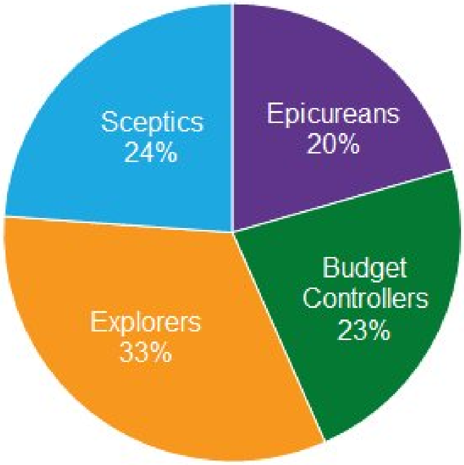
Consumer Attitudes towards Luxury - China - May 2017

Four types of consumers

Mintel has conducted a cluster analysis on the total sample of 3,000 consumers aged 20-49. The data output unfolds four unique groups who differ in their life priority, ways of money management as well as how they perceive and buy luxury. Based on their psychographic features, Mintel defines Chinese financially stable consumers into Epicureans (享乐主义者), Budget Controllers (预算控制者), Explorers (探索者) and Sceptics (怀疑者).

Figure 41: Consumer segmentation based on their attitudes towards life, February 2017

Base: 3,000 internet users aged 20-49



Source: QQSurvey/Mintel

Explorers (探索者): positive-minded consumers who tend to say yes to every idea

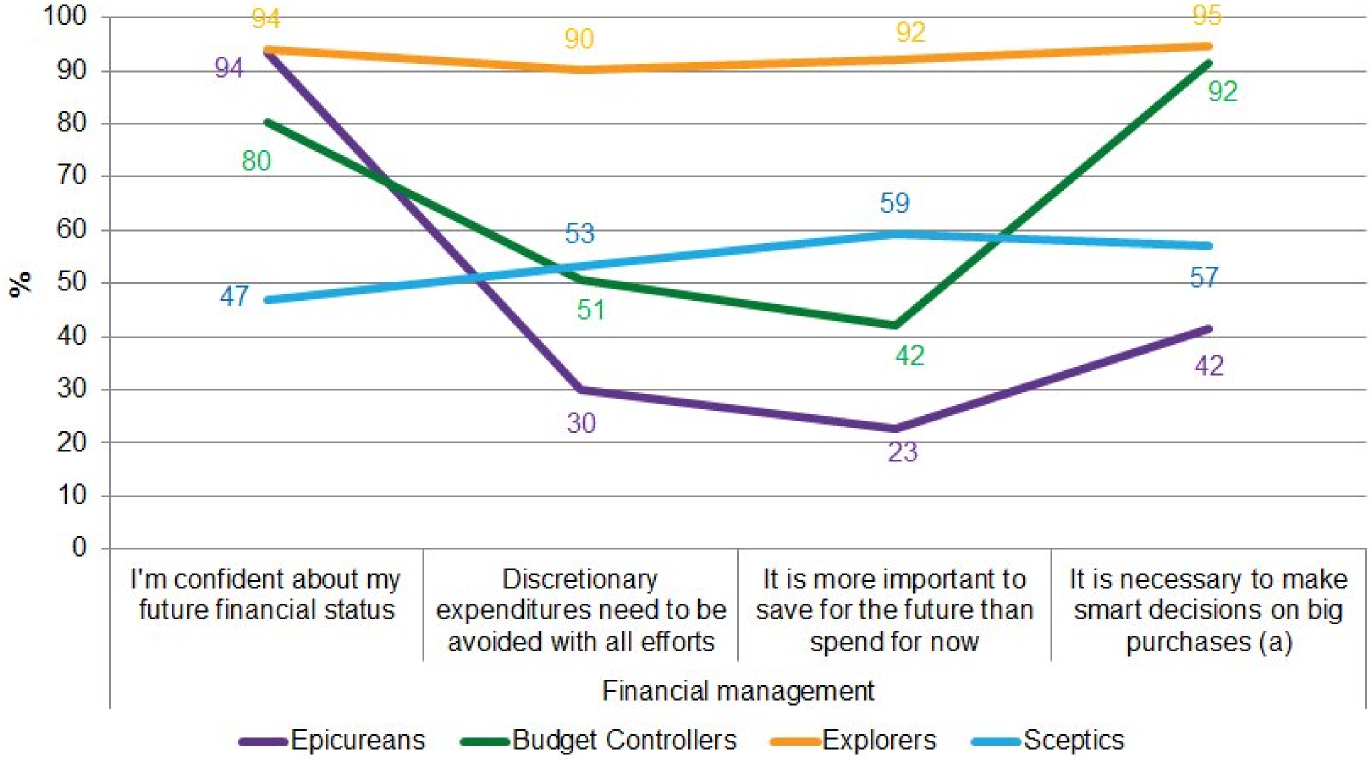
Explorers comprise 33% of total Chinese financially stable consumers surveyed. They are more likely to be women, 25-29s, those with high income, those who are married and those who are luxury buyers.

