



The Development Status, Problems and Countermeasures of China's Luxury Goods Market During the COVID-19 Period

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Abstract. The demand for luxury products among Chinese consumers is rising along with the nation's consumption level's ongoing development and the country's rising annual income. The COVID-19's economic impact, however, has caused significant shifts in the developing Chinese luxury goods sector, and it is impossible to anticipate how things will pan out going forward. This paper examines the development status of China's luxury goods market in depth, takes into account the context of the epidemic, after reading pertinent papers, gathers information from pertinent reports published by Bain Capital, Deloitte, and other reputable institutions, and conducts qualitative and quantitative analysis. This paper claims that China's luxury sector has significant untapped potential, but there are still issues such as high pricing driven by tariffs, brand halo retreat, and the presence of counterfeit and poor goods. In light of the aforementioned issues, this study proposes remedies, such as reducing tariffs, boosting local companies, improving marketing, and utilising blockchain technology to improve China's luxury goods market. This paper hoping to offer some references for the development of luxury goods market.

Keywords: Luxury goods, China market, COVID-19, development status, problems and countermeasures

1 Introduction

Chinese consumers now have significantly more purchasing power because to the country's growing middle class and advancing economy. Famous international luxury goods corporations have been scrambling to enter the Chinese market as a result of their realization of its enormous potential. Numerous economists now spend a significant amount of time researching the Chinese economy. There are, however, few studies exclusively focused on the market for luxury products in China. The Chinese luxury market is in disarray, and the future orientation is unclear, especially in the wake of the current COVID-19 pandemic in 2019. The future path is unpredictable, providing a research gap that is worth examining. The purpose of this paper is to investigate issues concerning the Chinese luxury market in the context of the epidemic, and will delve

into the current development of the luxury market, particularly the question of why sales of Chinese luxury goods increased rather than decreased during the epidemic period, followed by an analysis of current market resistance. This paper explains the present evolution of the Chinese luxury goods market, elaborate on the challenges that exist in the current market, and gives practical remedies for these problems after examining the above concerns using qualitative analysis, so as to offer some references for other companies' development.

2 Analysis of the Luxury Goods Market During the COVID-19 Period

2.1 Macro Analysis of Market

According to Raphael Pitoun, a fund manager of CQS New City Equity, "luxury is like a need in China". As the economy expands, the demand for luxury items from increasingly affluent Chinese customers grows year after year, providing luxury firms from across the world with a peek of a promising market [1]. As a result, prior to the outbreak, many experts focused their studies on the Chinese market. The findings of the study provide international luxury companies with promising proof and confidence in entering the Chinese market. According to Bain & Company's data, domestic luxury goods sales in China totaled about 23.4 billion euros in 2018, representing a 15.16% rise year on year. In that year, China had surpassed the United States as the world's leading buyer of luxury goods, accounting for nearly 33% of worldwide luxury spending. China accounted for more than half of the rise in the global luxury market between 2012 and 2018. According to figures given by Bain Capital and Fondazione Altgamma, the Italian luxury industry group, Chinese consumers accounted for 35% of total worldwide personal luxury spending in 2019, up 2% from 2018.

According to the 2018 Global Luxury Industry Research Report by Bain & Company, although China's luxury consumption capacity has risen to first place in the world, it is still dominated by overseas consumption, and the proportion of domestic consumption in total luxury consumption is still less than a quarter, despite continued growth. Chinese consumers' consumption outside of China is approximately four times that of the home market. According to Ministry of Commerce data, Chinese visitors spend over 1.2 trillion RMB abroad each year, and Chinese people purchase 46% of the world's luxury products each year, maintaining their position as the world's largest tourism consumer group.

