A Work Project, presented as part of the requirements for the Award of a Master's degree in Management, from the Nova School of Business and Economics.

"OPPORTUNITIES AND THREATS FOR THE CHINESE LUXURY SECTOR POST-COVID-19"

LILLI MARIA STOLL
Student ID: 48506

Work project carried out under the supervision of:

Professor Andrew John Harrison

Date of defense: 07-06-2023

Abstract

Leaving behind years of astonishing growth, China was expected to become the world's largest luxury market by 2025. These dynamics changed as the Chinese luxury sector declined in 2022 for the first time in five years. This thesis investigates the opportunities and threats in the Chinese luxury sector in the post-Covid-19 environment. For this purpose, the study comprises a thorough review of relevant literature complemented by an empirical investigation using a mixed-method research approach to deliver qualitative and quantitative findings. Drawing on the research findings, this paper outlines opportunities and threats within the Chinese luxury sector in the post-Covid-19 setting.

Keywords

luxury sector, China, post-Covid-19, Chinese consumer trends, opportunities and threats, Chinese luxury sector

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Table of Contents

1 Introduction

1.1 Topic Introduction

The luxury sector in China has been on a growth streak since 2018, with its market size doubling between 2019 and 2021 (Lannes and Xing 2023). Even the worldwide outbreak of the Covid-19 pandemic in 2020 at first did not interrupt the Chinese luxury sector growth. Thus, in 2021, mainland China accounted for 21% of the worldwide luxury market. This immense growth put China in place to become the world's largest luxury goods market by 2025, expected to surpass the industry-leading regions of Europe and the Americas (Lannes and Xing 2022). These dynamics changed in 2022, as China's luxury market declined by 10% year-over-year in nearly every luxury category, setting an end to its five-year growth streak.

The ongoing rigorous pandemic control measures such as the zero Covid-19 policy and the resulting sudden multi-month lockdowns of the Chinese government posed a challenging setting for China's economy and society (Ding and Zhang 2022). Thus, growing obstacles to purchasing emerged and weakened consumer confidence spread. This severely impacted China's economic development, with a growth rate of just 3% in 2022, the country's second slowest in nearly fifty years, which fell short of the government's target by 2.5%. Next to this, changing consumer trends among Chinese customers pose difficulties and require a necessity for luxury firms to adapt. Chinese consumers increasingly differ from other luxury consumers around the world (Lannes and Xing 2022). Thereby the luxury market in China is influenced by its own dynamics which firms must embrace to be successful.

However, a crisis and the resulting challenging environment can be seen as both a danger and an opportunity that firms must be aware of and react to. (Wang, et al. 2020).

1.2 Research Gap and Research Question

Over the past year, various market reports and studies have been conducted concerning the luxury sector in China, emphasizing its rising importance as a promising market with substantial growth potential. Forecasts project China's luxury market to surpass Europe and the Americas, making it a key market for the future of the sector. Regardless of the Chinese luxury market decline in 2022, industry experts remain optimistic, expecting China to become the world's largest luxury market by 2030. Nevertheless, reports do point out potential threats that the Chinese luxury sector is faced with. However, the academic literature lacks an outline of the key opportunities and threats the Chinese luxury sector is confronted with considering the latest industry and market developments as well as the current consumer trends in China. Thus, with the dynamism of the Chinese market, external challenges resulting from a worldwide pandemic, and dynamic consumer trends, the question arises:

"What are the opportunities and threats of the luxury sector in China post-Covid-19?"

1.3 Research Procedure

This thesis consists of five main chapters:

- Following the introduction, a literature review is given, diving into the luxury sector in China, examining Chinese consumer trends, and outlining opportunities and threats for the luxury sector in China that can be found in existing reports and articles.
- Subsequently, in the methodology, a quantitative as well as a qualitative research method is utilized, and the data collection and the method of analysis are explained.
- In the next chapter, the findings of the quantitative and qualitative data will be surveyed.
- Next, in the discussion, the above-presented findings will be examined, the limitations of this paper will be evaluated, and future research implications will be outlined.
- Lastly, a conclusion will summarize the key findings of this thesis.

2 Literature Review

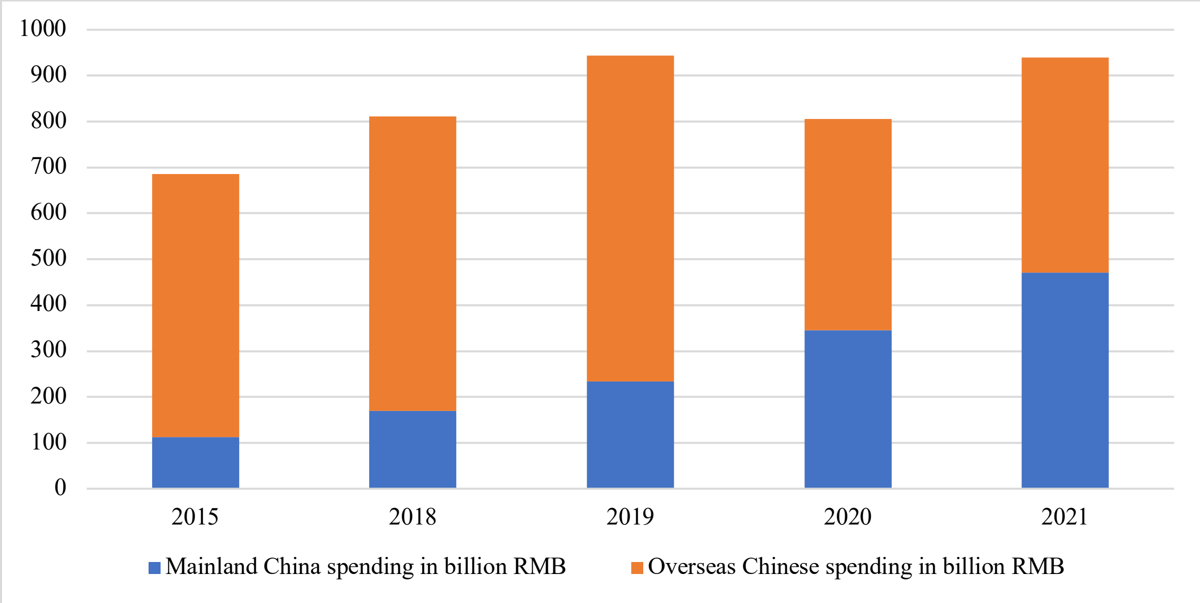
2.1 The Luxury Sector in China

Already back in 2009, China was forecasted to become the number one luxury market in the world, because of the country's large population and the increasing buying power of the Chinese (Chevalier and Lu 2009). Thus, China has a strong market, especially for European luxury brands, and represents the heart of their Asian expansion.

In 2018, the global luxury market grew to an estimated value of $1.3 trillion USD, led by Chinese consumers, with a share of 33% of the global luxury spending (D´Arpizio, et al. 2019). The desire of Chinese consumers for luxury goods remains unrivaled, powering the growth of Western luxury brands for more than a decade, as two-thirds of the Chinese luxury sales are made abroad (Stern and Reuter 2023, Paton 2022). This concentration on international luxury purchases of Chinese consumers is due to the price gap of around 15-30% between China and the rest of the world regarding luxury goods (Stern and Reuter 2023). The global consumption of luxury goods by Chinese customers experienced a clear upward trend from 2015 to 2019.

In 2020 the global luxury market went down to its 2015 levels of roughly $1.1 trillion USD globally (D'Arpizio, Levato, et al. 2020). As the pandemic spread, the global economy was heavily affected and China was no exception (Wang, et al. 2020). The pandemic threatened people's economic and social well-being with repetitive pandemic waves (Ding and Zhang 2022). As a countermeasure, China designed a strategic plan including the controversial zero-case policy. Travel restrictions urged Chinese consumers to purchase domestically, which led to a 48% growth in China's luxury sector. Nevertheless, the Chinese consumers' total luxury spent overall decreased by 35%. The growth in mainland China did not recompense for the international Chinese consumption (D'Arpizio, Levato, et al. 2020).

Graph 1: Geographic Analysis of Chinese Luxury Goods Spending (Lannes and Xing 2022)



