

A light gray world map is centered in the background of the slide. The map shows the outlines of continents and countries.

CHINA
LUXURY
中国奢侈品报告

New Trends in Luxury Retail

Dr. Ting ZHOU
Fortune Character Institute

Most Professional Institute in the Chinese Luxury Market

- Surveyed more than **6,000** billionaires annually generating comprehensive understanding of China's luxury consumers;
- Surveyed a grand total of more than **40,000** millionaires and billionaires in China, establishing the most quality high-end consumers' database;
- Surveyed over **10,000** Chinese customers to generate insights on traffic, service, products and etc.; in total has surveyed **50,000** luxury customers nationwide ;
- Producing **30** industry reports annually, providing best reference to learn China luxury market;
- Published **6** China Luxury Report and **40** industry reports; providing insights for leading media including Wall Street Journal, New York Times, China Daily with over 5 million reach;
- The only luxury industry research institute appointed by the Chinese government - **4** reports have been saved in the government system for internal reference.



Fortune Character Institute is the drive and insights provider of Fortune Character Group. It initiates the research and advisory services targeting China luxury market. Fortune Character Institute also gathers most outstanding experts, academics and industry practitioners of rich service area in various industries. These experts are resource integrators and opinion leaders in this industry. Meanwhile, they are spokespersons for Fortune Character in various fields.



Dr. Ting ZHOU

Dean of Fortune Character Institute
The Chief Researcher of China Luxury Report

The most influential expert of China's luxury industry; the special commentator of CCTV; the visiting scholar of International University of Monaco (IUM); the guest professor in couple of universities; the columnist of mainstream financial and fashion media; the author of China's first luxury teaching material for higher education; the founder of China's first luxury research centre; the chief researcher of China Luxury Report – the first professional luxury report in China; invited expert of China's Ministry of Commerce, Ministry of Finance and General Administration of Customs, a couple of reports are saved in the national internal system for leaders' reference; branding & marketing consultant of several international luxury brands, consultant of Wanda Group, China Poly Group Corporation, China Vanke Co Ltd., etc.