They are more likely to have confidence about their future financial status, partly because they have high stable income and fewer of them need to pay rent and mortgage (see Databook). Despite the fact that they tend to have a solid financial foundation, they have quite a strong interest in being a smart shopper, eg avoiding discretionary spending, saving for the future, as compared to the other three groups.

Figure 42: Agreement (including strongly agree and somewhat agree) on selected statements about financial management, by consumer segment, December 2016

"Thinking about your current lifestyle, to what extent do you agree or disagree with the following statements? (Single code per row)"

Base: 3,000 internet users aged 20-49



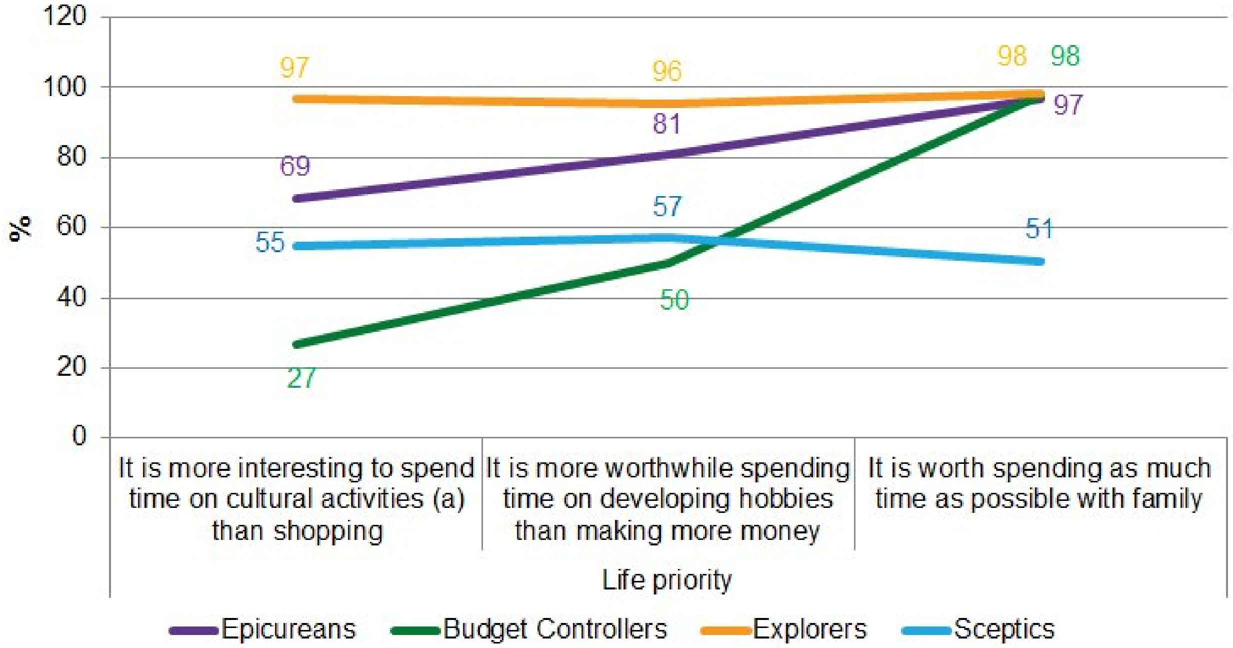
Note: (a) eg comparing prices, seeking the best coupons

