Exploring Marketing Strategies for Luxury Goods in China in the Post-Epidemic Era

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Abstract. In the post-epidemic era, luxury goods have seen a decrease in production and sales abroad, while sales in China have tended to rise and even increase in price. The paper has examined the current situation and problems from the perspectives of sales channels, localization, brand building investment and segmentation of target customers, and made suggestions on marketing strategies in terms of enhancing the public welfare image of brands, taking social responsibility, promoting digital marketing transformation, standardizing channel management, increasing investment in second and third tier cities and focusing on young target customers. The company put forward marketing strategy suggestions. In particular, for the digital marketing transformation, suggestions were made to strengthen the construction and promotion of the official website, promote the diversified sales model of the e-commerce platform and give full play to the influence of social media. At the same time, it was suggested that major luxury brands could strengthen cross-border brand alliances and production line cooperation to enhance brand awareness and reputation, increase the production capacity of each partner, and develop greater market space.

Keywords: Brand Social Responsibility; Digital Marketing Transformation; Regulated Channel System.

1. Introduction

Statistics show that the luxury goods market is valued up to US$1 trillion as of 2018, with mainland China accounting for US$9.83 billion, or 80% of global luxury consumption, in 2020 (NPD.com, 2021). In 2019, 90 % of the global market expansion is driven by Chinese customers, while Europe only grew by 1%. Meanwhile, Chinese luxury consumers accounted for almost 1/3 of the global luxury market in 2019 and McKinsey predicted that this would rise to 44% by 2025.

The Chinese luxury market is bucking the trend as the movie market and restaurant market have all suffered a downturn due to the epidemic. A large body of literature has been published on the factors and psychology of consumers purchasing luxury goods, but very little has been written on the marketing strategies for luxury goods in China in the epidemic era. Therefore, the marketing strategy of the Chinese luxury goods market is worth studying.

2. Development and current situation

Since the new crown epidemic in 2019, luxury goods have closed a large number of factory brick-and-mortar shops and factories overseas, reducing production.

In April 2020, Hermès TaiKoo Hui in Guangzhou sold more than RMB 19 million on the day it reopened, shattering the record for the largest single shop turnover for Hermès in China as China took the lead in getting back to normal operations after the outbreak. The biggest monthly sales record for a single Louis Vuitton store in China was achieved in August of the same year when sales at the Shanghai Hang Lung store reached RMB150 million. In reality, Chinese spending on luxury products both inside and outside of China alone reached RMB 770 billion in 2018, accounting for 32% of global luxury spending, according to a McKinsey analysis published in April 2019. This percentage increased to 35% in 2019, with almost 70% of the money spent going to foreign countries or on international travel [1].

In 2020, China's domestic market doubles its share of total global luxury consumption and is expected to become the world's largest luxury market in 2025(see figure 1).

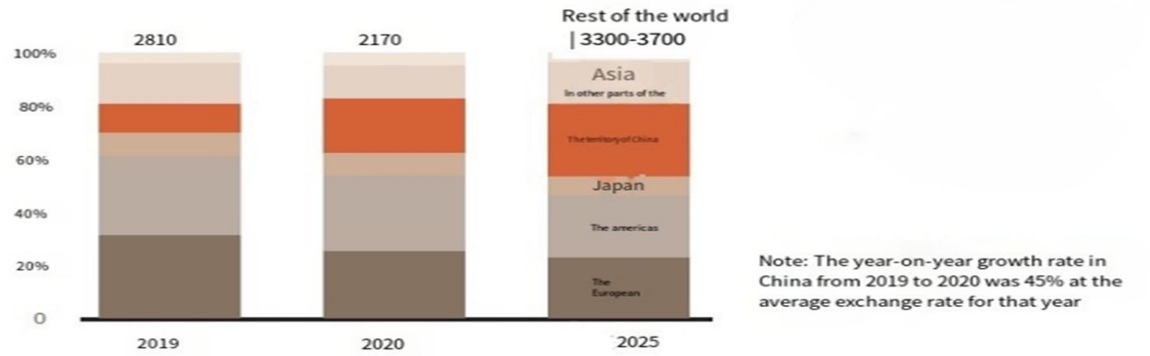

Figure 1: Share of global personal luxury goods market by region(%, EUR billion) source from Bain Italian luxury institute global luxury report 2020; Bain analysis[2]

The reasons for this are, firstly, continued travel restrictions, which result in many purchases that would otherwise take place abroad taking place in China. Secondly, the accelerating shift to digital shopping. Consumers will return to brick-and-mortar shops with a renewed enthusiasm for real-life experiences while maintaining security, but some of the digital shopping habits developed during the outbreak will persist. Thirdly, there is an increased demand for diversity. Brands need to revamp their offerings at an approachable price point. Also contributing to this are the cultural origins of Chinese luxury, the distinctive Chinese culture of face, Confucianism, the prevalence of gift-giving and the growing and progressive rejuvenation of China's young consumer base. At the same time, the decline in unemployment and the increase in female employment have led to an increase in luxury purchases.

