

Research on the Marketing Strategy of Luxury Brands in China

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ABSTRACT

With the rapid growth of China's GDP and the continuous strengthening of the Chinese economy, it is impossible for any large conglomerate company to ignore the Chinese market, and luxury companies are no exception. As more luxury firms enter China, the sales performance has received increased attention. Research shows that China is the second-largest consumer of luxury goods after the United States, as the sales performance is getting better and better [1]. At the same time, luxury companies are facing strong challenges from other competitors with novel and unique marketing strategies. The ability to deal with challenges, avoid risks that could harm the company, grasp the characteristics of the Chinese luxury market, and implement effective marketing strategies are the keys to luxury firms' success in the Chinese market. The purpose of this paper is to analyze the marketing strategy of luxury brands in China. Firstly, it will describe the luxury market in China. Secondly, it will present two examples of successful marketing strategies. Finally, this paper will analyze two cases of a luxury brand's marketing gone wrong and how other firms should learn from the mistakes.

Keywords: *Luxury, Marketing, Chinese market, Strategy, Consumer.*

1. INTRODUCTION

Luxury goods are defined as “expensive things, such as jewelry and makeup, that are pleasant to have but are not necessary” in the Cambridge dictionary [2]. They refer to the products with the highest ratio of intangible value to the tangible value from the point of view of marketing [3]. Luxury brands generally have the characteristics such as exceptional quality, premium price, scarce quantity, historic brand, and aesthetic design. The luxury market has huge potential. According to statistics, the revenue of the luxury goods markets worldwide reached 309.85 (in billion U.S. dollars) by 2021 and will get to 387 (in billion U.S. dollars) in the next four years. At the same time, China has become the focus of international attention since the global luxury goods rush to metropolitans such as Beijing and Shanghai. Christian Blanckaert, who has served more than 15 years at the Hermes Group as Executive Vice President of Hermès International and Chairman & CEO of Hermès Sellier, has been to China years ago [4]. During a speech, he said, “China is small for [Hermès] and we have a lot to do to try to touch the heart of the Chinese people [5].” He claimed that China might have huge potential for luxury brands in the long run. With the

consumption of \$8.6 billion in 2008, China became the second-largest luxury market in the world. Meanwhile, China has completed the progress from a fulcrum of the luxury market in Asia to a fulcrum globally. Today in the 21st century, it can be said that the era of Chinese luxury consumption has come. Under these circumstances, how should luxury firms learn from the marketing mistakes then implement effective strategies is the key for the company to succeed in China and other countries. Under the pandemic situation, the influence of marketing strategies has been amplified. Hence, the paper will focus on discussing how marketing strategies can influence the luxury market in China by analyzing some examples of different luxury brands.

2. LUXURY MARKET IN CHINA

China did not form a real luxury market before 2003. People's living standards and the level of consumption have been continuously rising under the background of the development of the Chinese economy as well as the emergence of new consumption concepts, the industry of department stores, fashion media, and other factors. According to the research report of the Chinese Brand Strategy Association, there are 175 million consumers in China who can afford luxury goods of various brands,

which counts for 13.5 percent of the total population while 13 million of them are active luxury buyers.