Source: QQSurvey/Mintel

Since Explorers like exploding new adventures and possibilities in their lives, they tend to lead an active and fulfilling life, perhaps not only trying more good food and drinks (see Figure 44) to excite their taste buds but also seeking emotional and spiritual exaltation through making time for their hobbies and interests, attending cultural activities, travelling as well as health-related experiences.

Figure 43: Agreement (including strongly agree and somewhat agree) on selected statements about life priority, by consumer segment, December 2016

Base: 3,000 internet users aged 20-49



Note: (a) eg going to theatres, museums, concerts

Source: QQSurvey/Mintel

Because of their diversified and dynamic lifestyle, Explorers are more likely to purchase luxury for special events and occasions of theirs and their children (eg marking their own achievement, meeting with an important client, celebrating their children's graduation) (see Databook). To conclude, they can find more reasons to buy luxury than the other three groups and thus they have greater potential to continue to purchase luxury in the future.

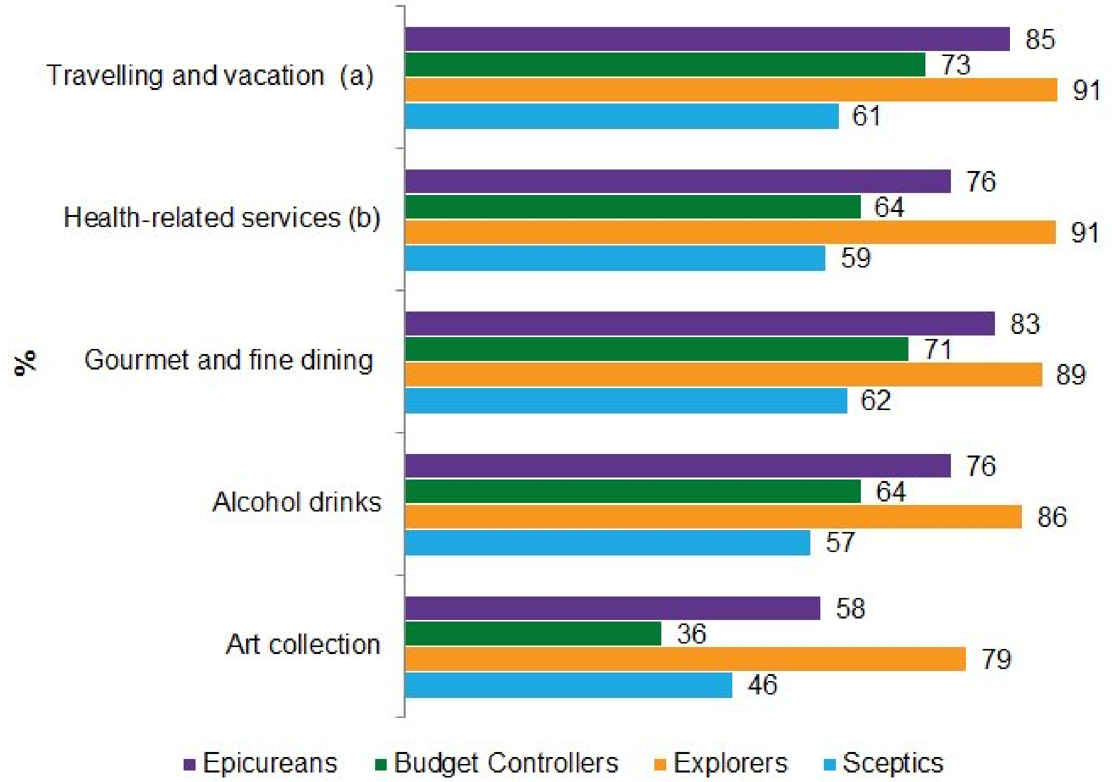
The fact that they tend to be energetic and enthusiastic most of their time indicates that they could be in constant demand of products and services to uplift their mood. To target Explorers, brands should associate luxury purchase with capturing small pleasure and contentment in everyday life, rather than acting as a badge for big achievements.