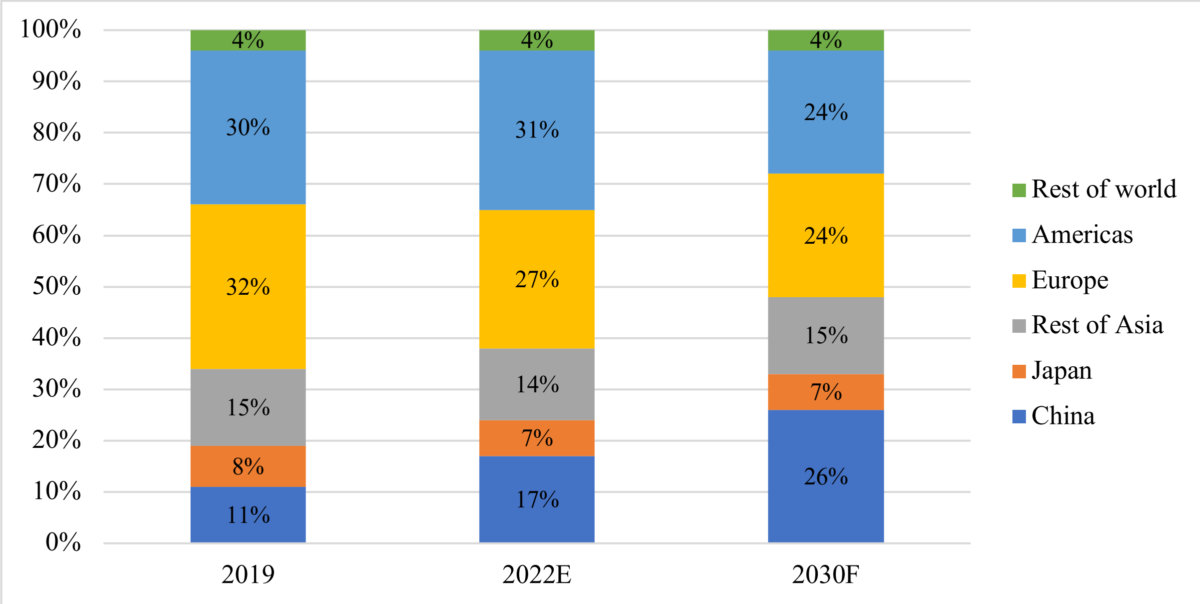
However, due to China's strong development despite the overall market decline, it is expected that the country's growth will persist in the long run. Four trends drove China's luxury market in 2020 (Lannes and Zhang 2020): repatriation, due to Covid-19-related travel restrictions; the increasing share of Gen Z shoppers in the luxury market; continuing digitalization driven by the younger target groups, leading to booming online sales; and the Hainan Island duty-free stores, that experienced increased demand due to travel restrictions. 2020 forecasts project China to claim the biggest share of the luxury market by 2025 (D'Arpizio, Levato, et al. 2020).

2022 marks a turning point, as the Chinese luxury market experienced its first decline in 5 years, due to ongoing Covid-19 restrictions and economic uncertainty (Lannes and Xing 2023). The zero-Covid policies slowed economic and social activities in China. The decline in the real estate sector, higher unemployment, and concerns regarding the pandemic destabilized consumer sentiments leading to a 30%-35% decline in shopping mall traffic. By the end of 2022, the global ranking of luxury sales by region changed as the Americas regained its top position and Asia switched to the second position (D'Arpizio, Levato, et al. 2023).

Although luxury consumption experienced a setback in 2022, the foundations are still solid, and growth is anticipated to resume in 2023. Three key trends drive the luxury market's recovery (Lannes and Xing 2023): The **expansion of very important clients (VICs)**, which represent 2% of the global customers but account for 40% of the luxury sales. China's luxury market appeals to a great share of VICs, as the economic slowdown inhibited entry-level luxury consumers more than high-net-worth individuals (HNWIs). Next, **duty-free shopping** in Hainan backed China's luxury market but was also impacted by Covid-19 in 2022. Duty-free sales were down by 30%, due to a reduction in traffic. Hainan duty-free shopping is expected to recover and accelerate after the restrictions are abolished. Thirdly, as borders remained closed, **global pricing strategies** were maintained by only a few brands over the past two years leading to significant price gaps. Brands will now increasingly consider their price harmonization between China and the rest of the world.

While many reports believe that the year 2022 was a reset for the luxury sector (Lannes and Xing 2023) and expect growth to resume in 2023, other experts point out challenging aspects the Chinese luxury sector is faced with (Langer 2023). Optimistic outlooks expect China to take back its position as the biggest luxury market globally, accounting for 25%-27% of the global purchases (D'Arpizio, Levato, et al. 2023). Despite these positive prospects, factors such as the deteriorated relations between China, the US, and Europe, the country's weakened economy due to the Covid-19 restrictions, China's decline in population, and the growth of local brands pose a challenging environment for the luxury sector in China.

Graph 2: Global Personal Luxury Goods Market Share by Region (Bain & Altagamma 2021)



2.2 Chinese Consumer Trends

During the Covid-19 pandemic, Chinese consumers have changed their preferences and purchasing behavior fundamentally (Wang, et al. 2020). The decline in the real estate market, youth unemployment rates reaching a record of 20% (Paton 2022), and growing anxiety about health and safety weakened consumer sentiments (Wang, et al. 2020). Thus, even after restrictions were loosened, the trend of consumers spending after a time of restraint, generally faded (Paton 2022), and many consumers stayed at home (Lannes and Xing 2023). Chinese luxury consumers are known to have completely different and rapidly changing expectations regarding luxury (Langer 2023). Chinese luxury consumers increasingly develop differences compared to luxury consumers around the world, regarding demographics, digitalization, retail environment, cultural references, and relationships to luxury brands (Lannes and Xing 2022). Thus, the luxury goods market in China is heavily influenced by its own dynamics.

According to the 2023 McKinsey China Consumer Report (Zisper, et al. 2022), five key trends will reshape China's consumer market:

- Firstly, the **country's middle class continues to rise**, with the average increase of disposable income being higher than inflation, and the national consumption levels and wealth growths year after year (Yang 2023). Along with this, the spending power and the purchase intention of luxury goods are expected to grow (Shukla, Rosendo-Rios, et al. 2022) as Chinese consumers are said to be luxury goods enthusiasts (Zhang 2022).
- The second trend is the **consumer's preference for premium brands over mass-market ones**. This is in line with the findings of Faschan, et al. (2020) of Chinese consumers expressing greater brand awareness and higher purchase motivation linked to quality, uniqueness, authenticity, and high levels of craftsmanship which can be found in premium brands (Faschan, Chailan and Huaman-Ramirez 2020).
- Third, Chinese consumers are said to **switch to smarter choices without trading down**. This matches the growing concern about higher living costs and challenging financial situations due to the economic difficulties caused by the pandemic (Yang 2023). This does not mean that consumers give up their luxury purchases in the post-pandemic era, but rather expect the purchase of luxuries worth more (Yan 2022) and avoid unnecessary expenses with more targeted purchases (Lannes and Xing 2023) and a more conservative sentiment (Lannes and Xing 2022).
- Fourthly, Chinese consumers are expected to be **more product-centered and educate themselves about their luxury purchases** (Zisper, et al. 2022). This trend aligns with the previously mentioned conservative and targeted luxury shopping, as Chinese consumers evaluate their investments thoroughly and educate themselves about potential luxury purchases. Furthermore, product centricity becomes evident in the

Chinese consumers' focus on quality, uniqueness, authenticity, and high levels of craftsmanship (Faschan, Chailan and Huaman-Ramirez 2020).

- Lastly, **local brands are preferred** due to cheaper prices, a stronger sense of national pride (Zisper, et al. 2022), and a deeper connection with the Chinese heritage (Stern and Reuter 2023) through localized strategies (Tai 2023). Local brands better address local trends as well as consumer sentiments and offer better experiences than other global players (Langer 2023). A report from McKinsey found that 52% of surveyed Chinese consumers prefer local fashion brands over foreign ones (Scalco, et al. 2023). The higher spent on domestic luxuries is due to the Covid-19-related travel restrictions. Chinese consumers switched from global shopping to local spending (Guyduy 2021).

Next to these trends, the Chinese luxury market is expected to be powered by younger generations such as Gen Z (Yang 2023) with a rising disposable income, and a high affinity for luxury goods (MarketLine 2022). These younger generation cohorts are digitally native, adopting new technologies and demanding the convenience of a seamless online and the personal touch of in-store shopping experiences (Daily 2022). Thus, they value the digital-first efforts of luxury brands into innovative features to create interactive and tailored experiences. The brands' storytelling represents a core function of value creation by facilitating a close connection to younger clients (Langer 2023).

Putting this together, Chinese consumers of luxury goods are younger, more hyperconnected, proud, and hopeful while also wanting value for money, distinctiveness, and personalization (Stern and Reuter 2023). Chinese consumer trends are promising with a growing middle class and an upcoming luxury-savvy generation, but Chinese consumers' consumption psychology has been impacted by the pandemic which may slow down the luxury market (Yang 2023).

2.3 Opportunities and Threats of the Luxury Sector in China

According to Bain & Company (2022), Chinese consumers will make up roughly 40% of global luxury purchases by 2030 (Paton 2022). Thus, the Chinese market seems to have a promising future for the luxury sector, as Chinese consumers are driven by growing demand for luxury goods in combination with their rising middle class and a growing disposable income (Guyduy 2021). In the next eight years, around 30% more Chinese consumers are expected to join the mid and high-income class (Stern and Reuter 2023). Chinese customers, therefore, seem to represent a huge opportunity in the form of a substantial source of revenue growth for luxury firms (Shukla, Rosendo-Rios, et al. 2022). Hereby, the growing spending of the upcoming Generations (Gen Z and Y) represents a huge opportunity for luxury brands to excel.

Furthermore, the luxury sales from Hainan duty-free shops represent another opportunity for the luxury sector in China (Lannes and Xing 2023). The sales here are expected to rebound and accelerate, especially from most Chinese travelers, traveling without passports, between the first and second half of 2023. This duty-free channel represents a promising growth engine and an attractive business opportunity for luxury brands operating in China, through the performance tax advantages and accelerating expansion plans in China (Zhong, et al. 2023). Additionally, the increased inland spending in mainland China represents an opportunity for luxury brands that started investing in boutiques in lower cities. This aligns with the Chinese consumer trend forecast of the Chinese consumers' shift towards more local spending.

Nevertheless, after the reopening of the Chinese borders, most airlines gradually increase their flight capacity which is projected to reach 75% by the end of 2023 (Stern and Reuter 2023). Along with this, the Chinese customers' desire to travel internationally is increasing, leaving a promising outlook of the return of Chinese travelers with an even greater purchasing power.

