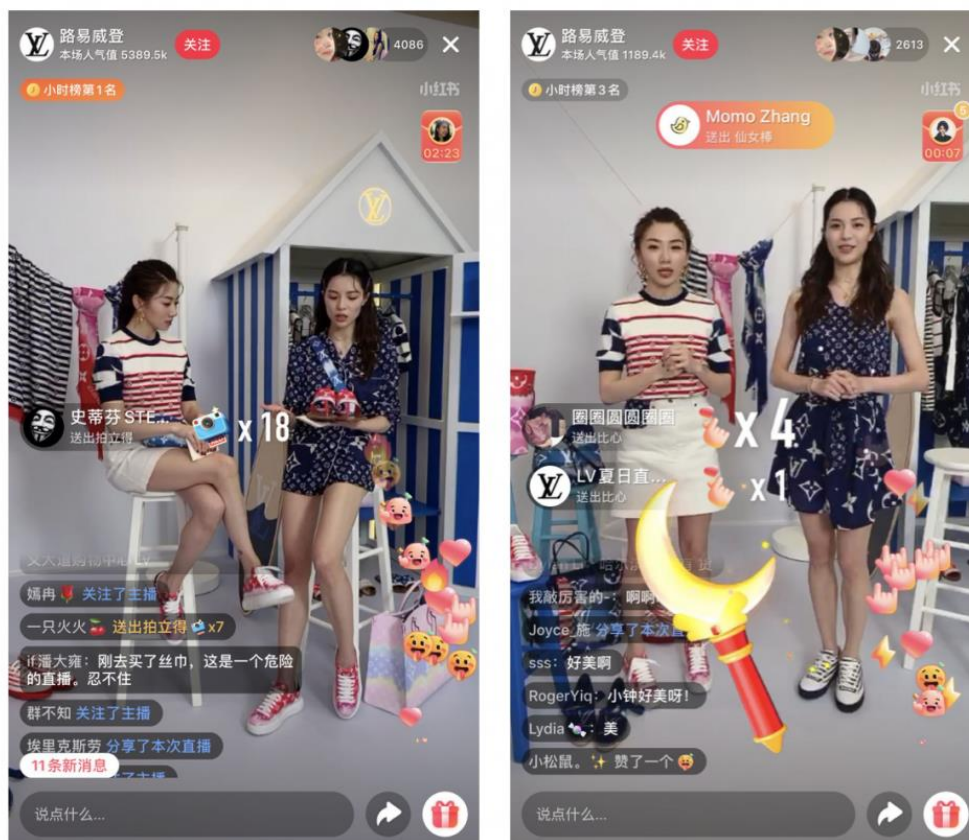


Figure 14. Livestream host Yvonne Ching (left) with guest celebrity Zhong Chuxi (right).

¹⁹ <https://jingdaily.com/interview-digital-luxury-groups-pablo-mauron-talks-social-strategy-for-chinas-sophisticated-shoppers/>

It must be said that China is already very confident with online purchases of luxury goods and an expansion of e-commerce as a long-term consequence of the pandemic would not be a surprise to anyone.

However, it is hard to think that e-commerce could be the only solution for a luxury market that has been in crisis for the first time after years of growth.

The true driving force of the sector has been confirmed to be loyal consumers and they are the ones to whom brands look with the greatest interest.

For this reason, physical contact between the two parties is necessary, with an experience that also involves psychological aspects.

As can be seen, the direction that the brands have taken has been to bring what used to happen in presence to digital.

For example, the end of March Shanghai Fashion Week was totally held online, with guests connected from the web.

Be careful to think that this trend could represent the future; because while it is true that the benefits are also those related to the reduction of costs and the reduction of the environmental impact of a physical fashion show, the possibility that physical fashion shows will disappear is very distant.

The rise of Chinese Luxury Market

It is now clear that the luxury market depends on many factors and has been subject to important changes over the years.

Among the growth strategies, however, it is essential to consider the geographical and cultural context of each reference market.

In the previous paragraph we saw how to make up for the lack of physical presence: numerous brands have tried to keep the relationship with China alive by exploiting digital, also succeeding quite well thanks to the Chinese consumer ready to embrace this trend.

