

December 2024

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CHINA LUXURY AND PRESTIGE MARKET UPDATE.

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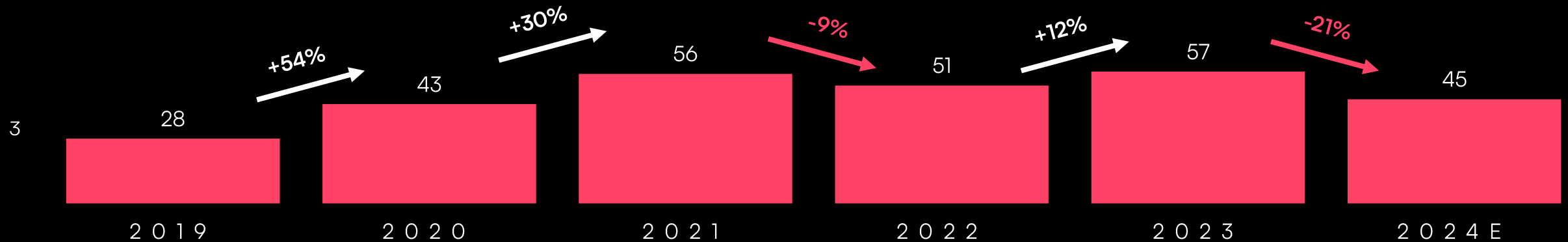
PRESTIGE BEAUTY BRANDS' UNSUSTAINABLE CHALLENGE AND OPPORTUNITY

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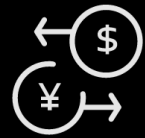


MANY OBSERVERS ARE TALKING ABOUT A CHINESE LUXURY SLOWDOWN

LUXURY GOODS EXPENDITURE IN MAINLAND CHINA
2019-2024E, € bn

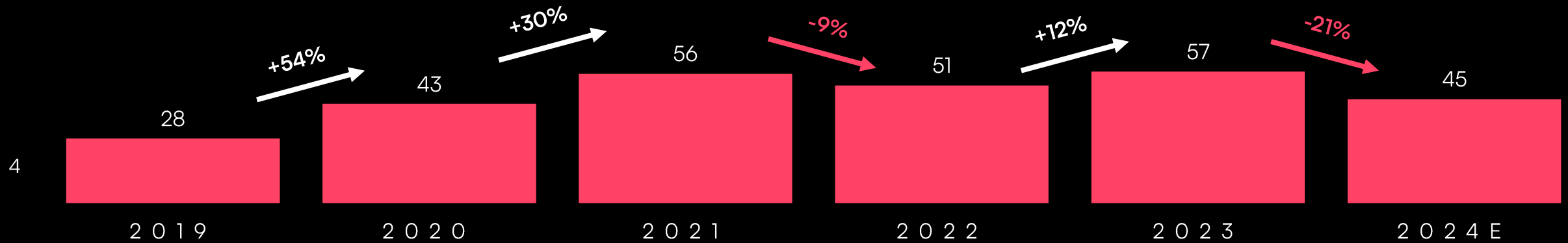


However, assessing the Chinese market solely based on Chinese domestic consumption provides a very incomplete and misleading picture

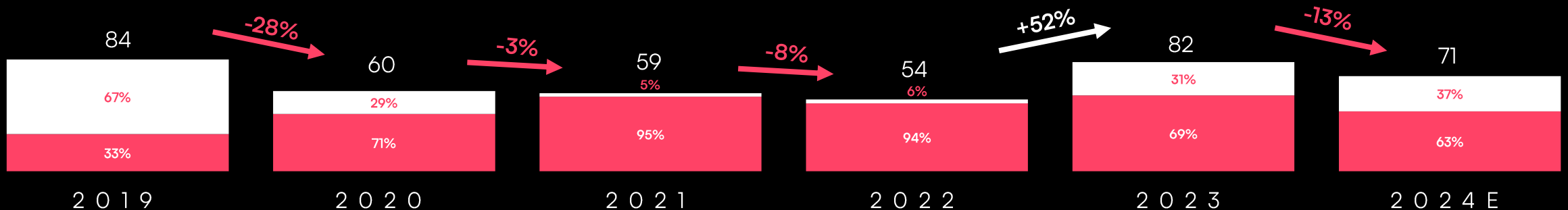


IN FACT, CHINESE LUXURY CONSUMPTION WORLDWIDE GREW BY 52% IN 2023

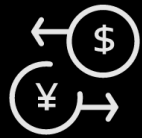
LUXURY GOODS EXPENDITURE IN MAINLAND CHINA
2019-2024E, € bn