More Explorers have bought Chanel and Dior in the last 18 months (see Databook) likely because both brands have asserted their presence on social media (see more in Luxury Brands Purchase). Another important reason is that both brands have successfully expanded their beauty product lines, and their relatively low price fits with Explorers' purchase motivation, ie creating small joys in every possible moment.

Explorers tend to seek meaning from every purchase rather than chase instant bodily pleasures, because clearly they are more interested in acquiring luxurious experiences and services than possessing luxury branded items. This means that dining out in a fancy restaurant is more appealing to them than consuming good food and drinks at home. They clearly have shifted from consumption to experience. The fact that they have an extremely high level of intention to purchase art collections as compared to the other three groups also indicates that Explorers are a group of pioneering trend leaders.

Figure 44: Likelihood to purchase luxury, by consumer segment, December 2016

Base: 3,000 internet users aged 20-49



Note:

(a) eg living in five star hotel, first class flight

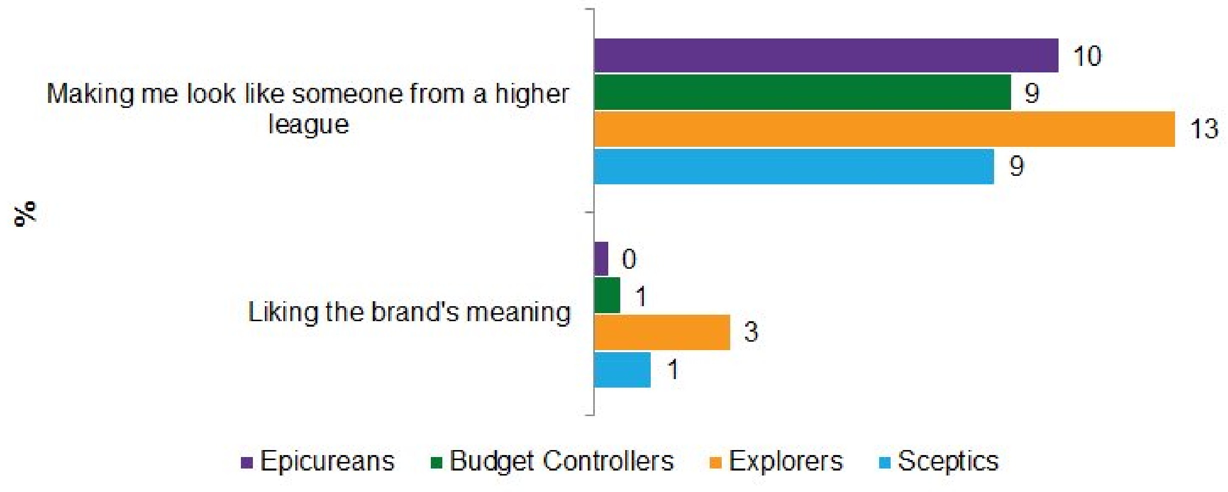
(b) eg yoga, spa treatment

Source: QQSurvey/Mintel

To target Explorers, it is of great importance to communicate the brand essence and the deeper meaning of purchasing it since Explorers are more likely to pay for the brand's symbolic meaning. One new and trendy way of doing it is to show that the brand has implemented ethical business practices