Moreover, the online environment is continuously rising and has particularly expanded during the pandemic. With newly emerging technologies, luxury brands can benefit from the tech-savvy Chinese consumer base, by adopting these features and building an online presence that enables an innovative, interactive, and personalized experience (Daily 2022). Optimistic outlooks in various business reports expect 2021 sales levels amid the first and second half of 2023 and "the next China" remains to be China (Lannes and Xing 2023).

Table 1: The Sources of Growth in the Chinese Luxury Sector

Sources of Growth	
Covid-19 related	Abolishment of lockdowns
	Abolishment of travel restrictions
	Airlines increasing flight capacities
Economic	Growing middle- and upper-class → growing disposable income
	Increased domestic spending
Social	Rebound of the overall consumer sentiment
	Growing demand for luxury
	Desire for international travel
Digital	Rising digital environment
	Tech-savvy Chinese consumers

However, there are threats the Chinese luxury sector faces. The major threat is given by the negative outcomes of the pandemic that led to a global luxury market decline in 2020 (Yang 2023). Travel restrictions, the zero-Covid policy, forced quarantines, impeded borders, as well as sudden multi-month mass lockdowns, led to negative economic and social impacts (Paton 2022) that have lasting effects on Chinese consumers (Wen, et al. 2021).

Besides the pandemic, another threat is given by the country's nature of unpredictable and changing economic landscape with changing expectations of the consumers (Yan 2022). Additionally, the pricing gap between China and Europe (Yu and Goh 2023) through which luxury goods are around 15-30% more expensive in mainland China than elsewhere (Stern and Reuter 2023) pose a threat.

But not only the gap in pricing, the growing differences between the Chinese and the global luxury market, driven by digitalization, the retail setting, cultural positions, and relationships with brands, must be taken into consideration as well (Lannes and Xing 2023). Luxury brands must concentrate on creating brand stories that resonate specifically with Chinese consumers to keep up with the higher service experiences from Chinese players (Langer 2023).

On the one hand, the rapidly changing digital environment in China is a space of inspiration as 95% of all luxury purchases in China are inspired digitally. On the other hand, through digital platforms brands can be canceled in hours and threatening trends can emerge overnight. Thus, successful digital communication of luxury brands is essential. Moreover, with increasing availability through the growing rise of the middle class, the threat of luxury democratization arises (Shukla, Rosendo-Rios, et al. 2022). This refers to the felt decline in uniqueness, exclusiveness, and self-differentiation of luxury goods caused by broader accessibility. Luxury democratization may lead consumers to value democratized goods less. All in all, especially the pandemic has led to new dynamics in the Chinese luxury sector which fits the Chinese translation of crisis; "Wei Ji", meaning both, danger, and opportunity (Wang, et al. 2020).

3 Methodology

3.1 Research Method and Data Collection

For this paper, mixed method research (MMR) was utilized. MMR is a more flexible framework, involving the collection, analysis, interpretation, and reporting of both, quantitative and qualitative data (Dawadi, Shrestha and Giri 2021). In this thesis, the quantitative method of a survey and the qualitative method of expert interviews were chosen. This combination allows answering the research question with sufficient breadth and depth to provide valuable insights into the research phenomena and derive meaningful findings.

For the quantitative data collection, a Chinese survey was conducted to understand consumer trends and sentiments toward the Chinese luxury sector (see Appendix 3). To identify the opportunities and threats of the Chinese luxury sector, one must understand Chinese consumers' attitudes, purchasing behavior, and preferences. The survey provided a data set with a total sample size of 281 participants that filled out the survey. Only participants that are originally from China were eligible to participate in the survey. The survey consisted of four general questions and ten topic-specific closed-ended multiple-choice questions.

In complementation to this, the qualitative data collection consisted of six semi-structured in-depth expert interviews with working professionals from the Chinese luxury sector to get valuable insights from the business point of view. The interviewees are either directly working in a respective department of a luxury company or have a consulting function specialized in businesses in the Chinese luxury sector. The interview questions were divided into three topic groups. Beginning with industry-related questions to get a better understanding and firsthand insights into the development as well as the current state of the luxury sector in China. Secondly, consumer-related questions were used to gain insights into the experts' observations of current consumer trends. And lastly, future-related questions were posed to understand the professionals' estimations and expectations of the upcoming development, trends, as well as, opportunities, and threats of the Chinese luxury sector (see Appendix 2).

3.2 Method of Analysis

The primary duties of the method of analysis for studying the qualitative and quantitative research methodologies are coding the data gained from the in-depth interviews for the qualitative research and evaluating the replies from the survey for the quantitative research.

The coding process is a systematic identification and classification of key terms or ideas mentioned during the interviews to make sense of the collected information (Saldaña 2009). Through these labels, patterns can be identified, and similar data can be clustered across all conducted interviews. These groups serve as a foundation for further analysis and interpretation. For this thesis, an inductive coding approach was utilized to condense broad and diverse raw data into a succinct summary format and build a solid linkage between the research aims and the summary findings retrieved from the raw data (Thomas 2006). Due to confidentiality reasons and the wishes of the participants, the audio recording will not be shared. However, transcript links of the interviews can be found in Appendix 2.

Regarding the analysis of the quantitative data, the sample size of the survey does not qualify for deriving statistically significant findings. When working with small samples, a graphical analysis can be helpful as it aids in the visual identification of patterns and trends in the data (Tufte 2006). Thus, numerous figures will illustrate the results of the survey. Based on these figures, a graphical analysis, an in-depth interpretation as well as a derivation of findings will be conducted. These findings will be set into comparison with the presented literature research to prove confirmation or contradiction of trends, predictions, and judgments.

4 Findings

4.1 Analysis of Qualitative Data

The qualitative data was gathered from six semi-structured interviews with industry experts and working professionals from the luxury sector. All the interviewees pointed out that the Chinese luxury sector is currently in a **state of transition** (Booker, l. 4) and the rebound after the decline in 2022 is gradually happening. Growth is expected; however, the pace of recovery depends on the brand and the development of consumer sentiment. “China’s luxury market will be stronger than ever." (Tan, ll. 19-21). **Growth drivers** in this coherence are, firstly, the growing economy, enforced by the government as well as positive GDP projections (Yang, ll.124-125), secondly, expansions and luxury brand store openings to lower-tier cities, thirdly, a rising young and affluent consumer base entering the market and, fourthly, the overall recovery of the Covid-19 restrictions such as the increasing international flights capacity. Furthermore, rising consumer confidence in combination with "(…) positive news, happy mood (…)" (Lo, l. 169), drive growth in the Chinese luxury sector. Other growth drivers are the duty-free stores such as in Hainan, cooperation with KOLs, and celebrities with a strong influence on Chinese consumers and growing digital sales channels.

Regarding **consumer trends**, firstly, Chinese luxury consumers are more discrete, and sophisticated, and tend to value luxury products with minimalistic design and high quality (Lo, ll.66-73), building on the Western trend of "quiet luxury" (Baskin 2023). Secondly, Chinese consumers have a growing appreciation for craftsmanship, brand heritage, and values and are better educated about luxury. Thirdly, another consumer trend regards rising client expectations, consumer differentiation through customization, and the growing interest in more niche luxury products. Other **general trends** are collaborations between luxury brands and local brands, Chinese artists, or KOLs to "(…) give them a bit more credibility that they understand the Chinese customers." (Tan, ll.100-103). Additionally, luxury brands in China increasingly open stores in lower-tier cities.

Digitalization and luxury brands' engagement in digital efforts is essential in China (Lo, ll.83-89). For luxury brands, it is fundamental to understand how to operate in the Chinese digital ecosystem as this is how China is being run and new technologies are highly important for Chinese audiences (Yang, ll.67-75). Therefore, high digital investments are made to fuel the fast-growing digital channels and effectively target the younger, knowledgeable consumer groups. This future **target group** of the Chinese luxury sector, categorized as Gen Z, is a younger audience belonging to the growing middle and upper class, that is more open and caring about the future, sustainability, and brand values, with a higher digital understanding and acceptance (Shen, ll-56-59).

The **place of spending** concerning luxury products by Chinese consumers depends on the development of the price gap and the travel restrictions as well as the consumer status (Interviewee 6, ll.67-75). Experts agree that global sales will grow again with resuming travel restrictions and increasing international flight capacity. Nevertheless, if brands decide to harmonize prices, consumers will be indifferent regarding their place of purchase as they miss out on a potential price advantage and tax savings from overseas purchases and domestic sales will further increase (Yang, ll.93-102). For VICs domestic spending will regardless remain important as they build a connection with specific sales personnel in one explicit store in China.

The main opportunities are the growing market share of the luxury sector, gaining credibility in the market by understanding the Chinese culture and building relationships with Chinese consumers as well as targeting the affluent and digitally affine customer group Gen Z effectively (Tan, l. 125-126). Additionally, store expansions into lower-tier cities, developing digital experiences through platforms, and managing the operational side of the complementary businesses effectively, pose important opportunities for the Chinese luxury sector.