3. Current status of marketing strategies and problems in the post-epidemic era

3.1 Shift in sales channels due to the epidemic

The new epidemic has undoubtedly increased the barriers to communication and interaction, and has led to a decline in customer traffic to many offline shops, difficulties in profitability for the real economy and a decline in people's expectations for the future.

China's economic growth has slowed due to the ravages of the New Crown epidemic, and the country is also facing multiple external factors such as successive international trade frictions and regional events. Data indicated a decline in consumer confidence in luxury goods in 2020. 44% of Mainland Chinese customers and 32% of Hong Kong consumers, who stated their purchasing intentions for the upcoming year, said they would increase their spending on luxury products, mostly remaining consistent from the numbers recorded in 2019, but 10% of Mainland Chinese consumers and 20% of Hong Kong consumers respectively plan to spend less in the next 12 months, a significant increase in consumers planning to spend less in the future compared to 6% and 12% last year[3].

This comes at a time when major luxury brands are finding that the brick-and-mortar economy is having to transition to digital marketing and omnichannel development.

3.2 Difficulties in localization on the ground

Many brands have tried to localize their products in pursuit of a larger Chinese market, launching China-only products, such as Prada's proposed e-commerce gift boxes and Dior and LVMH made shows with local culture [4]. However, the reality is not ideal, as international brands are slow to advance in the localization process or even evolve in a deformed way due to their lack of understanding of the local Chinese culture [5]. On the one hand, brands are bullish on the Chinese market, on the other hand, brands are worried about their style and tone being pulled down by the surging Chinese consumers. And such behavior is likely to have a tendency to digest fast. For example, the Dolce & Gabbana chopsticks incident [6], the Dior plagiarism of flower and bird paintings, or even Givenchy, Coach and Versace being boycotted for contradicting Chinese territorial claims.

3.3 Brands are far more invested in first-tier cities than second- and third-tier cities

The epidemic has undoubtedly put a huge hindrance on people's travel, at a time when local consumption and internet shopping have emerged as key development drivers for the Chinese luxury market. In addition, after more than a decade of development, the Chinese luxury market has gradually sunk from Tier 1 and Tier 2 cities, with consumption in Tier 3 and below cities performing brightly and having very strong purchasing power. According to the December 2019 data [3], the selected sample was 2,100 consumers from Mainland China and Hong Kong (1,599 from Mainland cities and 501 from Hong Kong Special Administrative Region of China), who came from Hong Kong as well as from multiple cities in Tier 1, Tier 2 and Tier 3 of the Mainland when. The average annual household income of the Mainland respondents was RMB1,358,040, compared to HK$997,360 in Hong Kong. In addition, Mainland Chinese consumers spend an average of nearly RMB330,400 per year on luxury goods, compared to approximately HK$167,400 in Hong Kong. Of note is the annual spend in Tier 3 and below cities of approximately RMB393,900, higher than Tier 1 cities at RMB344,100 and Tier 2 cities at RMB275,000. Lower-tier cities offer opportunities and serve as a growth engine for the future expansion of China's luxury sector because of their considerable purchasing power.

3.4 Focus on the middle market rather than the consumer market

Many luxury companies are focusing on the middle market rather than the consumer market. However, consumers perceive the initiative as lacking awareness of creating and maintaining intangible assets, especially in the high-income customer segment.

In addition, many luxury goods manufacturers often use price discrimination as a marketing strategy, i.e. selling products in more than two separate markets at a price that is likely to create grey marketers, i.e. purchase products in the lower-priced market to sell them in the higher-priced market. However, the diversion of a company's branded products from authorised channels by unauthorised grey marketers is likely to result in the erosion of market share and profits in the authorized channels and may even jeopardies the brand image, with statistics showing an average loss of up to 4.5% of total annual profits[7].