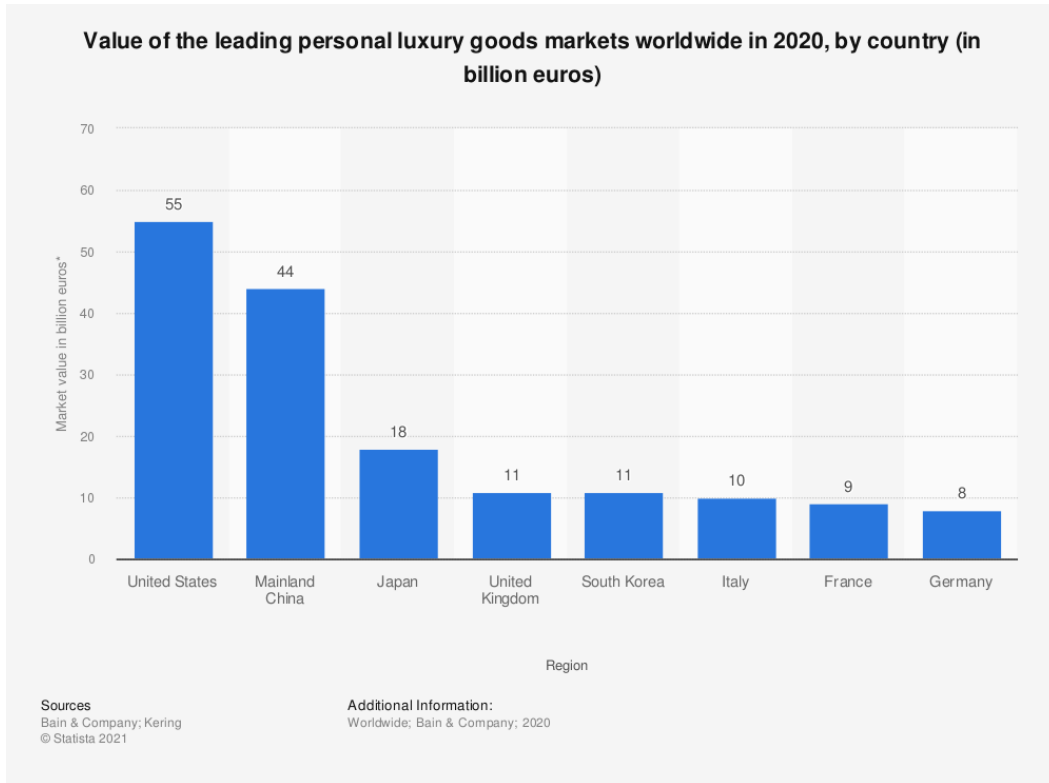


Figure 1: Kering. (February 17, 2021). Value of the leading personal luxury goods markets worldwide in 2020, by country (in billion euros)

As the graph clearly illustrates that mainland China is the second-largest country when ranking the value of the leading personal luxury goods markets worldwide in 2020, which counts for 44 billion euros. The Chinese market is undoubtedly the market that all luxury firms should pay attention to. People usually value the quality and taste displayed by luxury goods themselves when buying luxuries, however, this kind of stable consumer group has not been formed in China. A survey shows that luxury goods are often purchased by people under the age of 40 in China, which is opposite to the luxury goods market abroad [6]. Except for the wealthy class, white-collar workers and young people who are fond of following fashions are consumers of luxury goods in China. The luxury market cannot rely on this group of

people’s selective consumption since they have insufficient purchasing power. Another consumer group for the luxury market in China is the private owners and private entrepreneurs. They tend to purchase high-value luxury bags or watches. Even though they have strong purchasing power, this is still not a stable consumer group because they don’t fully understand the cultural connotations behind these luxury products. At the same time, there is always the existence of a cultural gap. In order to build a stable consumer group and generate more revenues, luxury brand companies should have a clear target market for all of their products and connect their creative ideas with the emotional needs of different cultures to expand the stable consumer group.

3. EXAMPLE OF SUCCESSFUL MARKETING STRATEGIES

3.1 Example of Louis Vuitton

Brand value of the leading 10 most valuable luxury brands worldwide in 2021 (in million U.S. dollars)

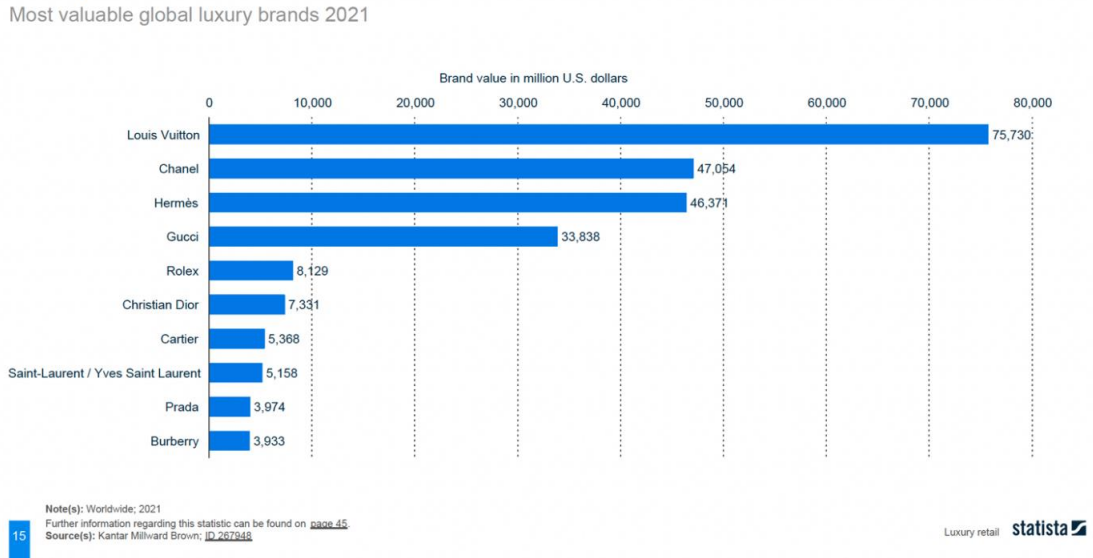


Figure 2: Worldwide; 2021. Brand value of the leading 10 most valuable luxury brands worldwide in 2021 (in million U.S. dollars).