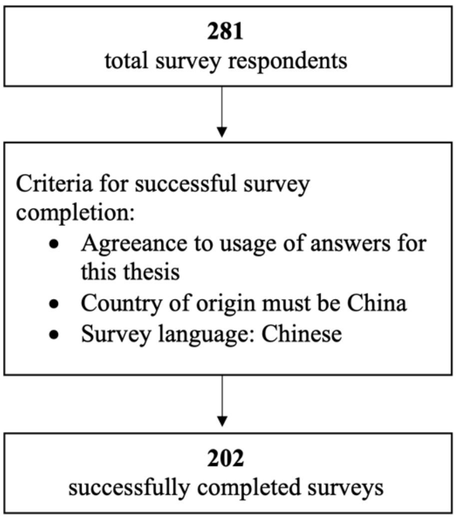
The Chinese luxury sector is faced with multiple **threats**, including geopolitical tensions, such as import restrictions, taxes, and anti-China movements. Further, unpredictable policy changes of the Chinese government, as experienced during the pandemic in terms of strict restrictions like the zero-Covid-19 policy, pose a threat. Increased nationalism in China may impact the sector and is powered by the strong promotion of domestic brands, supported by the government. Lastly, “(…) growth will never be forever, right?” (Lo, l. 202).

All in all, the expert interviews provided meaningful insights into the Chinese luxury sector and mostly aligned with the findings from the literature review. Minor alterations and focuses in terms of personal and subjective opinions differed throughout the expert interviews which leaves room for interpretation, and complement the findings of the literature and reports.

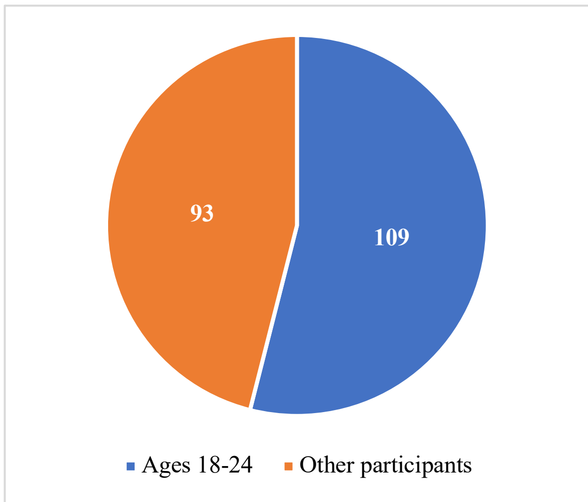
4.2 Analysis of Quantitative Data

The quantitative data were collected through a survey format.

Figure 1: Quantitative Data Collection

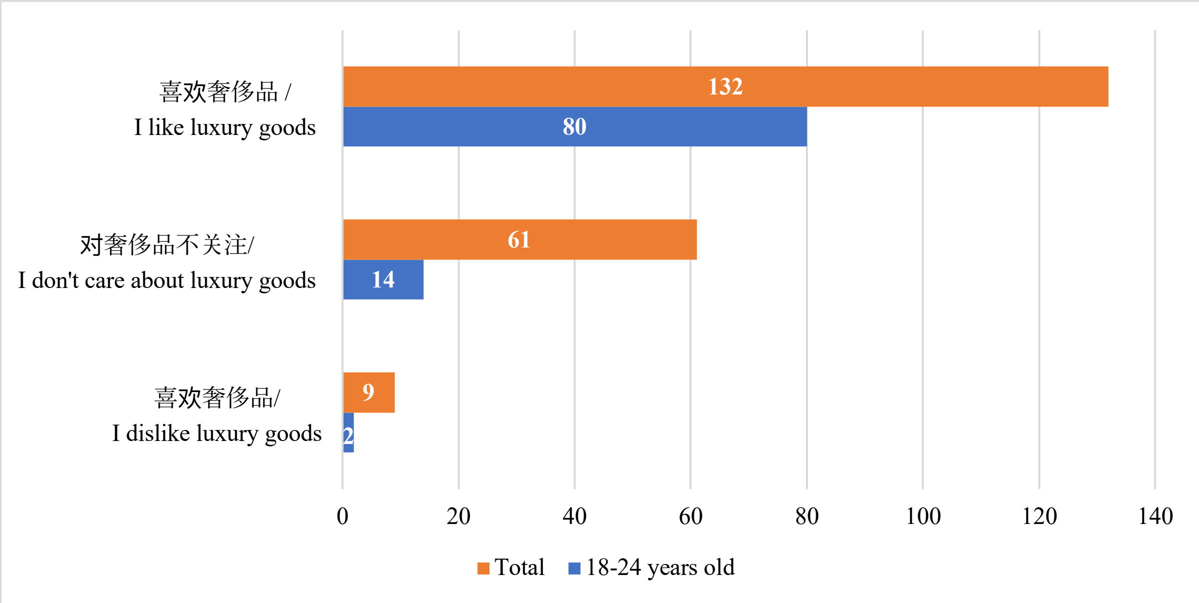


Graph 3: Proportion of Gen Z Respondents



Firstly, regarding the participants' **luxury affinity**, around 60% of the participants indicated that they like luxury goods and only 0,7% selected that they dislike luxury goods. The remaining participants stated that they do not care about luxury goods. Important to point out here is that, for the age range of 18 to 24, more than 80% of the respondents indicated that they like luxury goods.

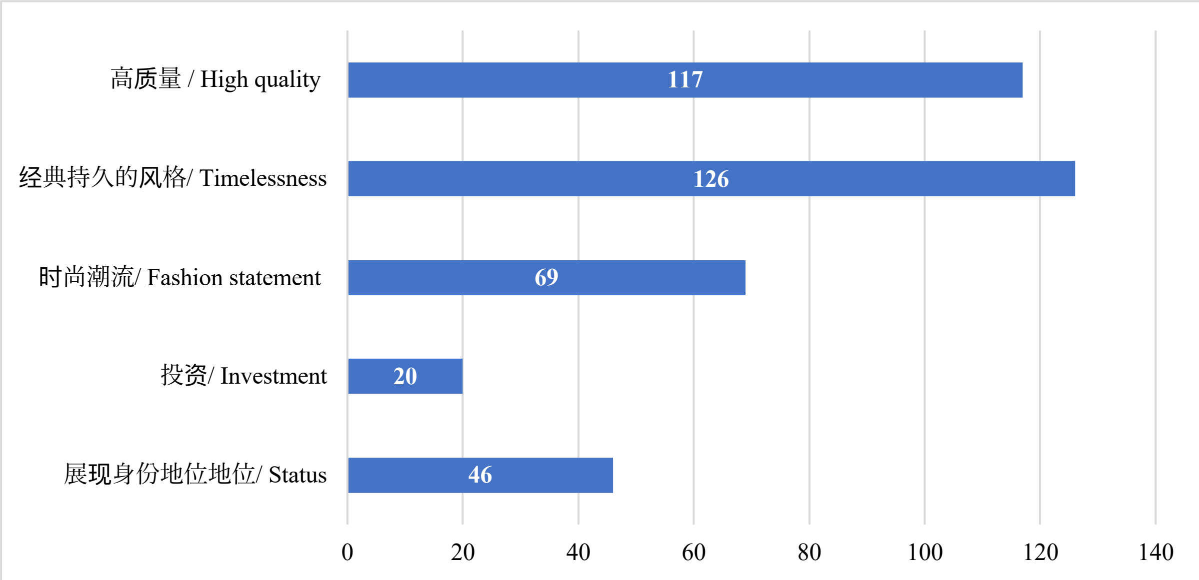
Graph 4: Luxury Affinity of Survey Respondents



However, concerning **luxury ownership,** a total of 165 participants, accounting for the clear majority of around 82%, stated that they own more than one luxury good while only around 10% of the participants indicated that they do not own any luxury good and have no intention of purchasing luxury goods in the future. Furthermore, regarding the **purchase frequency** of luxury goods by Chinese consumers, the majority of the respondents make luxury purchases once or twice a year. Around 26% of the respondents indicated that they make luxury purchases rarely, whereas 23% of the respondents make luxury purchases three to four times a year.

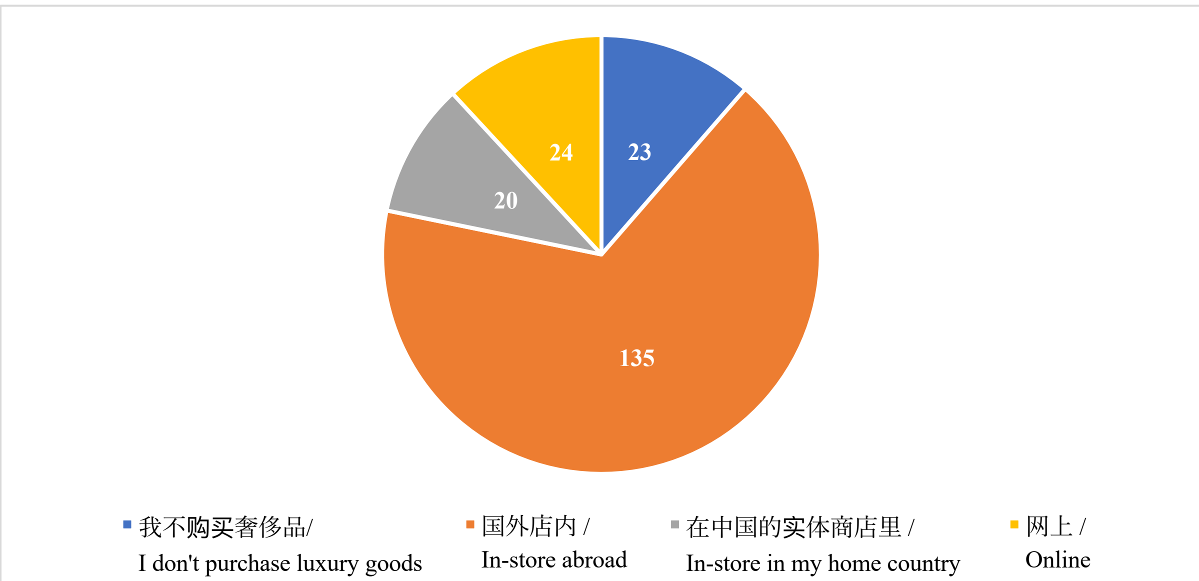
Moreover, the survey revealed that **price** plays a moderately important role when it comes to making a purchasing decision regarding a luxury good for Chinese consumers, whereas the **practical use** of the luxury good is perceived as very important by most of the respondents. Next, **timelessness and high quality** are the primary motivators for Chinese consumers to purchase luxury goods, while investment and status are rather less important motivators.