or partnered with environmental, charitable or ethical entities so as to enable consumers to feel that they have a strong social conscience. This is partly because 94% of Explorers say that donating to charity makes them happy. Many big luxury brands (eg Armani, Hugo Boss, Calvin Klein, Ralph Lauren and Tommy Hilfiger) have announced that they will be abolishing the use of animal fur in their collections in recent years, and famous designers (eg Stella Mccartney, Hannah Weiland) have started using innovative faux fur to manufacture 100% cruelty-free products. Moreover, brands taking the moral high ground could make Explorers believe that they are more sophisticated, knowledgeable and socially responsible than the rest, ie more likely to belong to a higher league.

Figure 45: Emotions associated with luxury purchase, by consumer segment, December 2016

Base: 3,000 internet users aged 20-49



Source: QQSurvey/Mintel

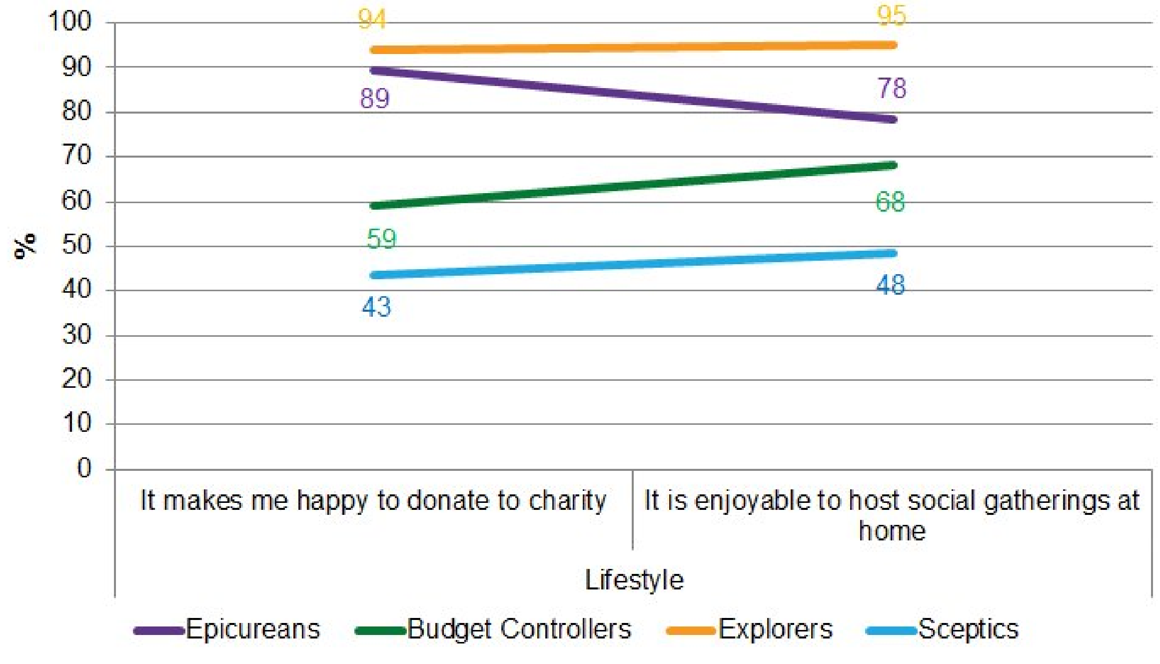
Lowering the product retail price will not be an effective strategy despite the fact that they are determined to become smart shoppers. Explorers indeed are more inclined to buy luxury branded items at the full price, because significantly more of them think that luxury branded items on promotion are of lower value (37%) and that only expensive luxury branded items are worth buying (46%) as compared to other three groups (see Databook). Furthermore, they are more interested in customised services (57%) and niche luxury brands (42%), which makes Explorers the most promising and profitable consumer group.

