



'I AM NOT RICH BUT I DESERVE IT'

The changing nature of the luxury goods & services consumer in China

Lily Xue, Shanghai lady, 32 yrs, working in a 4A Advertising Agency as a senior manager, has a 7-year history of using luxury products.

Many years ago, influenced by her colleagues and friends, Lily Xue began to buy luxury brands. "Working in a more fashionable circle, you must dress up like others in the group. Otherwise, people will treat you differently. The initial purpose of buying luxury brands was for defining my status. I pinched and scraped only for a LV or Prada handbag and would feel very confident when taking the bag," Lily Xue said.

"For the first several years, I tried more than 20 luxury brands. At the time, if the brand was stylish and luxurious, I would possibly buy it. Now, I only buy 3 or 5 brands that really suit me. Buying these luxury brands have become a part of my life. They reflect my lifestyle. I spend 30% to 40% of my salary on these luxury goods, sometimes I don't buy any for several months, but then I will splurge one-time and will spend several months of my salary. "

"Today I wear some famous brands that can show my status and confidence. I also select things from some high-grade small shops. The brands I buy now are usually high-class but not that showy. So, people won't focus their eyes on your accessories, bags but they still can feel you have a delicate and tasteful lifestyle."

THE NEW POWER WOMEN – 'I deserve it'

Welcome to the future luxury consumer in China – the Power Woman. There's absolutely no debate that China is well on its way to becoming perhaps the second largest luxury market in the world second only to the United States and overtaking Japan in the process.



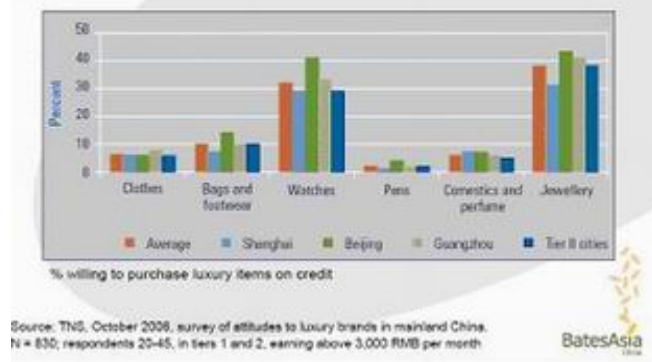
And so when it comes to trends, cool and knowing about fashion brands women will increasingly move over to the driver seat. A remarkable transformation is taking place indeed one that is speedier in some cities than others.

The main purchase drivers for modern Chinese women can be summed up in the line 'I can't really afford it, but I deserve it'.

This new breed of luxury consumers are young 25 to 35 y of age with above

average income but wanting more than they can afford but unlike their parents they are determined to have it. Over stretched financially they have no qualms to resort to credit to buy big ticket items.

The emergence of credit as a purchase enabler (even in tier 2 cities)



Girl Power is increasing all over China. And she is at ease with her multiple identities. Bates China lower tier 'young influential' research bear testament to this fact. "I don't wear colours too

bright to work. Bright colours signify that I am not a serious person. Therefore I prefer colours that are austere and reflect my professionalism" says Li Shen from Haerbin. However these same ladies are making a seamless transition from a conservative professional by day, to a filially responsible daughter in the evening to a rock chic at night. "I'll visit the hair salon and do up my hair when I am going partying with my friends. I like clothes with simmering fabrics that show a bit of skin to highlight the fairness of my skin" says Jiang Lili from Luzhou a conservative nurse by day but a party girl by night.

Changsha, for instance, is a city where standing out is more about what you wear and the brands you display than anything internal. In many ways the young people there are on the first wave of consumerism – the ‘if you can get it flaunt it’ stage. They are more inclined to go out dripping in badged bling than to wear a discreet number.



This amazing transformation is perhaps a result of not just increasing disposable



income but also increasing pressure. “Everyone has so much pressure. We need to over consume to balance – to justify why we work so hard.

The change panel agreed that luxury brands play an important role in terms of reassuring people that it was all worth the effort. The gain after the pain.

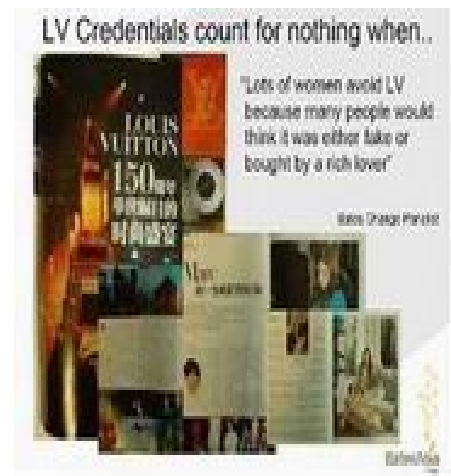
Making Monday morning a bit more tolerable.



