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CATERING TO THE NEW MIDDLE CLASS

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The Chinese Consumer: Individuality Replaces Label Cult

Luxury brands flourish in China and the Chinese market for luxury goods constantly sets new revenue records. There isn't a single other country in which the 'customer journey' is as digitalized as it is in China – and Chinese consumers are clear trendsetters in the area of digitalization. Brands are increasingly challenged by how to meet the growing hunger of Chinese consumers for luxurious products and extravagant experiences. A strategy focused on 'digital – emotional – local' will surely have a very high chance to succeed.

By MADLIEN LORENZ

100 Maserati – Sold Online in 18 Seconds

100 Maserati in 18 seconds or 300 TOD's handbags for USD 1,620 each in less than six minutes. Just two examples which impressively show how inevitable the Chinese market has become for brands serving China's increasingly prosperous consumers. Chinese consumers' hunger for consumption seems unstoppable – and the price does not seem to matter for many. While China is often still perceived as a low-cost manufacturing hub for cheap products, China simultaneously has evolved into a market accounting for almost one third of global luxury consumer spending. Latest forecasts expect the share to increase to 40 – 50% within the next ten years.

Chinese 'premium-product' consumers are also increasingly aware of their importance they have for globally operating consumer brands – and expect global brands to increasingly cater to their individual needs. In the past, 'Made in Germany' or 'Made in France' almost always guaranteed successful sales of consumer products in China – those times are long due. Chinese consumers shop more selectively and increasingly demand products customized to the Middle Kingdom's specific taste. While in the past, customers strived for products with large-scale brand displays, a much more subtle and exclusive brand exposure is asked for by the growing middle-class consumer groups in tier 1 and 2 cities nowadays. While consumers in lower-tier cities still happily shop the obviously branded products, consumers in the large megacities demand exclusive products to express their individual styles – and thus differentiate themselves from the mainstream goods everyone can buy with enough cash. And the entire customer journey is becoming almost as important as the consumed product itself – shopping needs to become an experience filled with excitement.

This challenge isn't easy for global brands to master. And it becomes even more challenging when considering the differences of luxury consumers in China compared to other regions: In China, the average customer of luxurious products is only aged 33 years. In comparison, luxury consumers in Europe are at an average age of 47, while in the US at even 58. Similar differences can be seen in the income structures across the globe: while the average age of the 400 wealthiest people in the US is 67 years, their Chinese counterparts are more than a decade younger. While in the US, high-net worth individuals (i.e. those with liquid financial assets exceeding USD 1 million) account for ~60% of luxury spending, in China, such income group only accounts for <20%. Brands not only need to appeal to a much younger target group – they also need to attract a much wider audience in terms of income, job profile, habits and tastes.

Younger Chinese shoppers also present themselves as a much more online-focused but also increasingly sophisticated consumer cluster – the customer journey needs to become much more digital than for Western counterparts. Driven by a highly technology-savvy consumer group, and a still rather poorly distributed offline appearance of many brands throughout China, Chinese consumers became experts in purchasing luxury goods online as well as at competitive prices from abroad. Especially overseas personal shopper ("Daigou") selling luxury products from Europe and the US on Chinese e-commerce channels and WeChat became popular sources for young Chinese to purchase latest luxury products. Besides a more competitive price, access to a much wider product variety is a key motivator for such 'online' shopping. Despite recent decreases of import tariffs on luxury goods by the Chinese government, most overseas luxury products are still ~10 – 20% more expensive than in the West.



Emotional, Digital, Local – Chinese consumers want exclusivity, individuality and experiences

In order to successfully and sustainably reach Chinese luxury consumers along the entire customer journey, EAC has defined three clear guiding principles for brands in China through a comprehensive study of Chinese consumers. Successful go-to-market strategies need to emphasize three important aspects:

- Digital experiences
- Personalization
- 'China matters'

Digital Experiences

A Chinese consumer's everyday life is impossible without a trace of digitalization. In China, one is perfectly at ease leaving home without a wallet – a fully charged cellphone with a WeChat or AliPay account is all that is needed. The local snack from the street stall, the taxi ride, the fruits from the neighborhood wet market and the grocery shopping list can all be purchased with just a simple click, fingerprint and swipe on one's smartphone. Entire supermarkets and restaurants are already functioning without personnel – all just navigated through one's phone. In China, O2O (online-to-offline) almost feels like a story from the past – O2O2O (online-to-offline-to-online) is the new consumer trend. 小红书 ('Little Red Book') is a perfect example: it is the first company starting as a purely online-based product assessment platform suddenly pushing into physical stores.