Revenue share of the LVMH Group worldwide in 2020, by geographic region

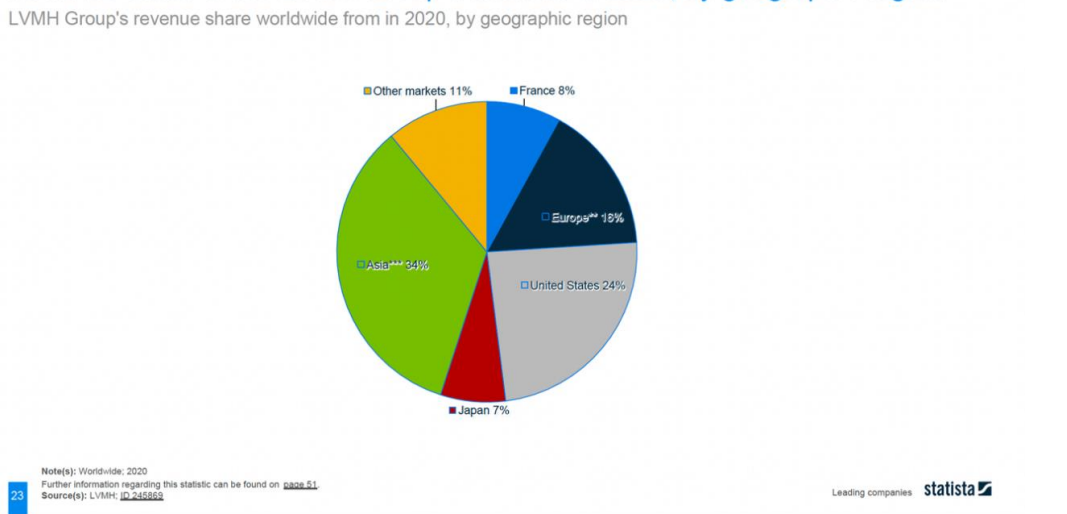


Figure 3: Worldwide; 2020. Revenue share of the LVMH Group worldwide in 2020, by geographic region.

Louis Vuitton is the most valuable brand, with a market capitalization of \$75730 (in million US dollars), and the LVMH group generates the majority of its revenue in Asia, which accounts for 34% of the geographic region. Since the luxury market in Asia is different from that in Europe and the United States, luxury brands need to reevaluate their position and the characteristics of Asian market to make decisions of implementing different market strategies instead of copying their existing sales activities. Take Louis Vuitton as an example, it is the world's most valuable

luxury brand as a division of LVMH. Its products include leather goods, handbags, trunks, shoes, watches, jewelry, and accessories with the LV monogram adorned in most of the products [7]. Louis Vuitton found after research that many Chinese luxury goods consumers are young with the average age under 40. These young Chinese consumers like to combine luxury products with street fashion brands. Therefore, Louis Vuitton has begun to provide Chinese young customers with innovative strategies. Firstly, it is continuously increasing the number of seasonal products, which shortened the shelf

life of each product accordingly. Louis Vuitton is launching more fashion products with increasing frequency and quantity. This strategy pushes young consumers to make purchase decisions quicker before the products are out of stock. Moreover, most luxury goods are always sold in limited quantities and can never be bought again once they are off the shelves. It is the rarity of luxury goods' that give them a sense of mystery that makes people yearn for them.

Additionally, Louis Vuitton started to offer smaller products with cheaper prices in China such as various kinds of key chain and small card holders [8]. They make luxury goods more accessible but also attractive to young generations. The low profile of Louis Vuitton did not damage its well-known dignified image, instead, it captured the consumption psychology and consumption behavior of Chinese consumers. The transition from the niche market to mass shows that Louis Vuitton wants to develop multi-level customers in the Chinese market. Thirdly, Louis Vuitton has continued its digital innovation in the Chinese market with the launch of the WeChat Mini-Program pop-up store, which provides more convenient services for purchasing and delivering products to all Chinese cities. During the year of the pandemic, Louis Vuitton transited most of its strategies to off-line activities. However, it presented a fashion show in Shanghai for the new Spring and Summer 2021 menswear collection, which showed the brand's attention to the Chinese market [9]. Last but not least, cross-border cooperation is a common marketing method for modern enterprises [1]. Louis Vuitton understands the importance of partnership. It has announced the collaboration of LVMH with the Chinese online

