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## Tapping China's luxury-goods market

**By 2015, Chinese consumers will account for more than 20 percent of the global luxury market. How is their behavior evolving?**

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**China will account for** about 20 percent, or 180 billion renminbi (\$27 billion<sup>1</sup>), of global luxury sales in 2015, according to new McKinsey research. Even during the global recession in 2009, sales of luxury goods in the mainland rose by 16 percent, to about 64 billion renminbi—down from the 20 percent growth of previous years but far better than the performance of many other major luxury markets. To get a better idea of the dynamics, McKinsey surveyed more than 1,500 luxury consumers in 17 Chinese cities in spring 2010.<sup>2</sup> Three findings stood out.

### **Shifting attitudes**

At a time of rapidly rising incomes, widely available luxury products (and information about them), and shifting attitudes toward the display of wealth, more Chinese consumers than ever feel comfortable buying luxury goods. As a result, China's love for them is moving down the economic ladder, creating opportunities and challenges for marketers accustomed to serving only the very rich. While wealthy consumers (with incomes above 300,000 renminbi, or about \$46,000) will continue to account for a majority of luxury consumption, our research shows that the 13 million households in China's upper middle class (incomes between 100,000 and 200,000 renminbi) offer the biggest new growth opportunity. They already account for about 12 percent of the market, and their numbers are growing rapidly: we expect to see 76 million households in this income range by 2015, accounting for 22 percent of luxury-goods purchases (Exhibit 1).

Interest in them is moving beyond handbags, jewelry, fashion, and the like. A growing number of Chinese luxury consumers are also splurging on spas and other wellness activities. Consumption is growing faster for such luxury services than for luxury goods: 20 percent of these consumers said they were spending more on experiences, only 13 percent on products.

### **Greater sophistication**

The Chinese are increasingly exposed to luxury goods through the Internet, overseas travel, and first-hand experience. As a result, they have become more discerning.

With the surge in the number of luxury stores, fashion magazines, and Web sites and the use of social media, Chinese consumers are now familiar with nearly twice as many brands as they were in 2008. Half of the consumers we surveyed in 2010, for instance, could name more than three ready-to-wear brands, compared with only 23 percent two years before. As Chinese consumers become more familiar with luxury goods, they are becoming savvier about the relationship between quality and price. In 2010, only about half of consumers equated the most expensive products with the best ones, down from 66 percent in 2008.

<sup>1</sup>At the December 2010 exchange rate.

<sup>2</sup>The full report, *Understanding China's Growing Love for Luxury*, is available on the McKinsey Insights China Web site, at <http://solutions.mckinsey.com/insightschina>.

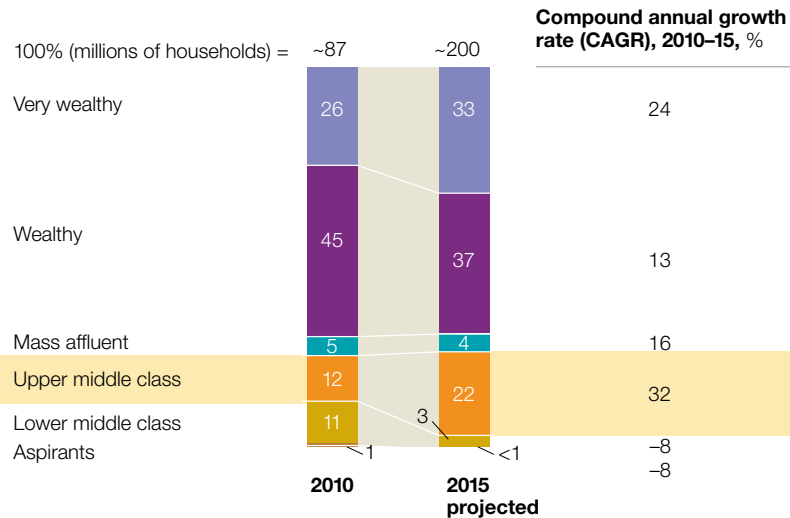
## Exhibit 1

## China's upper middle class currently accounts for about 12 percent of the luxury-goods market, but that share is expected to grow to 22 percent by 2015.

### Share of luxury-goods consumption in China by household income, %

Annual income, 2010 real renminbi<sup>1</sup>

Very wealthy (>10 million in income or assets)	Upper middle class (100 thousand–200 thousand)
Wealthy (300 thousand–10 million)	Lower middle class (55 thousand–100 thousand)
Mass affluent (200 thousand–300 thousand)	Aspirants (<55 thousand)



<sup>1</sup>In Dec 2010, 1 renminbi = \$0.15.