More and more companies try to integrate their online community into their offline store, events and experiences. Lancôme, as one example, organizes regular make-up sessions hosted and run by favored beauty bloggers across their stores. Those KOL's, so-called 'key opinion leaders' – known as influencers in the West – have become an important Marketing, but increasingly also Sales channels for consumer brands in China. Especially young Chinese consumers, aged 18 to 34 years, regard KOL's as a highly reputable source of information. While ecommerce platforms, such as Taobao or JD.com, are still the main source of information collection about different brands, KOL's are named as the key source of decision influencing for that younger age group in various studies: 55 – 70% of consumers usually stated KOL's as their #1 influencer, followed by friends/ family, discounts given by brands and overall perceived brand reputation.

Individualism and Personalization via Social Media

Product personalization has never been more important. Creating opportunities to individually design products for Chinese consumers not only helps to attract the interest of Chinese consumers in buying one's products – but, at the same time, it helps for consumers to bond with one's brand, to connect the brand with emotions.

In China, brand storytelling and connecting with Chinese consumers increasingly happens on China's social media platforms such as WeChat, Weibo and Douban. Increasingly, social commerce platforms such as Pinduoduo and Xiaohongshu as well as the rapidly growing short-video apps Kuaishou and Douyin offer a similar brand exposure. Names mostly unheard of in the Western world average with 100 – 500 million active users and are oftentimes valued beyond USD 1 billion at IPO. WeChat, with 1 billion monthly active users, already became an integral part into every day's life of Chinese consumers – and many platforms follow. As such, those platforms provide an excellent opportunity for brands to create a tight bond with consumers at comparably low cost and efforts. And again – being present in relevant social media channels – also creates an emotional connection to brands. Emotions, which in the past were often oppressed in a dynamically evolving society, are increasingly being valued and even searched for by prosperous Chinese consumers.

Beyond storytelling and content marketing, luxury brands increasingly bet on Chinese social media platforms to enable Chinese consumers to customize their own products. French handbag brand Longchamp for example launched a "Longchamp Customized Boutique Shop" within WeChat that can be accessed either directly via their WeChat store or by scanning a QR code in one of their shops. The mini-program then allows customers to design their own Longchamp handbags by selecting the color and other product features directly within WeChat.

In addition to customer-centric product customization, brands increasingly create special edition items in collaboration with China's famous KOLs, which millions of consumers follow and associate with a good taste. French luxury fashion house Givenchy has exclusively worked with China's fashion KOL Gogoboi to launch a unique collection of seven different bag designs which could exclusively be purchased through Gogoboi's Wechat Store "Bu Da Jing Xuan" – the classic edition was sold out within half an hour, all remaining bags within 72 hours after launch.

MINI Cooper cooperated with Chinese KOL Becky Li, to promote a limited-edition Countryman painted in a specially chosen Caribbean aqua color. 100 cars were offered – and sold out on WeChat within about three minutes of the launch. Li pre-announced the special sale a few days prior to the official launch and had thousands of followers sign up to buy one. The MINI brand perfectly utilized of Li's positioning at the crossroads of fashion and styling as well as being independent and joyful.

Show 'China Matters'

With growing income levels, we also see a certain national pride evolving throughout China – not in terms of politics or economics, but in terms of tradition, culture and heritage of China and the Chinese. Most successful are those companies that work with tra-

ditional Chinese materials, habits and patterns or those that appeal to socially relevant topics. A 2016 SKII campaign achieved a 90% jump in revenues through a very emotionally touching campaign showcasing the struggles of Chinese 'leftover women' – those aged 30 or above not being married. Again, it's ultimately also about touching consumers emotionally and to show that China matters. Chinese consumers become increasingly sophisticated, assimilate Western living standards and thus become more demanding when it comes to product design and features. Therefore, companies need to develop in-depths consumer understanding and carefully design their product offerings accordingly.

A leading German manufacturer of premium products for showers, bath tubs, wash basins and kitchens also followed this concept: Through dedicated customer profiling and O2O channel prioritization, products were better targeted and specifically designed for local needs – based on local water specifications and bath/ showering needs of Chinese consumers. Products were no longer sold as pure 'goods' but as a showering experience – both in the B2C as well as B2B business. By combining local products with an emotional experience and more digital sales and marketing channels, the China revenue grew by a strong double-digit growth rate.

China is evolving at a very different speed than many other mature – and emerging – markets are, and many believe China won't be following much longer but leading instead. Of course, there is no one-size-fits-all approach in targeting the Chinese luxury consumer – but EAC's extensive China experience shows: those brands succeeding in appealing to Chinese consumers in a digital, emotional and local matter surely will have a very high chance to succeed.



Madlien Lorenz

Madlien Lorenz, Managing Consultant at EAC, spent the last six years in China advising consumer-focused brands on go-to-market strategy, business model innovation and customer centricity. With offices in Germany, China, India and Russia, EAC has been supporting clients for 25 years in all aspects of a successful business – from strategy definition to operational implementation – along their core functional competence centers Strategy, M&A and Operational Excellence. She can be reached at Madlien.Lorenz@eac-consulting.de

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0086 (0) 21 64059551