shopping platform JingDong (JD). Instead of selling its products directly through JD's website, the users are redirected to the Mini Program of luxury brands to confirm the transaction, which creates a win-win situation for both parties when opening a seamless e-commerce experience. In addition, the brand often launches collaborations with young-fashioned brands such as supreme and off-white to attract young consumers. It took advantage of partnering with popular celebrities to create web traffic in social media as well by attracting fans and haters. Compared to ordinary affordable brands, luxury companies pay more attention to the intangible value of their products. Therefore, it is important create an enjoyable customer experience by letting the customers to participate in the intimate one-on-one VIP service, and truly feel the specialty and pleasure of shopping.

3.2 Example of Chanel

Another brand worth mentioning is Chanel. It is a private company and a world leader in creating, developing, manufacturing and distributing luxury products, which offers a broad range of high-end creations, including Ready-to-Wear, Leather Goods, Fashion Accessories, Eyewear, Fragrances, Makeup, Skincare, Jewelry and Watches [10]. According to a ranking by Agility Luxury Brand Affinity, Chinese shoppers are crazy for Chanel. Each luxury brand was given a score in a survey measured by twelve metrics such as admiration, purchasing, sustainability, etc. As a result, Chanel was rate scored 99 out of 100 while second-place Dior was scored 87, and the number-three brand Hermes with a score of 83 [11].

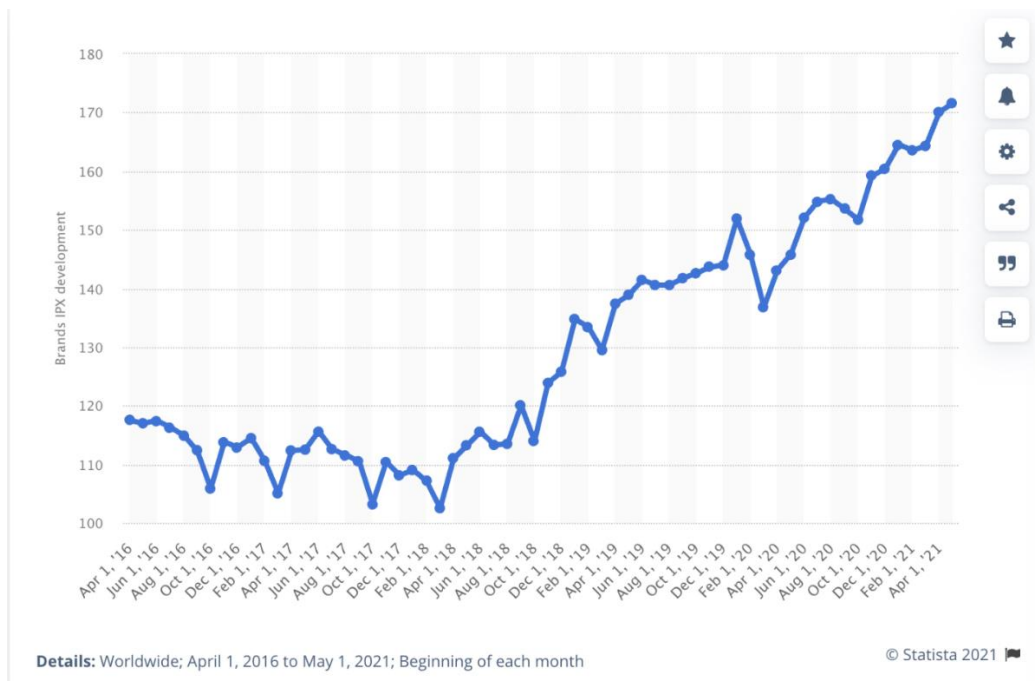


Figure 4: IFDAQ. (June 23, 2021). Brands IPX (global): development of the Chanel brand worldwide from April 2016 to May 2021