LUXURY GOODS EXPENDITURE FROM CHINESE CONSUMERS
2019-2024E, € bn



■ IN MAINLAND CHINA ■ OUTSIDE MAINLAND CHINA

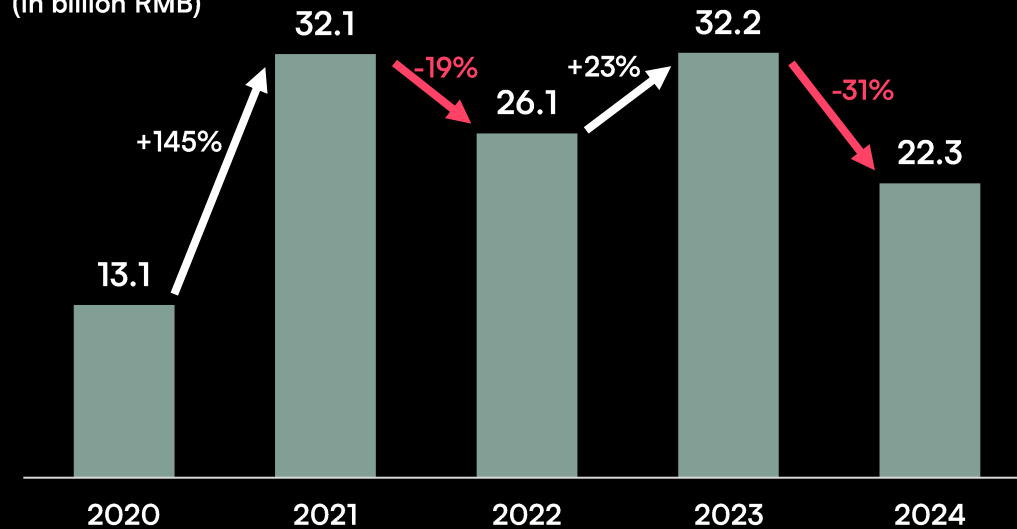


HAINAN DUTY-FREE SALES 2024

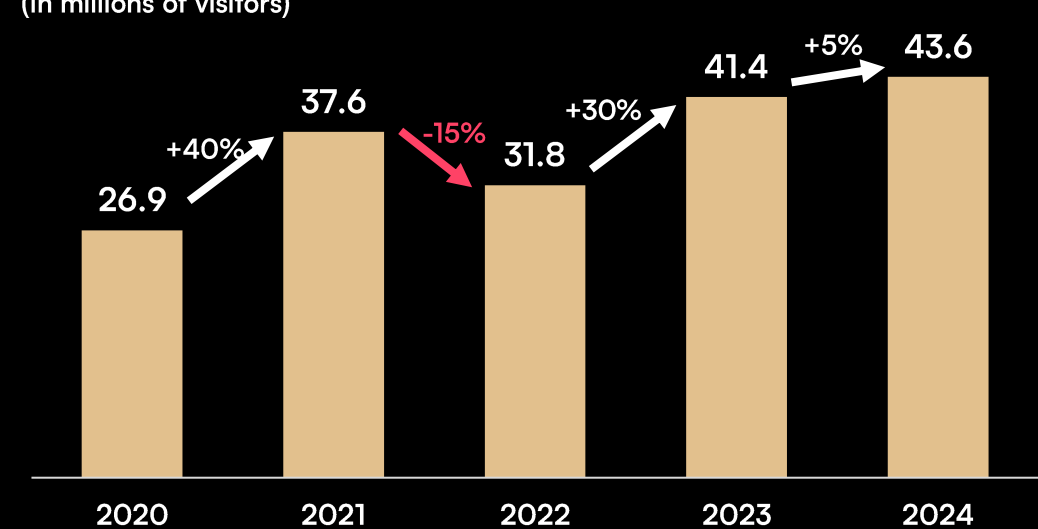
Revenue is down 31%...