At the same time, luxury brands need to demonstrate why they are worth the high price via resonating and inspirational emotional value and unique symbolic meanings.

More Explorers enjoy hosting social gatherings at home, suggesting that having a connection with their friends is very important to them. Moreover, the number of Explorers who are inclined to take the advice of friends and family members into account when purchasing luxury (47%) is significantly higher than for the other three groups (see Databook). This could be because their like-minded, sophisticated friends are also a good source of information of what is 'in', and the importance of maintaining the close connection with these friends creates a sense of superiority and connoisseurship.

Figure 46: Agreement (including strongly agree and somewhat agree) on selected statements about lifestyle, by consumer segment, December 2016

Base: 3,000 internet users aged 20-49



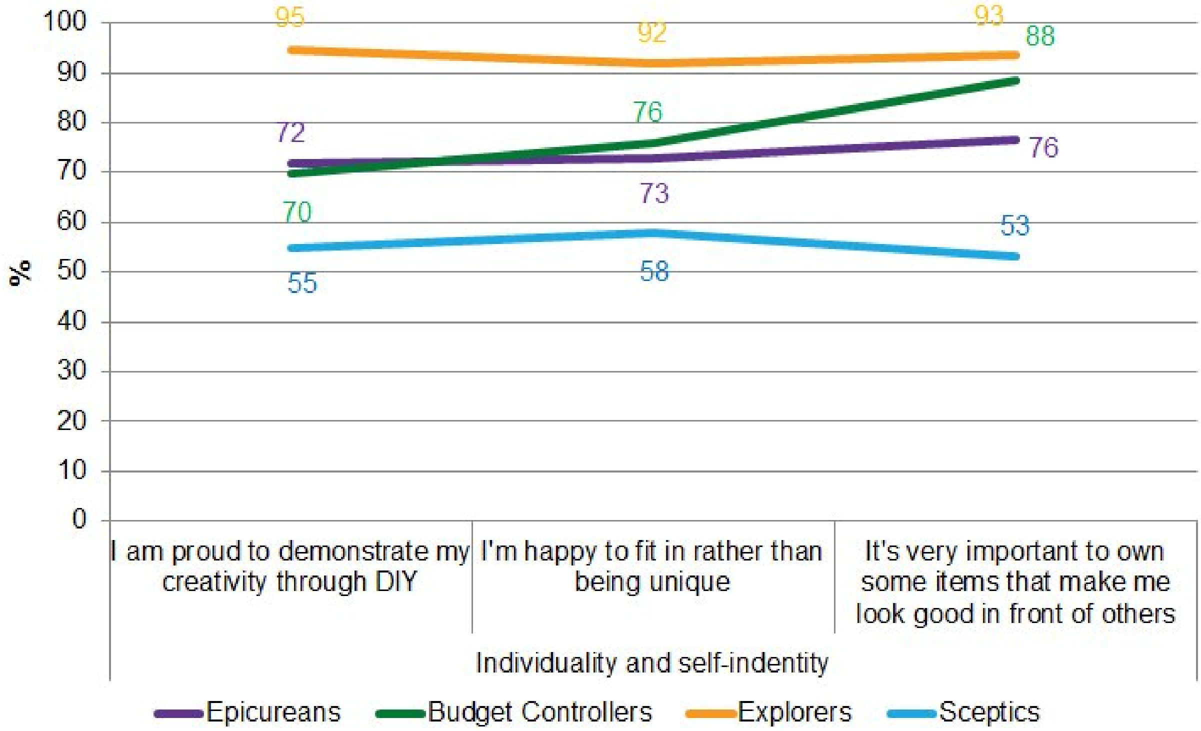
Source: QQSurvey/Mintel

To address Explorers' strong desire to be in the know, luxury brands could offer covert or stealth consumption that isn't supposed to be publicised or available to everyone, with a promise of belonging to an exclusive group. Limited editions and secret menu items are a good way to capture consumer attention and desire. Another example is the Secret Theatre Project. It is an immersive theatre production where the audience members are taken to a secret venue to perform an unknown part of the play. Bier Keller is a self-described 'anti-bar' in Porto Alegre, which is only open to invited customers with exclusive offerings (eg over 120 kinds of local and imported drinks and a buffet of tasty snacks). However, it is vital to create some sense of discretion as Chinese consumers are more and more likely to abstain from flaunting their wealth or consumption.