4. Suggestions as well as strategies

4.1 Enhance the brand's public welfare image and take up social responsibility

By producing hand sanitizer and donating it to hospitals during the epidemic, lvmh has both kept up with the times and enhanced the brand's reputation [8]. According to research, luxury firms should consider CSR initiatives as an integral component of their brand strategy rather than as an afterthought or a passing marketing fad. This is so that consumers won't doubt the goals and intentions of luxury companies if it is not in line with the brand's strategy or consistent with it. The results also highlight how crucial brand collaboration in CSR initiatives is. For instance, in 2017 Balenciaga ran a brief CSR campaign focused on food insecurity. However, the campaign was deemed inappropriate and was quickly replaced by a women's empowerment campaign that Kering (Balenciaga's parent company) felt was more appropriate. The campaign is still going strong in 2020 [9]. Therefore, if CSR initiatives are likely to be aligned with the brand strategy, vision and products, this will lead to better consumer evaluations [10].

4.2 Undertake a digital marketing transformation

Major luxury brands have opened their official websites, entered into shopping platforms and launched a cloud interaction model combining online and offline to give their customers better personalised product services.

China's social media penetration rate has now reached 74%, even though WeChat ranks fourth in the world in terms of users, and China's social media sales have surpassed those of the United States.

On the one hand, users are able to increase their interaction through online games. On the other hand, social media incentives allow consumers to showcase luxury purchases to a wider audience without the constraints of location [11], amplifying conspicuous consumption [12].

Firstly, strengthening official websites and promotion. As the internet economy grows and luxury brands become more known, ordinary luxury goods lack the freshness to meet the demand for unique product attributes such as personalisation, humanisation and innovation in the face of a more sophisticated consumer base. If luxury brands are to meet the individual needs of a new generation of customers without the label of mediocrity, they need to combine multiple aspects to bring about a new sales model. Therefore, it is necessary to expand and innovate the official online shopping model and introduce personalised services for the general public.

Secondly, we will promote multiple sales models on e-commerce platforms. The innovative pre-sale ordering model, which presents the show in the form of a live broadcast, allows consumers to place orders instantly while watching the show, thus truly realising the instant purchase of the show. At the same time, this sales model breaks the time and space constraints, expanding the consumer base and boosting consumer demand. We are also strengthening our online and offline integration and actively seeking cooperation with e-commerce platforms to share traffic and thereby expand our consumer base. At the same time, as the second-hand market becomes increasingly active, second-hand trading platforms should also strengthen brand building and investment.

Thirdly, the influence of social media should be brought into play: LV is live-streaming on Xiaohongshu, Gucci, Saint Laurent and House of Paris are on Tiktok, and Dior is cooperating with Beeping. For example, Saint Laurent's live broadcast of Fashion Week on Tiktok ended up with over 2 million viewers [13]. Luxury companies should strengthen their cooperation with social media, and should not limit themselves to the delivery of text messages or short video clips without a planned layout, but think deeply about how to provide consumers with more advanced and humane audio-visual sensory type information to address the barriers brought by the epidemic in all aspects.

4.3 Focus on the second and third tier city market

Nowadays, most foreign luxury goods are developing in the first-tier cities in China, locking their eyes on the cities with good economic development, but ignoring the huge second and third-tier cities in China [14]. Therefore, in the future, international luxury brands should gradually sink their customer base, make good use of the experience acquired and the sales system and warehouse logistics already built in the first-tier cities, and build their own sales network in the second and third-tier cities. However, when the cost of developing markets cannot be paid back in the short term, then domestic demand cannot be sustained at a stable level, and the luxury industry should seriously consider balancing the relationship between market size and return benefits.

4.4 Focus on the young market and strengthen brand partnerships

The "post-80s" and "post-90s" have taken the lead in the luxury industry as the consumer market slowly gets younger. The younger generation is becoming more interested in design and fashion as well as major companies. However, the younger generation is no longer just pursuing big brands, but also focusing on the fashion and design. As a result, luxury brands are launching brand combinations and ip co-branding. For example, the Gucci and Disney co-branding and the Alexander Wang and McDonald's crossover co-branding, once launched, were highly sought after by the market, with fashion celebrities and online bloggers snapping them up and major media outlets reporting on them, bringing great exposure to these crossover co-branded products and bringing huge economic benefits to both co-branded brands [15]. Therefore, if luxury goods are co-branded across borders, they will be able to adapt to the increasingly young consumer market, and at the same time, gain traffic, increase economic efficiency, expand the target consumer market, enhance the added value of the goods, improve the user experience, stimulate brand innovation and enhance the brand image.

5. Further research

It seems that luxury brands could strengthen their production lines and increase their production capacity as a way to reduce costs and benefit each other. Meanwhile, targeted advertising push and nurturing young consumers are also advisable. This paper will further analyse the second-hand luxury market in the world and explore the motivations to buy second-hand luxury.