Graph 5: Luxury Goods Purchasing Motivators



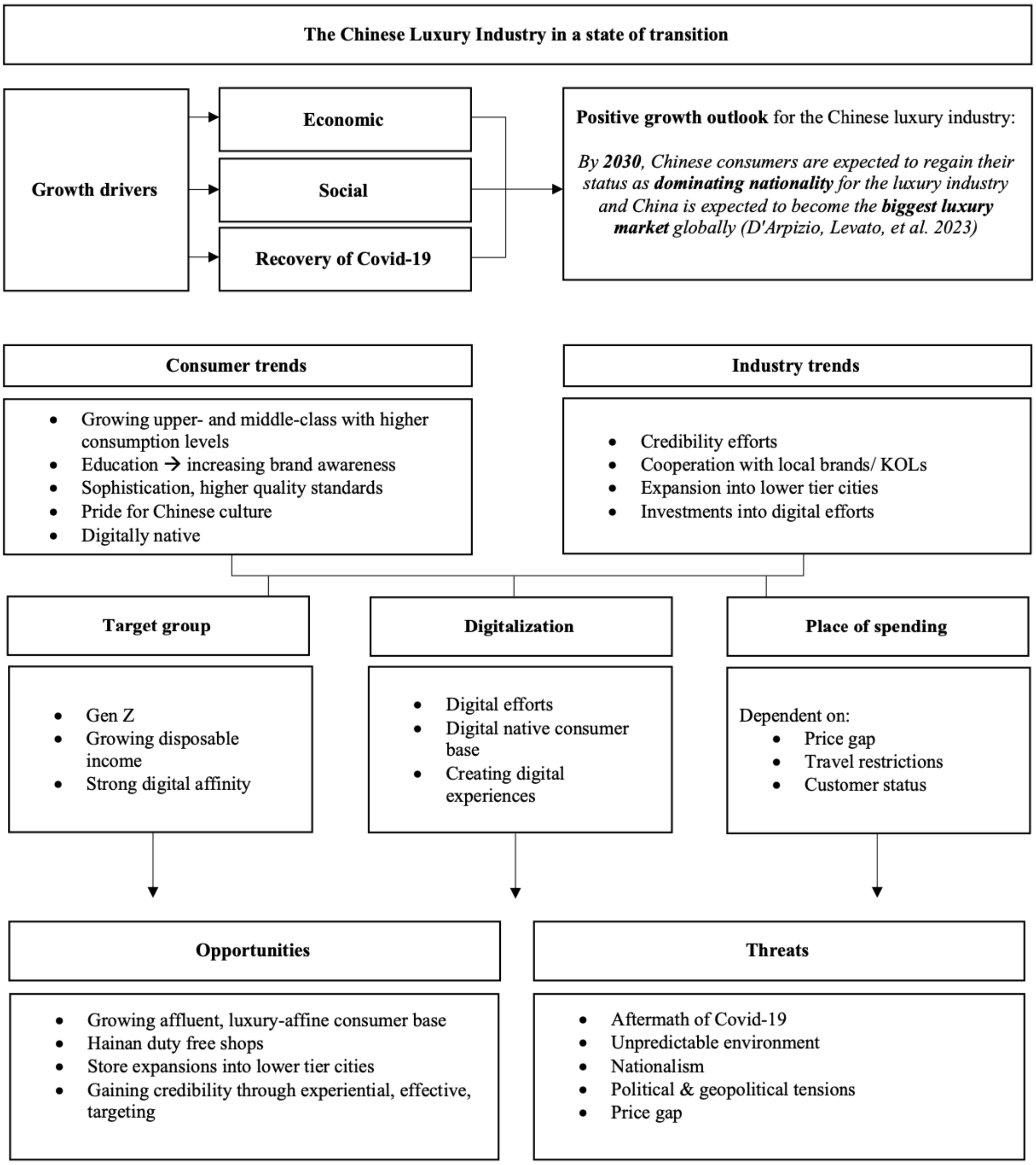
More than 40% of the participants indicated that their main information source is **social media platforms** (e.g., WeChat) regarding luxury education. Chinese customers seldom learn about new luxury products in-store or through friends and family. Roughly 20% of the respondents chose each, website, and fashion blog as sources of information for new luxury products. Concerning the place of purchase, more than 66% of the respondents make their luxury purchases **in-store abroad**, while only 10% purchase in-store in their home country. Online purchases were selected by around 12% and 11% do not make luxury purchases.

Graph 6: Chinese Consumers' Place of Luxury Goods Purchases



Another finding reveals that most of the respondents are neutral regarding their **preference for luxury or premium brands over mass-market brands**. However, around 40% of the respondents stated that they (probably) do not prefer premium or luxury brands over mass-market brands. Moreover, concerning **luxury education**, around 68% of the respondents stated that they (probably) research features such as the price and material of luxury goods in advance of making a purchasing decision.

Figure 2: Summary of the Findings



5 Discussion

5.1 Discussion of findings

Based on the findings, predictions regarding the Chinese luxury sector can be made: The **Chinese luxury sector will grow** back to its pre-Covid-19 levels powered by the growing middle and upper class, increasing disposable income, higher luxury affinity, and Gen Z (Zhang 2022). Even though the pace of recovery is more optimistic in the reports (D'Arpizio, Levato, et al. 2023), while experts tend to be more conservative (Yang, ll. 14-16), both align in their belief of the sector's growth and rebound.

Chinese luxury brands will become more important powered by **pride and nationalism**. Although there is a lack of Chinese luxury brands that can compete with the big Western luxury brands now, there is a growing preference for local brands that understand the Chinese heritage and culture among Chinese consumers (Zhong, et al. 2023). Western brands must gain credibility in the market by understanding Chinese culture and building relationships with customers (Tan, ll. 100-101). It is vital for luxury brands to create interactive and tailored experiences through their storytelling to facilitate a closer connection to the Chinese heritage (Lannes and Xing 2023). Luxury brands successfully implementing this cultural aspect in the Chinese luxury sector will ultimately have the potential to flourish in the future.

The **digital ecosystem** will demonstrate an essential function in the Chinese luxury sector. Luxury brands that can efficiently leverage digital channels and engage with customers online will be more successful. Although the digital space can be harmful to brands when used inappropriately, "(…) it's the absolute essential because I think this is how China is being run overall. Luxury or no Luxury, the whole ecosystem is digitalized." (Lo, l.83-84). Brands refusing to be part of this will fail to successfully operate in the Chinese ecosystem in general.

Travel retail will become very important. After the elimination of the Covid-19 imposed travel restrictions and the restoring flight capacity, Chinese consumers will increasingly travel overseas and can benefit from the price gaps of luxury goods abroad. Sales in the Hainan duty-free shops will grow and represent a huge chance for the luxury sector in China (Shen, l. 101) as a promising growth engine through the tax advantage (Zhong, et al. 2023). Simultaneously, **inland opportunities** arise. Expansions to lower-tier cities (Booker, l. 83), to reach more customers and signify brand presence is an attractive business opportunity (Zhong, et al. 2023).

External threats will remain a challenge. Geopolitical and political threats such as the ones imposed by the government cannot be controlled by the brands operating in the Chinese luxury sector. The unpredictable environment regarding the fast-changing landscape and altering customer expectations, as well as the geopolitical tensions concerning import restrictions, import taxes, and anti-China movements, are harmful to the sector (Tan, ll.134-144). The sector will still be confronted with the **aftermath of the Covid-19** pandemic. The negative outcomes have led to an overall market decline which imposed an insecure consumer sentiment and impacted the purchasing behavior of Chinese consumers (Wen, et al. 2021). However, recovery is in progress. The **price gap** is a strategic decision of luxury brands. Once the flight capacity is restored, Chinese consumers will cut their domestic spending and focus on international purchases due to the tax savings abroad, however, a price harmonization strategy will lead Chinese consumers to focus on domestic purchases and will reduce their overseas spending.

The Chinese luxury sector is set for a transformation. Chinese consumers will become more sophisticated and demanding, expecting more from luxury brands regarding credibility in the Chinese market, digital engagement, and quality standards. Opportunities and threats arise, but the brands that can adapt and respond to these trends and expectations will be well-positioned to succeed in the Chinese luxury sector. The days of expecting automated growth in China solely based on its market size are over (Langer 2023). New strategies with a stronger emphasis on excellent execution, engagement in storytelling, and building local relevance are needed.

5.2 Limitations

The following limitations in the conducted research must be noted:

- Firstly, regarding the extensive scope of this thesis, due to the page limitations, it delivers a condensed assortment of prioritized findings.
- The matter of this thesis is highly topical and is in constant movement. Therefore, continuously new articles are published that cannot be integrated into this thesis daily.
- Due to the topic's actuality, the literature review focuses on reports from reputable consultancies, as there is a lack of scholarly articles building a theoretical basis.
- The survey was limited in scope and did not deliver a statistically meaningful size.
- The interviews were limited to six and do not represent the entire industry. Some interviewees asked not to be recorded leaving room for error during the transcription.