Luxury goods are becoming the ‘rewards’ of a much younger and far less affluent group. These

young ladies are united by the 'I bloody well deserve it mantra'. Increasing numbers of less well off ladies are coming to the conclusion that they too, deserve it: Cool boyfriend. Cool fashion.

The more the women think that they deserve it, the less likely they are to associate with brands that have been devalued.



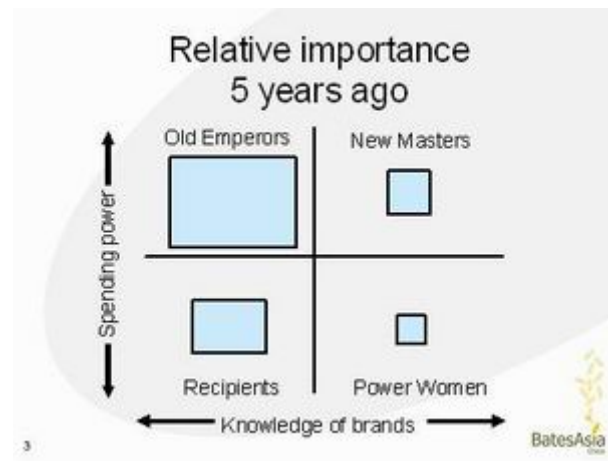
Time to invest in Brand Temples is now

The shopping environment is increasing in importance. The Chinese are great browsers. *Guangyiguang*, or having a look is a national pastime. Japanese buying habits are likely to be a proxy for China in the long term; in that a majority of luxury goods purchases are likely to be made outside of the mainland. Therefore the burgeoning numbers of luxury brand shops are likely to be treated as place to go to experience the brands.



We cannot however ignore the recent past or the present (at least not just yet)

wherein the luxury goods category has been patronized by the 'old emperors'. Survivors of the Cultural Revolution these older men are immensely wealthy and they patronize luxury brands for display or for gifting.



OLD EMPERORS – 'Look at me I am rich'

Li Feng, around 46yrs, is a successful business man. His businesses involve real estate development, imports and exports trading and others that have helped him make a fortune. The first time we met him was at the airport and he was in the queue for a flight to Tibet. He wore a no-name T-shirt and jeans and a pair of Nike sports shoes. But lying besides him on the floor was a LV traveling bag. Every time people moved forward, he would use his foot to kick the LV bag move forward with him. On the surface you couldn't feel anything special and might have mistaken him for a middle aged man using a counterfeit LV bag. However, the truth is that this genuine LV bag, costs nearly 30,000 RMB. For him though, it's only one of the most well-known and expensive luggage brands in the world, nothing more about its brand culture or history.

We met a second time two months later. His big shining diamond ring and Rolex watch totally changed my previous impression of this man. I was looking at a super rich Chinese businessman. He smiled when he noticed I was staring at his watch, he said "This is gold and I have got another Rolex with some diamonds. Sometimes, it's important to take this kind of things, which will help your business partners believe that you have enough financial strength."

The old emperor was clearly stating 'Look at me, I'm rich'. It's expensive therefore it's the best. It shows I earn a lot of money. It shows I have power.

Today, in most places, luxury brands are still clearly associated with wealth (and old emperor types). However as the definition of success changes, then so will the role of luxury brands.

THE NEW MASTERS – 'Look at me I am discerning'

34 year old Shanghainese Zhang Shengwei is the new face of successful China – the New Master.

At 23 a fresh graduate he had started his own company only to go bankrupt, but he did not give up the idea. He then spent three years working for other people - in SciTech Plaza and HK New World respectively accruing what he calls combat experience. After 3-years he went back to set up and operate his Golf Club. "I wanted to provide people a place where their heart and soul can really relax.