5.1 The definition and introduction of second-hand luxury

Products that have been owned and have seen regular use are considered used luxury. Luxury brand products offered through additional "secondary" outlets. Luxury stores are typically more expensive than used luxury shops.

Three types of transactions are available in the market for used luxury goods: online and offline auctions, consignments, and sales. The contracting out model, whether online or offline, is the most typical method of selling in the secondhand market.

5.2 The situation of second-hand luxury companies

Luxury brands have begun to collaborate with and assist secondhand luxury resale enterprises as the demand for used products has grown, allowing them to list unsold merchandise on their websites. The first luxury brand to advertise its goods for consignment on the US premium consignor The RealReal was Stella McCartney in 2017. Modern consumers anticipate participating in pre-owned deals from upscale merchants and brands.The website Farfetch Second Life, where anybody may post a photo to sell their unwanted items, was also launched in 2019. Farfetch is a multi-brand portal and the global market leader in the luxury clothes industry. Farfetch will analyze them and decide on a price for the sale. In return, when sellers make purchases on the Farfetch website, they will gain points.

Like the Kardashian-Jenner sisters, who founded the website Kardashian Kloset where they sell their goods, celebrities are starting to join the market for more ecologically friendly consumption in addition to companies.

5.3 How luxury consumers make decisions

Conspicuous consumption, social and cultural variables (such as normative influence and materialism), as well as personal traits (such as materialism), can all have an impact on one's need or desire to purchase luxury products.

Consumer behavior is the product of planned activity, not impulsive conduct, and consumers' decision - making is really a complex process. Luxury consumption is therefore multifaceted and includes elements related to money (exclusivity), function (product quality), self (personal satisfaction), and social worth (prestige).

When consumers search, factors such as brand image, brand prestige, brand equity, brand awareness, and brand desire might all influence their decision to buy a luxury item.

People who purchase second-hand luxury items for the purpose of social advancement may exhibit follower behavior, whereas those who purchase antique, rare, well-worn stuff because they need to be unique may exhibit snobbishness. Additionally, buying used is linked to cost consciousness, thriftiness, environmental protection, status-drivenness, bargain hunting, and even social ascent. And those who purchase outdated, secondhand, and discontinued goods are motivated by exclusivity, timelessness, and nostalgia.

5.4 Arguments in favour of purchasing second-hand luxury

Exclusiveness is one of many factors, including social standing, for why consumers choose to buy pre-owned luxury products. According to BCG, 60% of people who purchase upscale secondhand goods do so for moral and ethical reasons. One of the benefits of purchasing pre-owned luxury items is the availability of really rare and unusual tablet sets that are in high demand.

Author Turunen conducted a study in Finland that solely surveyed Finnish women to better understand what motivates consumers to purchase secondhand luxury goods. "Sustainable Choice," "Real Deal," "Pre-loved Treasure," "Risk Investment," and "Unique Find" are five connotations that customers associate with purchasing used, upmarket things, according to this study's authors.[16] The authors stressed that these five meanings are interrelated and do not conflict with one another[17].

The term "Sustainable Choice" first relates to the moral and ethical considerations that were drawn to owning old designer goods.

The price of the work or the price to quality ratio is thus referred to as the "Real Deal."

Next composition, "Pre-loved Treasure" depicts the intense emotions that come with pricey goods. Due to the opposing issue of "genuine trade," the previous spirit of authenticity and harmony is no longer comparable to the price of goods.

The fourth "Risk Investment" deals with the risks associated with buying used luxury items; you cannot be completely guaranteed of their authenticity and should only buy from reputable, regular stores and online.

The phrase "Unique Find" also alludes to the rarity and distinctiveness of the goods. In relation to this, out-of-production basic pricey items and limited editions are now valued as treasures. "Unique Find" and "Real Bargain" are related because it emphasises how valuable discoveries are comparable to finding a real deal. Reselling costs are given consideration in a purchasing strategy targeted at marketing products in the future. Luxury pre-owned goods are seen as investments because they can be resold for more money.

6. Conclusion

In the post-epidemic era, luxury brands can undertake social responsibility and improve brand reputation by carrying out brand public welfare activities; promote sales through digital marketing transformation initiatives such as launching official websites and promotions, broadening cooperative e-commerce platforms, innovating diversified sales models and strengthening cooperation with social media; increase investment in second- and third-tier cities on the basis of consolidating sales in first-tier cities and carrying out multi-brand cross-border cooperation We will further expand our market space. At the same time, the study of the motives of the second-hand luxury goods trading market and the characteristics of market transactions can help to understand the connotation of luxury goods marketing strategies.

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