Price transparency contributes to this dynamic. More than half of luxury consumers check product details and prices online, compared with 13 percent of all urban dwellers. Since two out of three luxury consumers have made at least one trip overseas, they have access to external benchmarks for comparing prices back home. In 2008, only two of five people in China realized that in the mainland, prices were at least 20 percent higher than they were in places such as Hong Kong. By 2010, 66 percent did.

Luxury-goods companies have long waged a battle against counterfeit goods in China. But there's good news for marketers: our research shows that consumers increasingly want the real thing. The percentage of those who said they would buy fake jewelry, for example, dropped to 12 percent, from 31 percent, in 2008. Some luxury buyers told us they felt sure that their friends would spot a counterfeit. A woman who used her first salary check to reward herself with a luxury handbag said, "it would be meaningless if it was fake." What's more, an internationally well-known brand has become one of the most important factors in making a purchase (Exhibit 2).

## Exhibit 2

## Chinese consumers increasingly prefer internationally well-known brands.

Top 3 key buying factors in luxury purchase

	2008	2010
<b>Ready-to-wear</b>	<ol style="list-style-type: none"> <li>1 Good material</li> <li>2 Superior craftsmanship</li> <li>3 Innovative design</li> </ol>	<ol style="list-style-type: none"> <li>1 Superior craftsmanship</li> <li>2 <b>Internationally well-known brands</b></li> <li>3 Good material</li> </ol>
<b>Leather goods</b>	<ol style="list-style-type: none"> <li>1 Superior craftsmanship</li> <li>2 Innovative design</li> <li>3 Good material</li> </ol>	<ol style="list-style-type: none"> <li>1 <b>Internationally well-known brands</b></li> <li>2 Superior craftsmanship</li> <li>3 Good material</li> </ol>
<b>Jewelry</b>	<ol style="list-style-type: none"> <li>1 Innovative design</li> <li>2 Superior craftsmanship</li> <li>3 Timeless style</li> </ol>	<ol style="list-style-type: none"> <li>1 Superior craftsmanship</li> <li>2 Innovative design</li> <li>3 <b>Internationally well-known brands</b></li> </ol>
<b>Watches</b>	<ol style="list-style-type: none"> <li>1 Superior craftsmanship</li> <li>2 Innovative design</li> <li>3 <b>Internationally well-known brands</b></li> </ol>	<ol style="list-style-type: none"> <li>1 Superior craftsmanship</li> <li>2 <b>Internationally well-known brands</b></li> <li>3 Innovative design</li> </ol>

### New geographic markets

Rapid urbanization and growing wealth beyond China's largest cities are creating a number of geographic markets with sizable pools of luxury-goods consumers. More small cities will become large enough to justify the presence of stores catering to them; we expect luxury sales in urban areas such as Qingdao and Wuxi, for instance, to triple over the next five years. By 2015, consumption in such cities will approach today's levels in Hangzhou and Nanjing—now two of China's most developed luxury-goods markets—and luxury consumption could pass 500 million renminbi in more than 60 cities, compared with 30 today. But the luxury-goods market will remain concentrated in the top 36, which will account for 74 percent of the market's growth and 76 percent of total luxury sales by 2015.

Most of the world's luxury-goods companies are already in China or contemplating increased investment there. They must tackle several big issues before making their next moves. First, delivering exceptional service in stores is critical; two out of three consumers are disappointed with the indifferent attitudes of salespeople. While the in-store experience is by far the most important factor driving purchasing decisions, the Internet has rapidly become the second-most-important consumer touch point for luxury categories such as fashion. Marketers will need increasingly sophisticated Web strategies; for example, they can work with social-media agencies to monitor and shape online conversations among consumers or to identify influential bloggers and help educate them about brands.

### Related thinking

“Understanding China’s wealthy”

“The value of China’s emerging middle class”

“China’s new pragmatic consumers”

“Building a second home in China”

“Japan’s luxury shoppers move on”

Finally, much of luxury’s allure comes from the opportunity to share in the rich cultural heritage associated with a brand. This concept is rapidly catching on with Chinese luxury consumers, and many leading brands are promoting their history and craftsmanship. But the picture isn’t totally straightforward: one-third of luxury consumers in China said they would prefer to buy products that were designed specifically for the country and incorporated Chinese imagery. ○

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