5.3 Future research implications

This research is prone to limitations, for further research several suggestions can be considered:

- Firstly, due to the topic's actuality and its dynamic setting, new research can be conducted daily, including a survey that delivers a statistically significant sample and a broader scope of expert interviews with more diverse stakeholders from the industry.
- Next, the results can be investigated further by conducting another survey of Chinese consumers and incorporating targeted questions regarding their consumer behavior.
- Thirdly, future research may regard managerial implications to derive suggestions and strategies that luxury brands should use to succeed in the Chinese luxury market.

- Lastly, the market dynamics could be investigated, examining the competitive landscape of the Chinese luxury sector, including the position of domestic brands, the role of international brands, and the shifting preferences of Chinese consumers.

6 Conclusion

All in all, the luxury sector in China has significant growth potential. Economic and social factors and an overall market recovery from the Covid-19 impacts will power this growth. A growing affluent and luxury-oriented consumer base, a digital landscape with new technological opportunities, store expansions in the lower tier cities, the growth of the Hainan duty-free shops, and effective targeting through the creation of tailored experiences whilst gaining credibility, represent the key opportunities for the future of the Chinese luxury sector.

However, to reach the forecasts expecting China to retake its dominating position as the largest luxury market by 2030, luxury brands must make use of these opportunities and respond to the potential threats and tackle the upcoming challenges. Hereby, understanding the Chinese culture and building relationships with the customers whilst being faced with the unpredictable nature of the Chinese environment, political, as well as geopolitical tensions, the aftermath of Covid-19, increased nationalism, and the significant price gap must be mastered.

Having examined both the up-and down-side the Chinese luxury sector is currently faced with, businesses must draw managerial conclusions and implications to operate effectively and succeed. In conclusion, luxury brands cannot rely on the identified growth factors and China's market size alone. They must make use of the opportunities and implement strategies to meet the Chinese consumer's expectations, demands, and needs to become locally relevant and flourish in the Chinese luxury sector successfully.

References

Baskin, Brian. 2023. *"It's Not Just 'Succession': Why Quiet Luxury Is Everywhere Lately" Business of Fashion.* 26 March. Accessed April 23, 2023. https://www.businessoffashion.com/briefings/luxury/its-not-just-succession-why-quiet-luxury-is-everywhere-lately/.

Chen, Xinyi. 2022. "Research on the Advertising Strategies in Luxury Marketing." *Highlights in Business, Economics and Management* 41-48.

Chevalier, Michel, and Pierre Xiao Lu. 2009. *Luxury in China: Market Opportunities and Potential.* Singapore: John Wiley & Sons (Asia) Pte. Ltd.

D'Arpizio, Claudia, Federica Levato, Constance Gault, Joëlle de Montgolfier, and Lyne Jaroudi. 2021. *Bain & Company: From Surging Recovery to Elegant Advance: The Evolving Future of Luxury.* Worldwide Market Study, Milan: Bain & Company, Inc.

D'Arpizio, Claudia, Federica Levato, Filippo Prete, and Constance Gault. 2020. *Bain & Company: The Future of Luxury: Bouncing Back from Covid-19.* Worldwide Market Study, Milan: Bain & Company Inc.

D'Arpizio, Claudia, Federica Levato, Filippo Prete, Joëlle de Montgolfier, and Allison Kavanagh. 2023. *Bain & Company: Renaissance in Uncertainty: Luxury Builds on Its Rebound.* Worldwide Market Study, Milan: Bain & Company, Inc. .

D´Arpizio, Claudia, Federica Levato, Filippo Prete, Elisa Del Fabbro, and Joëlle de Montgolfier. 2019. *Bain & Company: Luxury Goods Worldwide Market Study, Fall-Winter 2018.* Market Study, Milan: Bain & Company, Inc.

Daily, Women's Wear. 2022. "Leading Luxury: As head of Alibaba's luxury division, Janet Wang leverages deep industry knowledge and experience to help luxury brands succeed in the China market." *WWD: Women's Wear Daily*, August 3: 23-23.

Dawadi, Saraswati, Sagun Shrestha, and Ram A. Giri. 2021. "Mixed-Method Research: A Discussion on its Types, Challenges, and Criticisms." *Journal of Practical Studies in Education* 25-36.

Ding, Defeng, and Ruilian Zhang. 2022. "China's COVID-19 Control Strategy and Its Impact on the Global Pandemic." *Policy and Practice Reviews* 1-10.

Faschan, Maximilian, Claude Chailan, and Richard Huaman-Ramirez. 2020. "Emerging adults' luxury fashion brand value perceptions: A cross-cultural comparison between Germany and China." *Journal of Global Fashion Marketing* 207-231.

Guyduy, Marissa. 2021. "*Luxury spending booms in mainland China reports" The NPD Group.* April 29. Accessed Feburary 7, 2023. https://www.npd.com/news/press-releases/2021/luxury-spending-booms-in-mainland-china-reports-the-npd-group/.

Langer, Daniel. 2023. "*Why Luxury Brands Must Think Differently In 2023." JING Daily* January 2. Accessed Feburary 17, 2023. https://jingdaily.com/why-luxury-brands-must-think-differently-in-2023/.

Langer, Daniel. 2023. "*Why Selling Luxury In China Is More Challenging Than Ever." JING Daily* 13 March. Accessed March 14, 2023. https://jingdaily.com/china-selling-luxury-social-impact-digital-strategy/.

Langer, Daniel. 2023. "*The New Playbook For Luxury Brands During China's Rebound In 2023 And Beyond" JING Daily* 24 April. Accessed April 25, 2023. https://jingdaily.com/china-luxury-brand-playbook-2023/.

Lannes, Bruno, and Carrie Zhang. 2020. *Tmall Luxury Division, Bain & Company: China's Unstoppable 2020 Luxury Market.* Industry Report, Shanghai: Bain & Company Inc.

Lannes, Bruno, and Weiwei Xing. 2022. *Bain & Company: A Year of Contrasts for China's Growing Personal Luxury Market.* Market Report, Shanghai: Bain & Company, Inc.

Lannes, Bruno, and Weiwei Xing. 2023. *Bain & Company: Setting a New Pace for Personal Luxury Growth in China.* Market Report, Shanghai: Bain & Company Inc.

MarketLine. 2022. *MarketLine Industry Profile: Luxury Goods in China.* Industry Profile, MarketLine.

Paton, Elizabeth. 2022. "*In China, Luxury Shopping Faces Ongoing Headwinds." The New York Times* December 7. Accessed Feburary 6, 2023. https://www.nytimes.com/2022/12/07/business/dealbook/covid-china-luxury-shopping.html.

Saldaña, Johnny. 2009. *The Coding Manual for Qualitative Researchers.* London: SAGE Publications Ltd.

Scalco, Alice, Michael Straub, Jacob Wang, and Daniel Zisper. 2023. *Winning in China: Top priorities for global apparel and fashion brands.* Report, Shenzhen: McKinsey & Company.

Shukla, Paurav, Veronica Rosendo-Rios, Sangeeta Trott, Jing (Daisy) Lyu, and Dina Khalifa. 2022. "Managing the Challenge of Luxury Democratization: A Multicountry Analysis." *Journal of International Marketing* 44-59.

Stern, Jacques, and Chloe Reuter. 2023. *From Insights to Actions: A Blueprint for capturing the return of Chinese luxury shoppers.* Market report, Global Blue & Gusto Collective.

Tai, Crystal. 2023. "Chinese Consumers Ditch Foreign Fashion And Luxury Brands For Local Options: McKinsey Report" *JING Daily.* 12 April. Accessed April 2023, 22. https://jingdaily.com/mckinsey-report-chinese-fashion-brands/.

Thomas, David R. 2006. "A general inductive approach for qualitative data analysis." *American Journal of Evaluation* 237-246.

Tufte, Edward R. 2006. *The Cognitive Style of PowerPoint: Pitching Out Corrupts Within. 2nd ed.* Graphics Press.

Wang, Yonggui, Aoran Hong, Xia Li, and Jia Gao. 2020. "Marketing innovations during a global crisis: A study of China firms' response to COVID-19." *Journal of Business Research* 214-220.

Wen, Jun, Metin Kozak, Shaohua Yang, and Fang Liu. 2021. "COVID-19: potential effects on Chinese citizens' lifestyle and travel." *Tourism Review* 74-87.

Yan, Yuxuan. 2022. "Risk Perception of Luxury Investment and Its Influencing Factors." *Frontiers in Business, Economics and Management* 150-152.

Yang, Tianyuan. 2023. *The Development Status, Problems and Countermeasures of China's Luxury Goods Market During the COVID-19 Period.* London.

Yu, Sophie, and Brenda Goh. 2023. *"China's luxury market shrank 10% in 2022 -Bain." REUTERS* Feburary 7. Accessed Feburary 8, 2023. https://www.reuters.com/world/china/chinas-luxury-market-shrank-10-2022-bain-2023-02-07/.

Zhang, Yanzhe. 2022. " Analysis on Psychological Behavior of Chinese Luxury Consumers and Development Strategy of Luxury Goods." *Proceedings of the 2022 2nd International Conference on Enterprise Management and Economic Development (ICEMED 2022).* Cardiff: Atlantis Press International B.V. 568-572.

Zhong, Steven, Rebecca Silli, Sheila Zheng, Michael Cheng, and Jennifer Ye. 2023. *Mainland China and HK Luxury Market Insights: "Retrieve customer values for growth and sustainability".* Market Report, PwC.