It is true that tourism has returned to pre-pandemic rhythms, even if China has struggled to follow the reopenings of the rest of the world.

The luxury market, especially that of high fashion, has chosen to play ahead, shifting attention directly to China, without the need to move the largest customers of the various companies.

Gucci has been a leading example, a brand strongly linked to Italy and led by a French group, which chose Shanghai for a great debut: an exhibition-event to celebrate 102 years of history and retrace the main activities.

The maison has chosen to tell the story of the company's heritage, mainly linked to the city of Florence, directly in China.

The aim of the exhibition was to show to visitors not only the past and present of the brand, but also to show the future of the company and the choice to do so in China is not at all a coincidence.

This is a sign of the net rise in the Chinese luxury market, strongly driven by the 2% of the wealthiest customers, who represent 40% of total luxury sales.



Figure 15. Gucci Cosmos, exhibition view at Shanghai, 2023.

The proof that China, with its main cities, is becoming a piece of fundamental importance in the puzzle of the luxury market is that even Louis Vuitton, also strongly linked to the European tradition even if in Paris, has chosen a return to the events in presence by choosing China as well.

The spring 2023 men's collection was in fact held in Aranya, a well-known beach two hours away from Beijing, often frequented by Chinese elites.

The event reached the entire Chinese market by leveraging the streaming services entrusted to Wechat and Weibo.



Figure 16. Louis Vuitton Men Spring 2023 Fashion Show at Aranya, 2022.

Controversies and complexities in Chinese market

Despite the great opportunities and potential deriving from China, there have been numerous cases of controversies and problems that even the big luxury giants have had to face.

The Chinese market has proven to be a very difficult market and below we will analyze some examples of controversies that have arisen in China.

Dolce & Gabbana

Even a marketing campaign can turn out to be a fatal mistake and the proof is the iconic Italian brand Dolce & Gabbana.

A Chinese model trying to eat Italian food with chopsticks was the narrative line of Dolce & Gabbana's 2018 Chinese market commercial²⁰.



Figure 17. Dolce&Gabbana spot, 2018.

The criticisms came immediately, accusing the brand of stereotypically representing the Chinese people.

The accusations against the Italian fashion house were made through the social network Sina Weibo, where the “#BoycottDolce” trend immediately went viral.

²⁰ Overcoming Crisis: Case Studies Of Asian Multinational Corporations; Parissa Haghirian

To aggravate the controversy was the reaction of the designer who owns the brand, accused of racism and of having raised offensive comments, published by the Instagram account “Diet Prada”, one of the most followed fashion accounts on social networks.

The company subsequently denied what happened, declaring that it had suffered a hacker attack and apologizing to the Chinese people.