The graph above shows the development of the Chanel brand worldwide from April 2016 to May 2021. Except for the big drop from January 2021 to March 2021 because of Covid 19's negative influence, Chanel brand is showing a relatively stable growth globally. According to Philippe Blondiaux, Global Chief Financial Officer, Chanel launched a strategy to tackle climate change through CHANEL Mission 1.5° in keeping with their long-term approach and commitment to sustainable business, which shows the brand's social responsibility in placing public bonds linked to the achievement of its sustainability objectives [12]. To analysis Chanel's marketing strategy using 4P analysis, Chanel's products have the symbolic and irreplaceable design with a profound brand culture. The double-C character, the distinctive camellia design and smell, and the classic rhombic design all remind people of this fashionable and elegant brand[13]. Chanel's products have different target groups. The makeup segment is more inclined to the lower middle class while it also offers private customization or limited edition for the top class. There is a wide range of prices from \$100 perfume to more than \$100000 limit edition bags. The price trend is only possible to rise every year with no possibilities of discount. With the support of Chanel's loyal consumers, it only needs to maintain the luxurious and noble quality of the products without making any promotions. As an internationally renowned brand with decades of history, the promotions for Chanel are the fancy pictures of new collections appearing in fashion magazines such as Elle and Vogue. As for the place, Chanel has various distribution channels for different products. Taking the Chinese market as an example, Chanel's fragrance, makeup, and skin care product series have opened 36 stores across the country. However, the high-end boutiques of ready-to-wear and accessories are only opened in Beijing, Shanghai, Hangzhou and Guangzhou, which fully demonstrates the relationship between market demand of products and the number of distribution points. As a successful luxury brand, Chanel pays more attention to consumers' attitudes towards life, their lifestyle and consumption appreciation ability instead of simply defining the target groups according to age or social class.

4. DISCUSSION

Being in a high barrier but competitive industry, luxury brands are constantly making adjustments to their marketing strategies in the face of a new environment for different countries. An innovative successful marketing strategy can bring the firm unlimited revenues while it could destroy a brand if marketing goes in the wrong direction. An example case is Dolce & Gabbana. Back in April 2017, the designer Stefano Gabbana posted an Instagram photo of a \$973 shoe emblazoned with "I'm thin & gorgeous" on the side. The wording did not sit well with many people, and the majority started to

complain the slogan was shaming people for not having the ideal body shape. Instead of apologizing, Stefano Gabbana replied back in the caption with "Darling you prefer to be fat and full of cholesterol??? I think u have a problem" [14]. Even though Gabbana seemed unfazed by the criticism, this caused many people to complain that he was intended to insult people as a brand's designer, which took away part of their loyal customers. Similar incidents happened more than once. In 2018, Dolce & Gabbana released several advertisements on social media. Those advertisements were combined traditional Chinese culture with classic Italian food with a title of "'Eating with Chopsticks' by Dolce & Gabbana". The model in the advertisement showed how to use chopsticks to eat pizza, spaghetti, and cannoli. The chopsticks were called "small cutlery with stick-shaped". At the same time, the pronunciation with the Chinese accent of the narrator, the arrogant tone and the strange gesture of the model using chopsticks have all been criticized for discriminating against traditional Chinese culture. Dolce & Gabbana deleted the relevant videos on the official social media without responding directly to this incident, which caused great dissatisfaction among Chinese people [15]. The incident went from bad to worse. What followed was that Dolce & Gabbana officially announced the cancellation of the Shanghai fashion show because of Chinese model went on a strike of the show. Chinese celebrities started to announce the termination of their partnership with this brand, and the E-commerce companies removed all related products immediately. The model in the advertisement posted on social media of her thoughts saying it almost ruined her modeling career. On November 23rd, 2018, Dolce & Gabbana officially released an apologize video with the two designers saying sorry in Chinese and asking for forgiveness of their cultural misunderstanding. The brand itself lost many customers and suffered huge losses because of the incident. Consumer values not only the quality of a brand's products, but also the quality of the brand's culture. Being able to put away prejudice, be sincere and respect all cultural differences is the first step that a luxury brand should build when it establishes the marketing strategy for different countries.

5. CONCLUSION

Undoubtedly, luxury brands need to tailor their products and marketing strategies to cater to the preferences of Chinese consumers. Identification of the target market, product development, price setting, distribution channel, and promotion are all steps that necessitate extensive research and planning. The Chinese market is complex with various opportunities and challenges. While the stable consumer group for the luxury goods market has not yet formed in China, luxury brands need to treat the market as a long-term project to implement efficient strategies. This paper presented the current situation of the development of the luxury market

in China and analyzed examples of successful and unsuccessful marketing strategies. Except for maintaining the brand's high-end image by creating a high-profile marketing campaign and taking advantage of online platforms, emphasizing the customer experience and interaction is also what firms need to pay attention to. Firms should learn from the mistakes such as the presented Dolce & Gabbana case. No matter what the original idea of the advertisement or other marketing strategy was, brands should be aware of cultural differences in other countries and always show respect before entering other countries' markets. This project could improve more if there are more customers feedback included. Future research will focus on how each luxury brand could differentiate themselves among the competitive market and expand the market.

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