Zisper, Daniel, Daniel Hui, Jia Zhou, and Cherie Zhang. 2022. *2023 McKinsey China Consumer Report: A Time of Resilience.* Consumer Report, McKinsey & Company.

Appendix 1

List of Abbreviations

Gen Z Generation Z

GDP Gross Domestic Products

HNWI High Net Worth Individuals

KOL Key Opinion Leader

MMR Mixed Method Research

VICs Very Important Clients

List of Figures

List of Graphs

List of Tables

Appendix 2

Interview Transcript Links

Interview 1: Winnie Lo – Richemont Cartier

https://drive.google.com/file/d/1ix0YujSLUrmgML_Id9IDw0XXbgsrn1P-/view?usp=sharing

Interview 2: Shuxuan Shen – Chinese Luxury Advisors

https://drive.google.com/file/d/1WiaoYj1ZVok3_Bz4izDw42XqeM5CKFJu/view?usp=shari
ng

Interview 3: Celestine Tan – IWC Schaffhausen

https://drive.google.com/file/d/1NpRokNHk1ydUuz1rJ4Gu2Ff5dRvRfVgC/view?usp=sharin
g

Interview 4: Avery Booker – JING Daily

https://drive.google.com/file/d/1100S6k3TQsyg3OA6LY1ow0OUlXTlFVZ3/view?usp=shari
ng

Interview 5: Arie Yang – Chinese Luxury Advisory

https://drive.google.com/file/d/1u3jLJdoWL3d_akQOFiQG25DPO0mv3N2v/view?usp=shari
ng

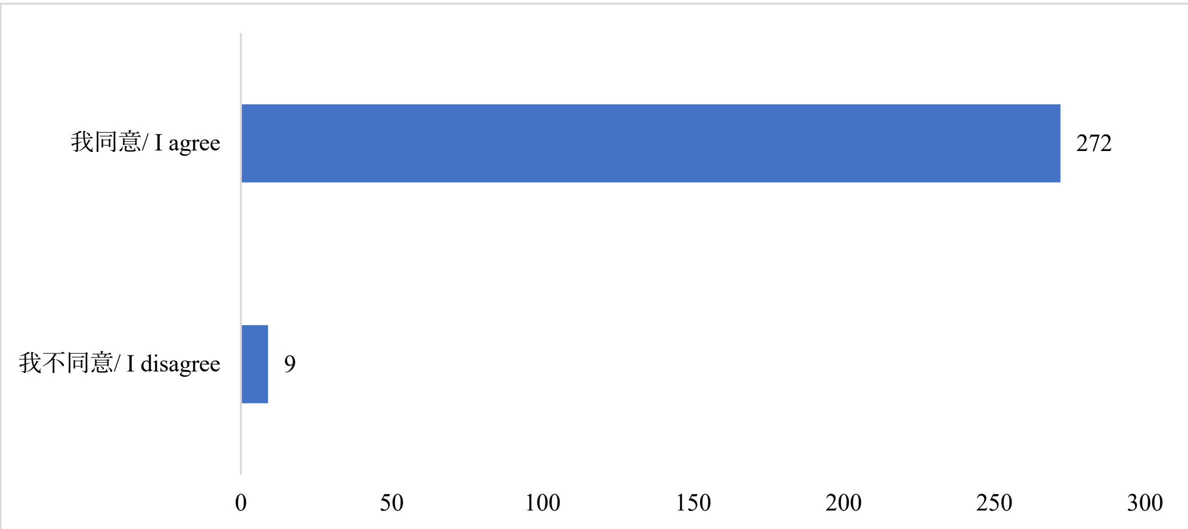
Interview 6: Interviewee 6 (preferred to stay anonymous) – Ralph Lauren

https://drive.google.com/file/d/1XUCuRnBWCYVQ0qfjoUq9vid9vh6GIjuR/view?usp=shari
ng

Appendix 3

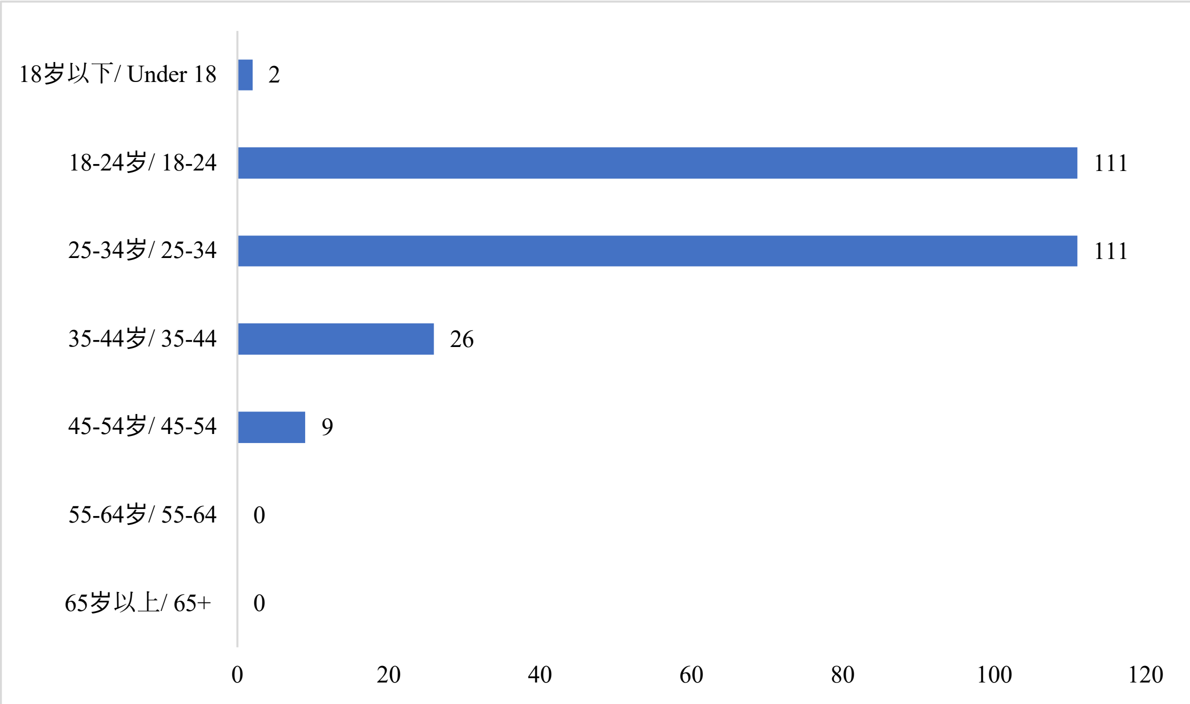
Survey Results

Q1 - 亲爱的问卷参与者，我为我在NOVA商业和经济学院的硕士毕业论文进行以下调查， 以收集关于中国奢侈品行业在新冠疫情开始以来所面临的新市场行情以及有关的消费者购物 习惯。 为了收集高质量的消费者数，我恳请各位参与者如实回答问题。您的参与及问答都 为匿名形式，您的答案将只用于本人的硕士论文的目的。谢谢您对本人论文问卷的帮助合 作。 通过选择下面的 "我同意"，您自愿同意参与本次调查并提供您最好的答案。/ Dear participant, I am conducting this survey for my master's thesis at NOVA School of Business and Economics to collect data on the opportunities and threats facing the luxury industry in China in the post-Covid-19 environment. To collect high-quality data and obtain accurate results, I, therefore, kindly ask you to answer the questions truthfully. Your participation is anonymous, and your answers will only be used for the purpose of this master thesis. By selecting “I agree” below, you voluntarily consent to participate in this survey and provide your best possible answers. Thank you for your cooperation.



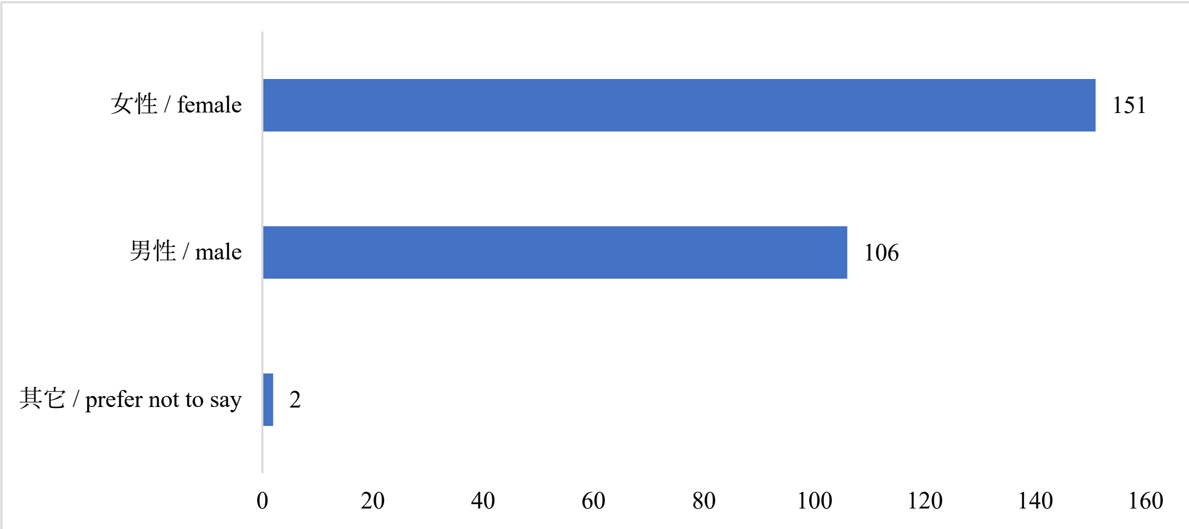
#	Field	Choice	Count
1	I agree	96.80%	272
2	I disagree	3.20%	9
			281

Q2 - **您的年纪**? / How old are you?