Economists examine the consumption patterns of luxury items in the Chinese market and conclude that these patterns are more akin to a societal phenomena than an individual phenomenon in terms of China's social and cultural traits. The social significance of accumulating riches as a kind of power and strength is more similar to luxury spending [2]. In terms of brand distribution in the luxury market, as of 2015, practically all luxury brands in the Chinese market are from non-Chinese nations, particularly European countries, implying that luxury consumption in China is primarily impacted by the westernisation of Chinese culture. Economists examine the consumption patterns

of luxury items in the Chinese market and conclude that these patterns are more akin to a societal phenomena than an individual phenomenon in terms of China's social and cultural traits. Luxury consumption is more like the social significance of acquiring wealth as a form of power and power. In terms of brand distribution in the luxury market, as of 2015, practically all luxury brands in the Chinese market are from non-Chinese nations, particularly European countries, implying that luxury consumption in China is primarily impacted by the westernisation of Chinese culture. Deloitte's 2020 Luxury Global Power Report presented a list of the world's top 100 luxury firms. According to the report, the top three companies are LVMH, Kering Group, and Estee Lauder Group. Only eight Chinese companies were featured, with Chow Tai Fook jewellery group, Lao Fengxiang, and Chow Sang Sang group ranking among the top three [3]. Despite the fact that Chinese national customers have become the primary purchasers of global luxury goods, China's domestic luxury companies have a relatively modest worldwide market share. However, all of this is due to historical circumstances.

Since China joined the WTO in 2001, an increasing number of international luxury items have entered the domestic market, introducing the notion of high-end luxury consumption into China and solidifying it in the minds of many individuals. Foreign luxury brands were initially concentrated in the eastern coastal region, where their potential customers resided; however, due to rapid urbanization, a growing economy, and the resulting increase in purchasing power of Chinese customers, foreign luxury brands have gradually penetrated the interior of China and have even begun to develop their business in the western part of China. According to a 2019 research produced jointly by Deloitte and Chinese e-commerce luxury platform Secoo, Chinese luxury consumption in Beijing and Shanghai remains the backbone in terms of size, with a combined share of 18.1% [4]. In terms of luxury consumption, Beijing, Shanghai, Chongqing, Tianjin, and Chengdu are the top five cities in China. This demonstrates that the western area, represented by Chongqing and Chengdu, is progressively unleashing significant consuming power as well. In terms of city line level, over half of all luxury buyers live in first-tier cities. In 2019, for example, the number of luxury customers in North, Guangzhou, and Shenzhen reached almost 30%, while consumers in other first-tier cities reached 23%[4].

2.2 Micro-analysis of the Market Under the Impact of COVID-19

Today, the COVID-19 is still raging over the world, wreaking havoc on all global economies. According to Bain & Company statistics released in 2021, the luxury market fell 23% in 2020 and is now expected to be worth €1 trillion globally, down to 2015 levels [5].

While some mid- and low-end businesses are struggling financially as a result of the pandemic and the recession, the majority of LVMH's stores in China are seeing year-over-year sales increase, with some luxury labels reporting sales growth of more than 50% in April 2021"..... This actually illustrates that after the two-month ban, the Chinese hunger for consumption has returned to its prior state", LVMH's chief financial officer stated on the 2020 investor call. According to the statistics presented above,

Chinese consumers' ardour for luxury goods did not appear to be much influenced during the outbreak's early phases [6]. However, this is just the outcome of luxury companies putting pressure on the Chinese market to deliver. Since 2020, high-speed marketing has sent the market into a frenzy. However, when the pandemic reoccurs in 2022, customers become more cautious and rational. The domestic luxury market has yet to fully rebound to the levels seen at the start of the year or in 2021. Following a poll of 30 corporate leaders in the multi-consumption industry, Oliver Wyman discovered that many luxury brand executives reduced their expectations for China's business in 2022 by an average of 25%, and anticipated that retaliatory consumption in 2021 would not occur again [7].

The luxury consumption market in nations other than China is progressively improving but remains weak, providing some context for the future development of China's luxury market. Most rich individuals throughout the globe are altering their attitudes about luxury products, and many wealthy customers are increasingly finding it difficult to purchase luxury goods, which is a wake-up call for the global luxury goods industry. According to a Deloitte survey of affluent consumers and the middle class released in May 2022, 74% of respondents expressed concern about the continuing high cost of living and 54% predicted that their financial situation would not improve in the next three years, indicating that now is the time to invest in gold or real estate rather than buying non-essential luxury goods [8]. The consumer value of luxury items has fallen as a result of the economic crisis, and much of the money that would have been spent on luxury goods is now being utilized for other, more practical purchases and investments.