...despite a surge in traffic by 5%

YTD AUGUST, DUTY-FREE SALES, 2020-2024
(In billion RMB)



YTD AUGUST, NUMBER OF VISITORS TO HAINAN, 2020-2024
(In millions of visitors)



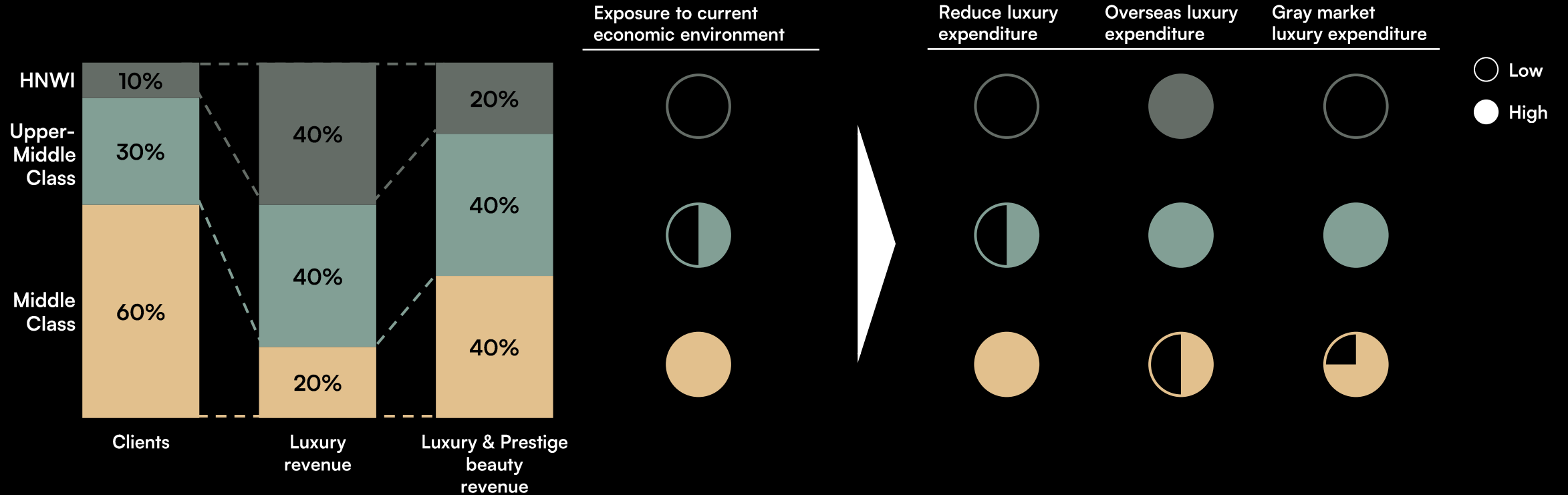
Only China's middle and upper-middle class are likely to continue visiting Hainan, as high spenders and HNWI's visited during the pandemic when other destinations were unavailable.

Despite strong government incentives and favorable policies, Hainan's long-term appeal to these top-tier travelers remains uncertain.



CURRENT ENVIRONMENT IMPACTS LUXURY AND PRESTIGE CONSUMER SEGMENTS DIFFERENTLY

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In this context, luxury and prestige brands have to segment their approach and adopt a global view of Chinese consumers expenditures, beyond just mainland China



LUXURY MAISON SEGMENTS IN CHINA

7



Exclusively focus on VIC because of limited production capacity

- Significant portion of gated products
- Limited business scale
- No entry price focus

Ultra exclusive luxury

Ultimate luxury powerhouses



CHANEL

Client focus: VIC

Exclusively focus on VIC and high luxury products, extremely consistent in their positioning and strategy.

- Most advanced VIC focus
- No entry price focus
- Higher sales per store average

DIOR
LOUIS VUITTON
Van Cleef & Arpels

Powerhouses extending accessibility

High focus on VIC and high luxury, but on-going efforts to attract aspirational consumers

- Commercial strength with both HNWI and middle-class entry-level purchasers
- Large retail presence
- Increased availability of scarcity products

TIFFANY & Co. *Cartier*
GUCCI PRADA

Refocusing on HNWI

Historically fueled by customer acquisition, these maisons show visible signs of brand elevation

- Clear signs of brand elevation
- Increased development of VIC focus
- Large retail presence

Customer acquisition fueled

Maisons with limited signs of brand elevation so far

- Customer acquisition focus
- Strong entry price strategy
- Very limited scarcity

Exclusivity: Ultra-scarcity

Exclusivity: Accessible luxury

Client focus: New recruitment



LUXURY AND PRESTIGE BEAUTY SEGMENTS IN CHINA

CHANEL CELINE



- Never on promotions
- 100% consistent with brand universe
- No livestream, no Douyin