Fortune Character Insights In the Past Six Years

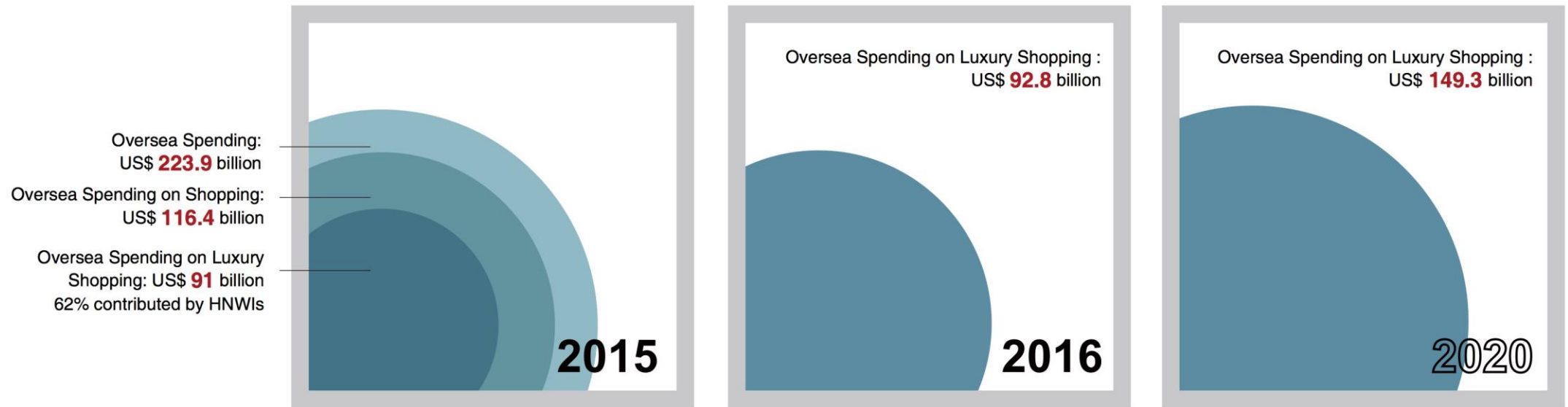


2011	Diversification of Luxury Brands and Consumption	2011 - Published the first China Luxury Report, suggesting an upcoming trend of diversification of luxury brands in the coming 5 to 10 years, and the rise of high-end niche and designer brands. Proposed the "Game Theory in Brand Value and Brand Visibility".
2012	"De-logo-lization"	2012 - Proposed the "De-logo-lization (the trend of more low-profile branded luxury goods with fewer logo placements)" among luxury brands within three years. emphasizing that customers will focus on products instead of brands. Developed the theory of "Cost performance of luxury goods = Cost performance of products + Cost performance of brands". Foresaw the slowed down development of luxury brands in 3 to 5 years. Successfully forecast the development of fast fashion industry and light luxury brands in 5 years.
2013	"De-brand-lization"	2013 - Proposed the trend of "De-brand-lization" in luxury industry in three to ten years. Suggested that 2013, 2014 and 2015 were going to be the prime time for luxury brand spin-off. It has also suggested that the closing of global price gaps and global retail price integration were to become true in three to five years. It pointed out that over 90% luxury brands were going to strategically close down some of their retail stores, and by 2020, 80% luxury brands will close down more than 1/3 of their retail stores.
2014	Cost Performance	2014 - Predicted that luxury brands including Chanel would start to practice e-commerce, even though Chanel has made public comments that the brand would not consider e-commerce). Collaboration between Alibaba and luxury brands were also suggested. It pointed out opportunities in customization, indicating that customization would gain more attention from brands and achieve fast development - bespoke services to generate 15% of luxury sales by 2020.
2015	Chinese Consumer Market	2015 - Decipher the "Industrial migration theory" to the global luxury sector, advising luxury brands to focus more on the investment and input of raw materials. Foresee that luxury brands will realize the interaction with the internet through enabling the internet in offline retail stores, and achieve e-commerce with the O2O model. Believe in the normalization of discount in China, and discount seasons in China like Europe and America in 2 to 3 years.
2016	Planned Consumption and Global Consumption	2016 - Predicted the falling of online selling on brands' official websites. It pointed out that third party luxury e-commerce platforms will become the ultimate choice for luxury brands. Foresee tendency of incorporation of major luxury groups. It also suggested that China will develop a global top 3 luxury group in the coming 10 years.



**Chinese Consumers Continue to Dominate the
Global Pattern of Luxury Consumption**

Chinese consumers keep on leading global luxury consumption, and generated US\$ 120.4 billion sales in 2016, which accounts for half of global annual luxury sales.



The Chinese overseas consumption and luxury consumption

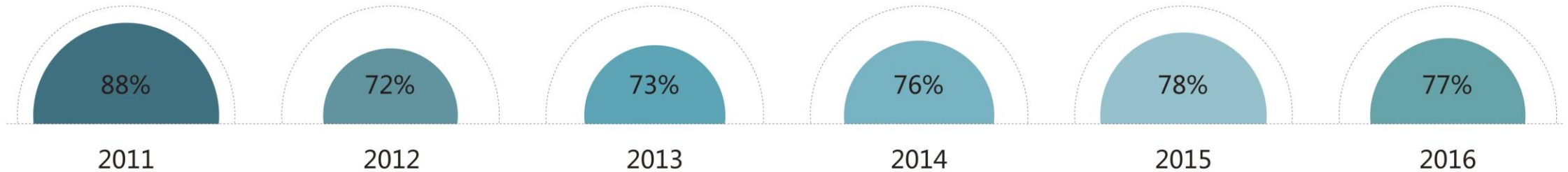
It is estimated that Chinese tourists spend over US\$92.8 billion (CNY 640 billion) on overseas luxury spending in 2016 with the market increasement from 12% in 2015 down to 2%; and US\$150 billion (around CNY 1 trillion) in 2020.