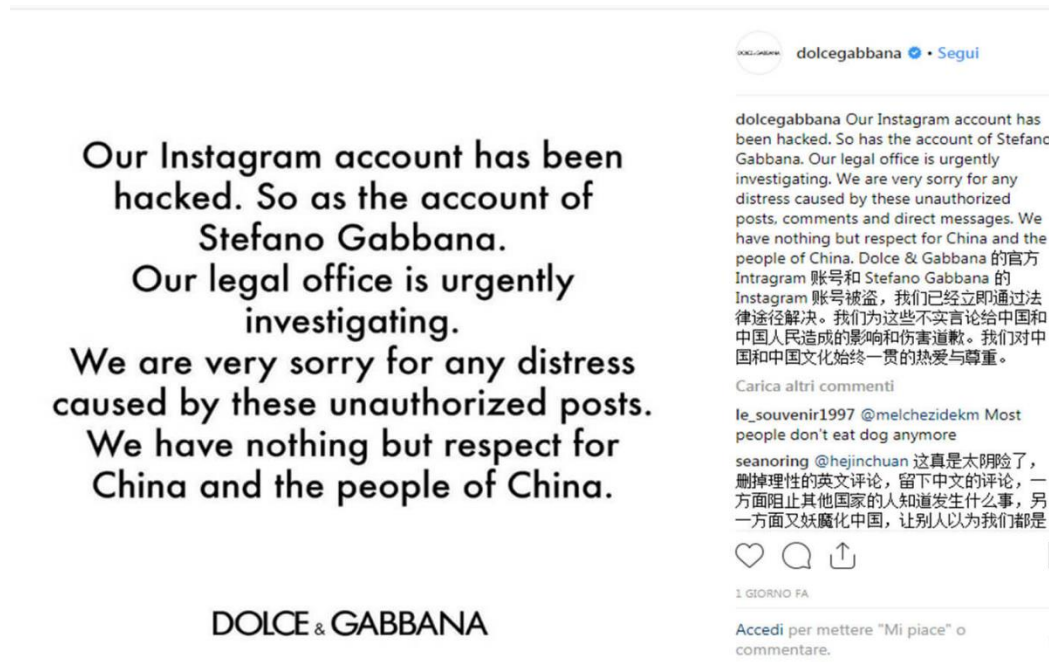


Figure 18. Dolce & Gabbana excuses, Instagram.

The consequences were the cancellation of the Fashion Show scheduled in China and the removal of the brand from numerous Chinese e-commerce sites.

Versace, Coach and Givenchy

In the past decade, consumer boycotts of foreign companies have become an increasingly common phenomenon in China and it has been deeply studied the comprehensive overview of this development²¹.

Misunderstandings of a wrong marketing campaign or misunderstood messages cannot be the only points of attention to have.

²¹ Purchasing with the Party Chinese consumer boycotts of foreign companies, 2008–2021; Viking Bohman & Hillevi Pårup

The problems are even more serious if they concern political reasons and Chinese nationalism is questioned.

In 2019, Versace put on sale a t-shirt with some cities linked to the nations they belong to. Everything would be normal if the item of clothing did not present two errors that the Chinese considered unforgivable: Hong Kong and Macao were considered as separate countries.

Donatella Versace immediately gave the directive to withdraw the t-shirts from the stores and apologized via social networks, but despite this, the actress Yang Mi immediately closed the collaboration with the brand.



Figure 19. Chinese social media users criticized a Versace T-shirt which appears to list Hong Kong and Macau as independent countries.

Subsequently, Coach and Givenchy also had the same type of problem.

In fact, the testimonial of Coach, Liu Wen, wrote on Weibo that she had ended her collaboration with the brand. The reason? Exactly the same geopolitical reasons as mentioned above: a t-shirt denoting Taiwan as not Chinese.



Figure 20. American brand Coach moves quickly to quell online fury in China over T-shirt listing Hong Kong, Macau and Taiwan as separate entities. Photo: Weibo

Even the t-shirt marketed by Givenchy indicated Taiwan and Hong Kong as independent countries and the singer Jackson Yee broke the collaboration with the French fashion house.

Bulgari

Despite the slips of the other brands in the past years, there is one last case that Beijing has not forgiven.

Indeed, in July 2023, as reported by CNN²², Bulgari listed Taiwan in the same way China was listed, thus presenting them as separate nations.

²² <https://edition.cnn.com/style/bulgari-china-apology-taiwan-listing/index.html>

Bulgari, like the other brands in the past, apologized but despite this, Chinese users continued to ask Chinese stars to boycott the brand, as reported also by Bloomberg²³.

To confirm its sovereignty and above all demonstrate it to the whole world, Beijing has asked Bulgari to apologize through official global and non-local channels.

²³ https://www.bloomberg.com/news/articles/2023-07-12/china-slams-bulgari-for-not-showing-taiwan-as-part-of-country?in_source=embedded-checkout-banner

Conclusions

In the course of the thesis, it was evident that China occupies a significant position in the global economic landscape.

All companies, from all sectors, have a strong interest in capturing the largest possible market share in China. In particular, it is a long history that confirms the strong link between Chinese consumers and luxury goods and the research carried out confirms the importance that China has.

We asked ourselves if China is really important for the luxury segment and we can only answer positively. The paper confirmed that the digital development that Beijing has implemented has strongly supported and helped China to maintain a leadership position towards the rest of the world.

The evolution of China's luxury market epitomizes the intersection of economic transformation, technological advancement and shifting consumer behaviors.