Luxury fashion houses extensions (new & established)

Brand origin: Couture influence

DIOR GIVENCHY ARMANI TOM FORD

Fashion affinity brand equity challengers

- Increasingly inconsistent with fashion brand communication
- Increasingly dependent on livestreams & Douyin

8

Image protection: Brand equity focus

Image protection: Business performance focus



DOCUMENTS melt season

- Building brand equity without discount reliance
- No deep promotions, even on Douyin
- Austin Li livestreams with GWP

Local prestige challengers

CLARINS L'OCCITANE EN PROVENCE la prairie Augustinus Bader

- Not as promotional as the market leaders
- Highly dependent on livestreams & Douyin
- Low dependency on China revenue

Upcoming & resilient independents

Brand origin: Beauty expertise

LANCÔME LA MER

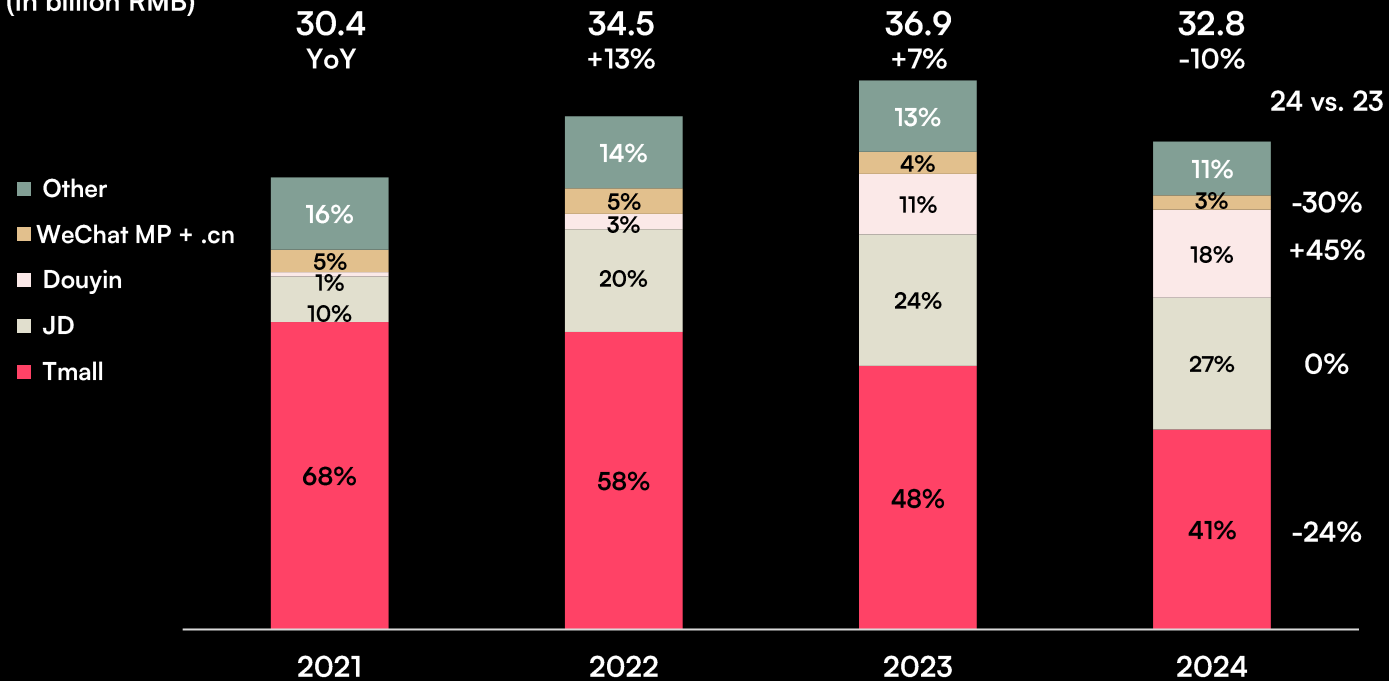
China dependent beauty conglomerates

- High share of revenue in China
- Leading the industry in promotions
- Highly dependent on livestreams & Douyin



ONLINE BEAUTY MARKET EVOLUTION

YTD Q3 ONLINE BEAUTY MARKET EVOLUTION
(In billion RMB)



WeChat + .com

- Minimal revenue but growth opportunities
- Critical element of CRM for clients and prospects
- Retail clienteling