Explorers are most likely to want to look good in front of others and value uniqueness and creativity (through DIY), likely because they have a strong desire to showcase their unique self and individuality. This again confirms the great importance of providing something special to Explorers considering the fact that they are ready and quite willing to pay extra.

Figure 47: Agreement (including strongly agree and somewhat agree) on selected statements about individuality and self-identity, by consumer segment, December 2016

Base: 3,000 internet users aged 20-49



Source: QQSurvey/Mintel

Compared to the other three groups, Explorers pay more attention to the design of luxury branded items (63%), and it is worth noting that they are more inclined to purchase classic luxury goods (62%) instead of new and trendy ones (see Databook). This is likely because classic products usually have better design and good word of mouth (illustrates good taste) as well as higher awareness (to demonstrate their social status).

Epicureans (享乐主义者): big spender devoted to sensual pleasures

Epicureans account for about 20% of total Chinese financially stable consumers surveyed. Most of them tend to be 30-39s (especially men), those with higher income, those who are married and those who are luxury buyers.

It is important to note that Epicureans and Explorers have a lot in common, but Explorers are more likely to be younger (ie 25-29s) and female. As a result, although Epicureans have stronger confidence in their future financial status, their purchasing mindsets and beliefs are quite different from Explorers.

One of the biggest differences to Explorers is that Epicureans have the least likelihood to save money for the future or even to try to search for deals and discounts, reflecting that they tend to live extravagantly with a pursuit of pleasure and freedom from worry and troubles. Despite the greater spending power, Epicureans are not as open to and willing to adopt new luxurious experiences, new shopping trends and new ways of thinking and living as Explorers. Epicureans are more likely to spend money on pleasing and pampering themselves emotionally and physically, supported by the fact that more of them bought luxury for self-indulgence (61%).

Luxury brands that Epicureans have recently bought are more likely to be long-established top-tier brands (eg Hermès, Armani and Omega) with a good reputation in providing the best quality and services. However, this seems to contradict the fact that Epicureans are slightly more inclined to believe that premium brands are just as good as luxury brands. But these two facts tell the same story, ie that Epicureans tend not to buy into figurative brand meanings and are more willing to pay a premium for tangible and functional aspects and sensorial experiences of the product.

This also implies that Epicureans are more likely to treat the luxury category as a whole concept and widely-known brands stand for the most premium lines. Due to lack of luxury knowledge and brand awareness, it is difficult for them to tell the differences between varied luxury brands. Because of this, Epicureans have a stronger desire to buy well-known luxury brands (56%) compared to the other three groups (see Databook).

Epicureans' shopping mindset seems to be quite conservative and old-fashioned, which is partly confirmed by the fact that 69% of Epicureans are more interested in cultural activities than shopping, which is significantly lower than for Explorers (97%). Moreover, Epicureans have the least level of interest in shopping for luxury online (also partly due to their lower knowledge level).

Since Epicureans also like to purchase luxury independently, luxury brands should not assume that those with less luxury knowledge necessarily have less spending power and underestimate them as potential customers. In fact, Epicureans are easier to attract as long as the brand can convince consumers that its products have higher quality and can make them feel good. For example, Ford Thailand put its latest model through a series of extreme challenges (eg dropped from the sky and traversing rocky terrain) in its new marketing campaign with behind-the-scenes footage released to prove nothing was faked. In China, Cadillac put its latest model CT6 in a giant fish tank for display in downtown Shanghai in order to show its airtight quality and state-of-the-art craftsmanship.