**Planned and Globalized Consumption Becomes the
Main Trend for Wealthy Chinese Luxury Shoppers**

"China Market" or "China Consumer Market"

The Proportion of Chinese Overseas Luxury Consumption from 2011 to 2016



- More and more Chinese tend to buy luxury goods abroad, which accounts for 77% of total luxury consumption in 2016.
- More attention should be given on the increasingly powerful "Chinese Consumers" instead of "Chinese Domestic Market".
- Globalization of consumption is inevitable, especially under the background of continuous development of Internet technology. The concept of "China Consumer Market" will replace the geographical concept of "China Market". For brands, it would be far more meaningful.

“Out of stock” is the major issue for Chinese overseas luxury shoppers



1. Products are out of stock



2. Lack of high-quality service



3. Limited access to brand offers and discounts



4. Time-consuming and inefficient payment and tax refund process

According to Fortune Character Institute, **73%** of travelers have a shopping list before going on a trip. However, an average of **45%** of the luxury items on their lists are not available in-store at their destinations. Shopping becomes more time consuming, and customers become dissatisfied with their shopping experience for not being able to get what they want, as a result, stores lose their sales.

“Planned consumption of luxury goods” becomes a new concept for wealthy Chinese shoppers

The traditional luxury consumption behavior

Store >> Browsing >> Choosing >> Purchase

The luxury consumption behavior in Internet era

Browsing Online >> Order >> Store Purchase

- Wealthy Chinese tend to be rational when buying luxury goods. They are more willing to make shopping plans in advance, including buying category, brands, quantity, location, time and even budget, especially for purchasing abroad.
- With the rising popularity of planned luxury consumption, "random shopping" will gradually be replaced by "making an appointment for store shopping". Transactions from "random shopping" will reduce sharply. Chinese people will buy luxury goods in accordance with their own shopping plan, ordering products online and then purchase offline.

With the development of the mobile terminal device in this internet era,
order online, transact offline
will become the main trend of luxury shopping.

Transactions

Transaction of luxury goods is a geographic concept, emphasizing the location where trading happens. The actual transaction can occur both domestic or overseas.

Orders

The order quantity of luxury goods is an Internet concept which breaks the concept of time and space. As long as there is network, customers can order at anytime and anywhere.

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In the future, there will be around 80% of Chinese luxury goods ordered within China, but still 60% transaction will be made offline abroad. Only no more than 40% of luxury consumption in China.



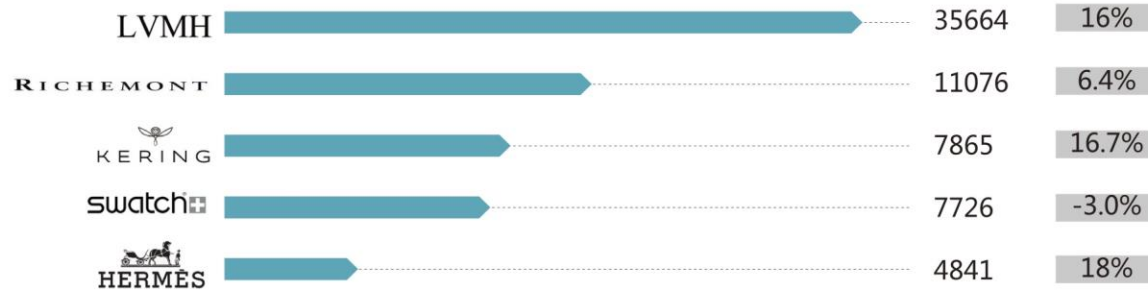
The Future of Global Luxury Retail



2016, A Tough Year for Luxury Industry

Annual sales growth rate of top global luxury groups has dropped to single digit.

Global sales and growth rate of each luxury group in 2015



Global sales and growth rate of each luxury group in 2016



Unit: million-euro



Source: China Luxury Report, Fortune Character Institute

Referenced from financial reports of each luxury group, including the sales growth data from March 2015 to March 2016 for Richemont Group and the sales volume statistics for KERING Group luxury department.

Key pain points for luxury stores



1. Insufficient stock causing customer disappointment

Brands cannot prepare stock to accurately match customer demands. Insufficient stock will disappoint customers and may cause up to 30 to 50% sales loss.