What they do outside of working hours would reflect their qualities and manners," he said. And he succeeded, which also made him hugely rich and a New Master. "I am the kind of person who pays attention to how I dress and the brands I buy," he smiled "if I wear a T-shirt, surely I won't wear leather shoes. And I like shopping as well...is it a bit strange for a man? I visit some brand stores regularly but don't buy every time. I feel it is a way to enjoy life and I am interested in new styles & designs. I also like to read some magazines that explain the deeper meaning behind brands. "

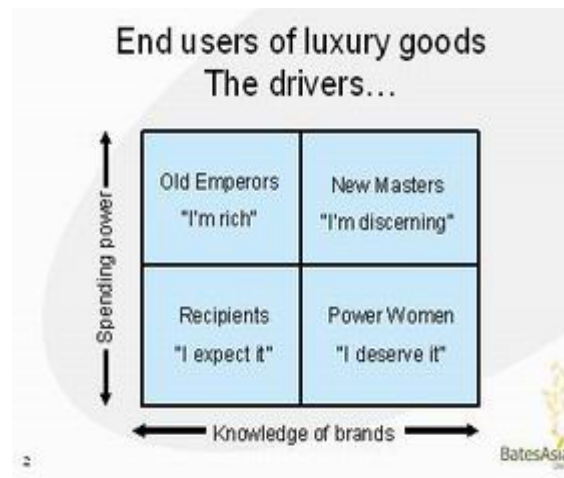


Qingdao, Shandong Province

He showed me his watch and asked "Do you know the brand?" "Well, not very familiar with luxury brands," I replied sincerely. "It is Vacheron Constantine, one of the best watch brands in the world. There is not only Omega or Rolex. Although they are regarded as the best by most people I won't buy them. I look forward to brands that are suitable for me. I would rather not buy LV or Fendi as well – because there are so many counterfeits here. I would rather shop in Italy and buy some brands that may not be top-grade but at least you can't get fakes in China."

New Masters use luxury brands to signal discernment. It's high quality. It shows I have good taste. It shows I am well educated.

New Masters shy away from the old clichés of success. Mercedes or Audi A6 is clearly not for them) (driven by too many people who have made their money in the grey or darker areas of the economy). No a BMW is their car of choice. Or, for the really successful, self made man it will be a Porche please.



Conclusion

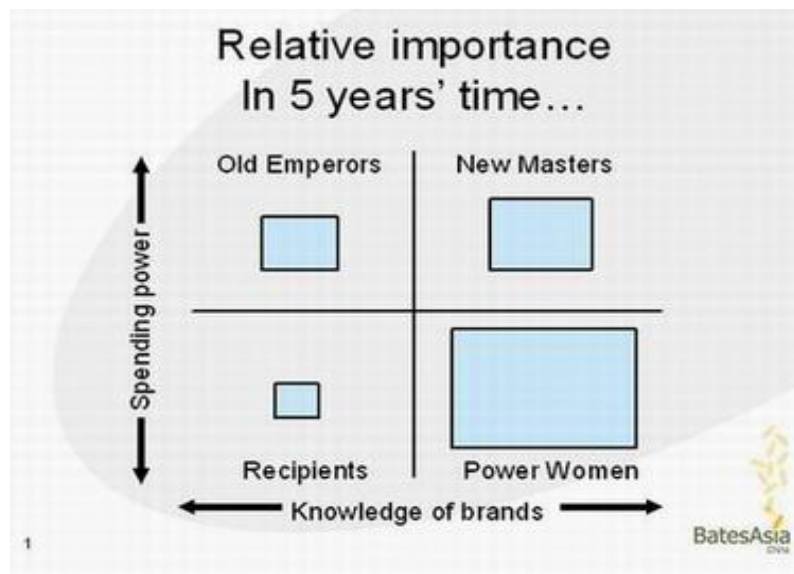
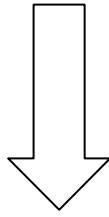
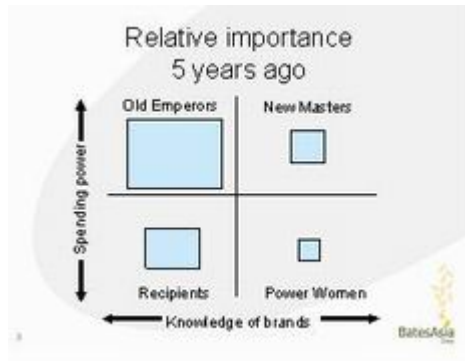
The first evidences are already in as shown by Zhang Shengwei and Lily Xue. In the not too distant future luxury brands for the New Masters will be a reflection of their discerning taste. Their heritage and deeper meaning will play an increasing motivation for brand adoption.

Power Women will perhaps emerge as the single largest luxury consumer group, determined to reward themselves rather than waiting to be recipients. As these ladies become more knowledgeable about luxury brands trials will inevitably decline. And there is bound to be a consolidation of the marketplace – as brands that are found to be wanting will fall by the wayside.

While sales of luxury goods in China are set to increase rapidly the value of luxury goods bought by mainland Chinese outside of mainland China will grow even

faster.

Emerging Luxury Consumer



(All names changed to protect respondent identities)

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