While China's economic might and consumer base have propelled its luxury sector to the forefront, brands must tread cautiously amid cultural, political, and societal nuances.

The Covid-19 pandemic catalyzed new paradigms, encouraging luxury brands to innovate, embrace sustainability and enhance digital experiences. The dynamic interplay between tradition and modernity, physical and digital, exemplifies the intricate tapestry of China's luxury market, revealing both its immense opportunities and intricate complexities.

In conclusion, the luxury business in China has experienced remarkable growth and transformation in recent years.

China's position as the second-largest economy in the world, its rapid technological development and its expanding manufacturing sector have all contributed to its significance in the global luxury market.

Luxury, characterized by superior quality, exclusivity, prestige, personalized experiences, and innovation, has a unique place in China's consumer landscape. The Chinese luxury market has become increasingly important, with Chinese consumers accounting for a significant portion of global luxury sales.

However, the COVID-19 pandemic presented challenges to the luxury industry, including changes in consumer preferences and a shift towards more sustainable and ethical luxury consumption. Luxury brands had to adapt to the new normal by focusing on digitization, online sales and creating engaging digital experiences to cater to younger generations like Millennials and Gen Z.

China's response to the pandemic showcased its ability to control the situation and protect its citizens, but it also affected travel patterns and consumption habits. Luxury brands had to pivot their strategies to cater to the changing landscape.

Despite controversies and challenges, China remains a critical market for luxury brands.

The Chinese luxury market's continued growth, the emergence of a younger and tech-savvy consumer base and the country's role as a global economic leader make it a focal point for luxury businesses worldwide.

As the Chinese luxury market continues to evolve and adapt, it will be essential for luxury brands to stay attuned to consumer preferences, embrace digitization, and navigate geopolitical sensitivities to thrive in this dynamic and lucrative market.

In summary, the luxury sector is undergoing a profound transformation in response to the pandemic and the new expectations of younger, digitally-oriented consumers.

Companies are striving to adapt by embracing sustainability, redefining the concept of luxury and investing in engaging online shopping experiences.

It may seem obvious, but for a brand to succeed, it must always choose a unique style that aligns with the market for which it designs its products. This principle holds particularly true for the Chinese market, which is characterized by tastes that are quite distinct from the rest of the world.

Achieving significant brand awareness is pivotal for luxury brands aiming to thrive in China. Chinese affluent consumers prioritize renowned luxury brands that align with their desire for conspicuous consumption. This preference results in their hesitancy to invest in lesser-known brands, even if these brands possess international luxury recognition. To enter the Chinese market effectively, partnering with a local distributor offers advantages such as reduced investment and leveraging local insights. However, this approach also entails relinquishing some control over brand image and communication within the market. Hence, luxury brands must carefully weigh the trade-offs between brand control and the benefits of local expertise when strategizing their market entry in China.

To sum up China has evolved from being a significant market for the luxury sector to becoming an indispensable market.

Furthermore, digital transformation has played a crucial role in salvaging the luxury industry and has led to a significant shift in the customer base.

Prior to the digital era, China was already a relevant luxury market, but in recent years, it has become even more pivotal due to economic growth and increased purchasing power. The rise of the middle class and affluent consumers in China has turned the country into a hub for luxury brands. The combination of growing demand and a fervent interest in high-end products has made the Chinese market a focal point for the luxury sector.

However, the true revolution came with digitalization. The rapid and widespread adoption of digital technologies in China has enabled luxury brands to reach a broader customer base and engage with consumers in new and exciting ways. Digitalization has helped overcome the challenges posed by the pandemic and maintain customer engagement despite shifts in buying behaviors. Furthermore, the customer base itself has changed. Chinese consumers, especially the younger generations, are increasingly active online and responsive to digital influences. This has prompted brands to adapt their marketing and communication strategies to effectively reach this new type of consumer.

In conclusion, China's role in the luxury market has shifted from being important to being indispensable and digitalization has played a crucial role in maintaining relevance and shaping today's customer base.

Luxury companies aiming for success must carefully consider how to navigate this new reality and fully leverage the opportunities presented by digitalization and the Chinese market.

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