It is worth noting that Epicureans are in fact more likely to think that luxury makes them feel special, implying that Epicureans buy luxury also for status, superiority and uniqueness. But this special feeling comes directly from product efficacy (ie quality and sensorials) rather than brand meaning.

Budget Controllers (预算控制者): make smart purchasing decisions, rather than being stingy

23% of the total Chinese financially stable consumers surveyed are Budget Controllers. The majority of them are those with lower income, those living in lower tier cities (eg Hefei, Quanzhou, Changsha and Datong) and those with lower education background (see Databook).

83% of Budget Controllers have monthly personal income lower than RMB 14,000. Despite their current lower income, 80% of Budget Controllers are confident about their future financial status, and moreover, half of Budget Controllers do not agree that they should avoid any discretionary spending to save for future. This means that Budget Controllers do have concerns around their relatively low level of income, but they are very keen to make smart purchase instead of leading a frugal life.

Compared to more affluent consumers – ie Explorers and Epicureans, Budget Controllers are not particularly interested in donating to charity, they tend not to find cultural activities and hobbies more worthwhile compared to spending and making money, and they are also more interested in buying luxury branded items than luxurious experiences (see Databook). This indicates that Budget Controllers have a more 'down-to-earth' view on shopping – ie it is a way of making them happy. Indeed, Budget Controllers claim that owning luxury makes them feel satisfied and that they indeed are more likely to buy luxury for self-indulgence or to please their partner/lover.

Budget Controllers have the least interest in art collection and tend to believe that luxury brands have better quality than premium brands, which implies that Budget Controllers tend to shop for the practical and functional benefits, rather than the symbolic meaning of the brand. Indeed, Budget Controllers tend to look for well-known luxury brands, standard and affordable luxury items and practical features of luxury items and prefer purchasing luxury from outlets.

It is worth noting that Budget Controllers have a stronger desire to look good in front of others and demonstrate their uniqueness more than Epicureans, which in fact explains why they have bought luxury despite their lower income.

Budget Controllers are a good reflection of less financially stable consumers in China. Although they can afford luxury branded items once in a while, their purchase mindset is immature and they are unable to see the true meaning of luxury. Brands should not consider them as the target audience as catering to them will drag the brand down to the mass brands circle.

Sceptics (怀疑者): not entirely sure about their preferences and desires

Most of Sceptics tend to be 20-24s, 40-49s, those with lower income, those who are single and those who live in lower tier cities (eg Weifang, Changsha).

The biggest characteristic of Sceptics is that they are not very passionate about anything and tend to hold a neutral point of view even when other three groups share a strong inclination. For example, in terms of the statement that "it is worth spending as much time as possible with family", only 51% of Sceptics agree on this, while the number rises up to more than 97% among Epicureans, Budget Controllers and Explorers. Regarding the desire to show individuality and self-identity, which has become increasingly important to today's consumers, Sceptics still have less interest in this.

They are less likely to have bought any luxury brand in the last 18 months and more likely to plan not to buy luxury (see Databook). In fact, there is a lower likelihood for them to purchase from most of the luxury sub-categories including both products and experiences (see Databook). This is likely because more of them think that there is no difference between premium brands and luxury brands and tend not to consider luxury products as a must-have.

For those who have some level of interest in luxury, they prefer new and trendy luxury branded items and pay more attention to the practical features of products. They are more likely to be open to high-quality replicas and tend to think that high-quality replicas can offer higher value for money. It is clear that Sceptics are not able to recognise the value of luxury and not ready to pay a premium for luxury branded items. More importantly, the number of Sceptics who do not have a clear purchase preference towards luxury brands and products is significantly higher than that of Epicureans, Budget Controllers and Explorers. There is no point for luxury brands to try to win them over even though Sceptics account for 24% of Chinese financially stable consumers. Luxury brands need to wait for Chinese consumers to become more mature.