Douyin

- Undeniable but slowing growth
- Critical to meet consumers where they are
- Dangerous challenges to brand equity and profitability

JD

- Resilient performance in a declining market
- Critical to capture gifting
- Essential marketing touchpoint for offline customers

Tmall

- Declining but still largest market share
- Essential marketing touchpoint for offline customers

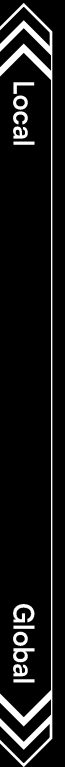
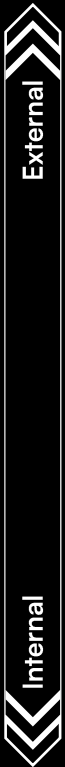
- Tmall and JD presence is essential, but it is critical to focus on storytelling while resisting platforms and competitive pressure to focus on discount
- Douyin is unavoidable but too dangerous to not be very closely controlled - deals and content



THE UNSUSTAINABLE CHALLENGE FACED IN CHINA BY GLOBAL PRESTIGE BEAUTY BRANDS

CHALLENGES

OPPORTUNITIES



Consumer confidence

Economic environment impact on disposable income expenditures

Competitive pressure

Domestic brands have become more relevant to Chinese consumers thanks to consumer attitude shift and powerful offering

Duty Free arbitrage (Hainan)

Post-pandemic resumption of travel has fueled overseas consumption

Gray market

Institutional parallel focused marketplaces have added credibility and professionalism to the gray market which is outpacing the performance of brands in China

Discount

Discounts and promotions have become the core driver of prestige beauty brands' commercial strategy

Live streaming and focus on discount

Low profitability transaction focused live streams have replaced qualitative storytelling and brand universe introduction

Long-term brand equity

Quarterly/annual performance



Promotion detox

Gradually reduce reliance on discounts and coupons as key elements of the value proposition

Digital marketing optimization

Ensure all digital operations are optimized to avoid waste and to partially compensate the impact of promo detox

Live streaming and content refocus

Initiate a rebalancing of brand content and storytelling at the expense of a pure promotional and transactional focus

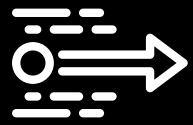
CRM & Clienteling

Leverage all relationship and engagement tools to maximize loyalty, customers' lifetime value, and recruitment of prospects

Price harmonization

Progressively lower the incentive to buy outside China or from a gray market sources overseas

While the largest beauty groups are likely far too dependent on China's performance, smaller operators and the beauty arm of luxury brands have an opportunity to adjust their strategy in China, in favor of a sustainable brand equity focused approach.



DLG CHINA DIGITAL ACCELERATION PROGRAM

7 areas

1. Social media 

2. Campaigns 

3. Digital media spend 

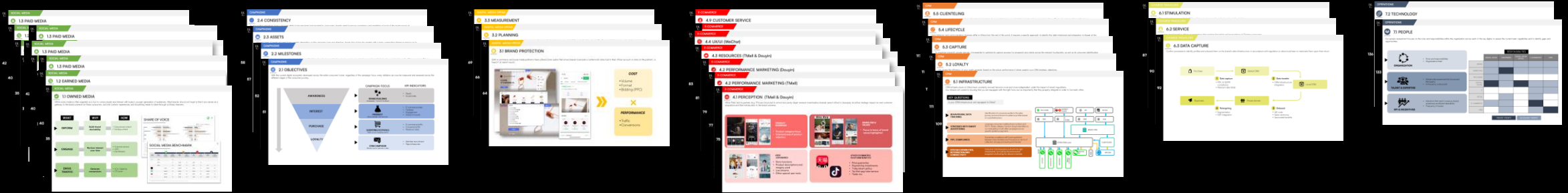
4. E-commerce 

5. CRM/SCRM 

6. Chinese Travelers 

7. Operations 

39 Frameworks



450+ Best practices



Our proprietary method helps elevate brand value, maximize ROI, and accelerate revenue in a sustainable way, and can be instrumental in compensating for the costs associated with a promo detox program



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DLG (Digital Luxury Group) is the digital partner of forward-thinking luxury brands. With offices in New York, Geneva and Shanghai, DLG blends luxury savoir-faire, industry insights, and digital expertise to provide end-to-end services ranging from digital marketing and communication, to e-commerce and CRM.