2. Tailoring services for all customers' needs

Brands have limited capacity for providing personalised services. Without knowing customers' interests and arrival information, it is challenging for brands to provide personalised services for all customers, and therefore sometimes upset high-end customers.



3. Hesitation of offering discount due to brand image concern

Some brands are hesitating about offering discounts to drive sales as they are concerned of damaging brand image.



4. Limited space for product display

Stores have limited space for product display, and this may limit customers' purchase potentials. Brands will need to work on expanding product display and noticing customers product choices before they arrive.

Internet provides opportunities as well as challenges

Challenges Facing Luxury Brands

Loss of high-end customer

Lacking channels for products display and recommendation

Internet provides opportunities as well as challenges

Customer

- More mature and rational
- Decreasing loyalty to brands
- Rising costs for brands to win customers

Communication

- The rise of new media makes it even harder for brands to manage their image
- Lacking effective channels to convey products information

Channel

- Increasing costs on offline channels result in low return
- High reliance on tour guides and "dai gou" damage brand image and profits
- E-commerce creates a new opportunity but it has negative impact on offline stores

E-Commerce?

If do, brands will

- Concern about brand images
- Concern about impact on offline stores

OR

If not, brands will

- Lose competitiveness in the online market
- Falling behind with competitors

How to do it properly?

E-Commerce (sell products directly), brands will

- Concern about brand images
- Concern about its impact on offline stores

OR

E-Service (service-oriented marketing)

- Improve service through Internet
- Maintain brand image, improve store sales and customer experience

Luxury Shoppers from Reservation Platform?

Purchase rate: 100%

100% clients know products in the stores in advance through the reservation platform, they have clear purchase intention and will pay deposit

Targeted customers: high end self-organized tourists with the capacity of spending USD20,000 individual spending per transaction

Customer from the reservation platform: HNWI with high repeat purchase rate

Customer focus: products & Services

Not sensitive to price, want to buy unique and high quality products, good service and individualized experience

Create additional sales for brands

The reservation platform provides shopping convenience, and drives 20-50% purchase thanks to the improved service and sufficient shopping time

Customer Satisfaction: high

Save shopping time for customer and improve their loyalty to brands

Or from Tour Groups?

Purchase: less than 20%

Tourists are led to stores by guides with no clear purchase intention and are not aware of product availability in the store prior to their arrival

Targeted customers: customers with the capacity of spending USD3,000 per transaction

Low purchase capability and low repeat purchase rate

Sufficient: price & discount

Driven by about price and discounts

Low sales and loss of traffic in brand stores

Chinese customers are put off by shopping recommended by guides. It is estimated that luxury boutiques may lose 5 customers every time when tour guide brings in a new customer

Customer satisfaction: low

Customer satisfaction rate to tour groups is less than 20% with a key complaint about the compulsive shopping, which has become the most complaint service

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Luxury retail over the Internet will become the biggest driver for luxury market in 2017. Under such trend, the market can expect more good quality online luxury projects, especially O2O (offline to online) projects. It is expected that online sales will account for 11% of total luxury sales, and more online transactions will be achieved than offline in future.

Reservation

The **BEST SOLUTION** of Luxury Shopping for Wealthy Chinese

The advantages of Internet

- Removal of geographical boundaries
- Providing more product selections

+

The advantages of offline stores

- Providing the best service & shopping experience

=

Official platform for luxury shopping reservation

- Manage your own product information
- Manage your reservation orders
- Manage your own client database

O2O NEW RETAIL

Adding value by the worldwide official luxury shopping reservation platform

Value to Stores

Increased sales and improved customer satisfaction

- To avoid losing sales by preparing goods prior to customers' arrival
- To ensure the best service to the most valuable customers
- To improve store stock management and operational efficiency
- To cultivate customer loyalty gradually

Value to Customers

Better shopping experience and better accessibility to products

- To be able to purchase everything on the shop list
- To enjoy better service, eg. exclusive VIP benefits
- To better manage shopping time and efficiency

The worldwide official luxury shopping reservation platform will increase brands' sales by **20% to 50%**, and increase store capacity by **50%**; it aims to save customers' shopping time by **30%**, allowing purchase increased by **50% to 100%**.



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