The proportion of online channels increased from about 12% in 2019 to 32% in 2020, according to an analysis of the structure of luxury purchase channels from the epidemic in 2020 to the present. This increase was caused by the closure of stores during the epidemic and consumers' shift to online shopping, as well as the accelerated design of online channels by many brands during the epidemic. On the other hand, the pandemic greatly reduces luxury consumption abroad, making domestic consumption the major market for luxury products, with the channel share increasing from 32% in 2019 to 59% in 2020.

3 Existing problems and suggestions

With the end of the pandemic, domestic consumption of luxury items has increased, but owing to tariff concerns, the majority of customers will continue to go overseas for goods of high quality and low cost. The Chinese economy will undoubtedly suffer greatly if the trend of consumption outflow is not reversed for an extended period of time. This will not only make it difficult to change the current passive state of Chinese economic development, but will also result in a decline in the domestic consumer surplus and consumer welfare [9]. The Chinese government adjusting the tariff suitably at a time when buying luxury items has become fashionable is the countermeasure sug-

gested in this article. More significantly, domestic firms should learn from the successful experiences of overseas luxury brands and mix them with Chinese characteristics to produce higher-quality domestic luxury items and increase brand value.

At the moment, Generation Z is playing a growing role in luxury spending. They were born during the period of materialization of reform and opening up, their families have better material situations, and their diverse upbringing has created their distinctive consumer idea - they are more enthused about new things, therefore luxury items have lost their halo in their eyes [10]. As a result, the solution offered in this study is to utilize video conferencing platforms throughout the pandemic and to maximize the value of the experience by implementing new technologies such as artificial intelligence, augmented reality, and virtual reality to give luxury a new attraction [11].

What disturbs luxury firms is that the rich falling in love with buying high-fashion luxury products is no longer an isolated phenomena. A rising number of customers' attitudes have shifted as a result of the pandemic. According to a new EUIPO study, the percentage of young people in the 27 EU member states intending to buy counterfeit products is on the rise, with 52% of consumers surveyed having purchased at least one counterfeit item online in the previous 12 months and 37% intending to shop for counterfeit products. INTA, the worldwide trademark association, also conducted a survey of young Gen Z customers in ten countries, including China, Japan, and the United States, which revealed that 84% of young Chinese people purchased counterfeit goods in 2018. Due to the economic slump, an increasing number of buyers are prepared to purchase luxury items via luxury goods resellers or second-hand luxury websites, creating a big market for counterfeit products. Based on this phenomenon, the countermeasures proposed in this paper are to strictly prohibit the sale and purchase of counterfeit luxury goods, as well as to use blockchain technology to improve product identification and anti-counterfeiting technology in order to restore the aura of uniqueness of luxury goods [12].

4 Conclusion

Based on a macroeconomic study of the market, this paper argues that the luxury market in China still has significant potential. As China's economy develops, the national consumption level rises and national wealth rises year after year, rich consumers have an increasing need for luxury items. However, the number of local luxury brands in China is quite small, and people prefer to buy from international luxury brands or even go overseas for lower rates. This has a detrimental influence on China's actual economy's development.

It is thought that the luxury goods market is gradually regaining the sales volume prior to the epidemic after micro-analysis of the market affected by it. However, the growth rate of the Chinese luxury goods market turnover may slow down due to the negative effects of the repeated epidemic on consumers' consumption psychology.

There are several issues in the luxury market that must be addressed, and these issues are impeding the sector's progress. The luxury market remains expensive due to tariffs; many customers choose overseas consumption, such as buying on behalf of consumers

and consumer travel; and local luxury brands have not been effectively formed for many years, with few local companies in the domestic luxury market. The aura of luxury brands has faded in the eyes of Generation Z, the future customers who want innovation and decent living conditions, and their devotion to luxury is not as intense as that of past generations. At the moment, the problem of counterfeits and fakes hurts the luxury goods industry, and what makes them suffer even more is that many buyers deliberately accept counterfeit items. Given the aforementioned issues, the practical remedies presented in this article are as follows: the government can explore modifying tariffs to encourage the consumption of luxury items in China. More importantly, local companies must be supported in order to compete with foreign luxury goods. To encourage consumers to buy, luxury goods firms should increase their marketing and offer fresh distinctive values to their brands and items. To address the issue of counterfeit and fraudulent items, this paper proposes that businesses employ blockchain technology to generate a unique imprint for their products and maximize the user experience.

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