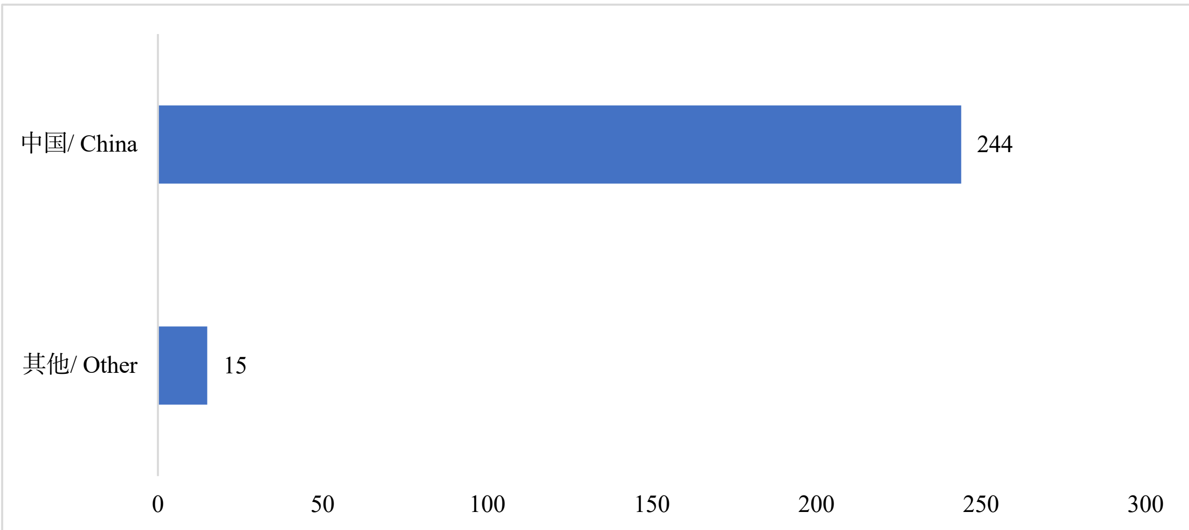
#	Field	Choice	Count
1	Under 18	0.77%	2
2	18-24	42.86%	111
3	25-34	42.86%	111
4	35-44	10.04%	26
5	45-54	3.47%	9
6	55-64	0.00%	0
7	65+	0.00%	0
			259

Q3 - 您的性别?/ With which gender do you identify most?



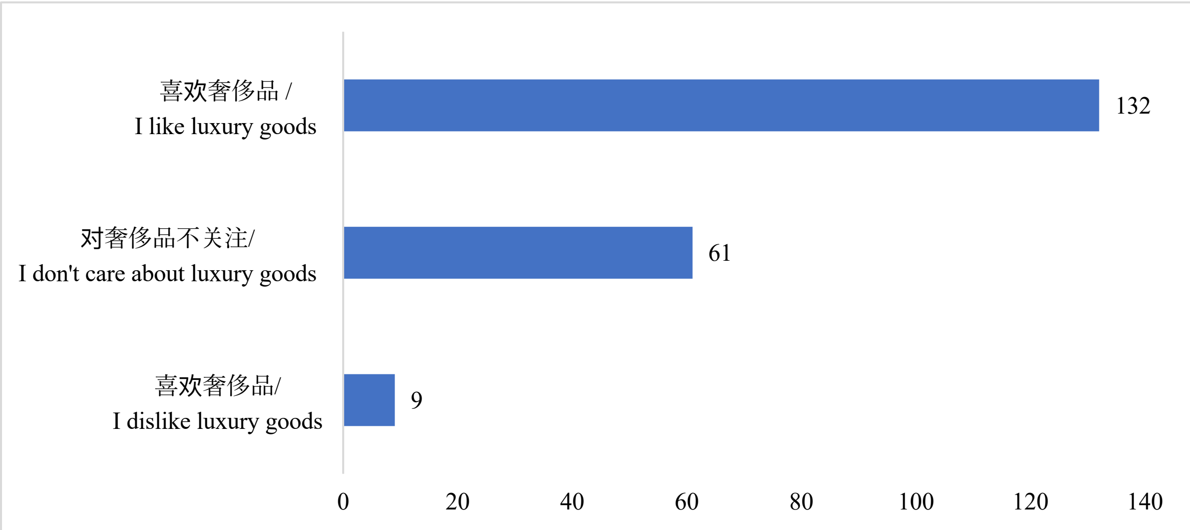
#	Field	Choice	Count
1	Female	58.30%	151
2	Male	40.93%	106
3	Prefer not to say	0.77%	2
			259

Q4 - 您来自哪里? / Where are you from?



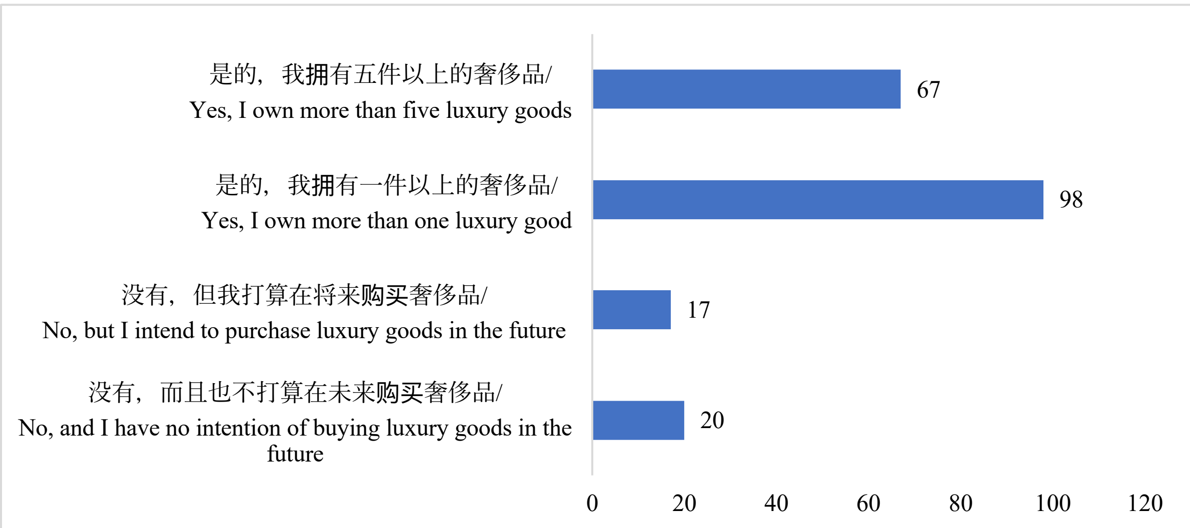
#	Field	Choice	Count
1	China	94.21%	244
2	Other	5.79%	15
			259

Q5 - **对奢侈品的喜爱程度**? / How do you feel about luxury goods?



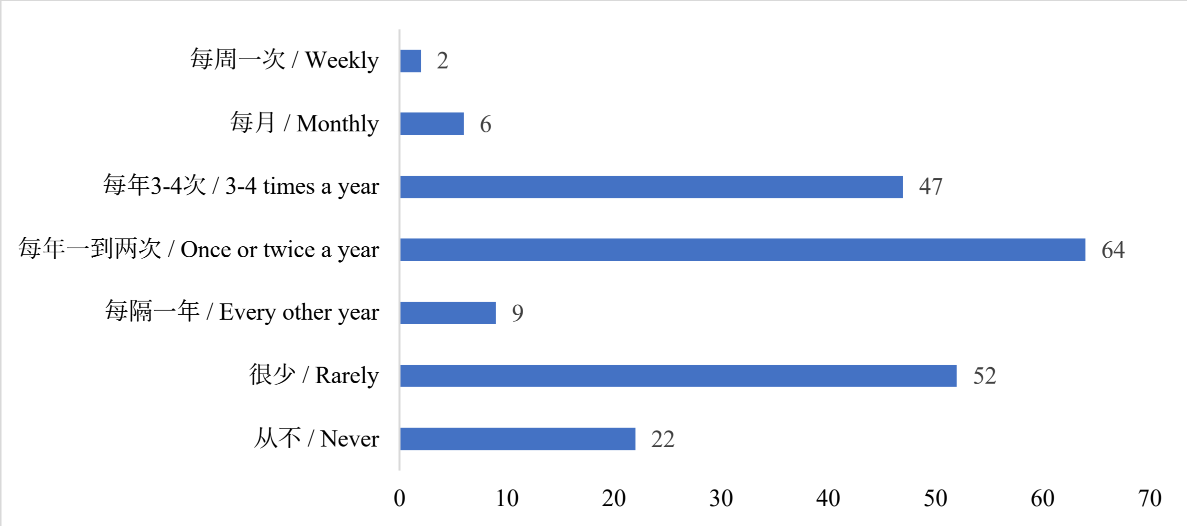
#	*Field*	*Choice*	*Count*
1	I like luxury goods	58.30%	132
2	I don't care about luxury goods	40.93%	61
3	I dislike luxury goods	0.77%	9
			202

Q6 - 您拥有奢侈品的数量/ Do you own luxury goods?



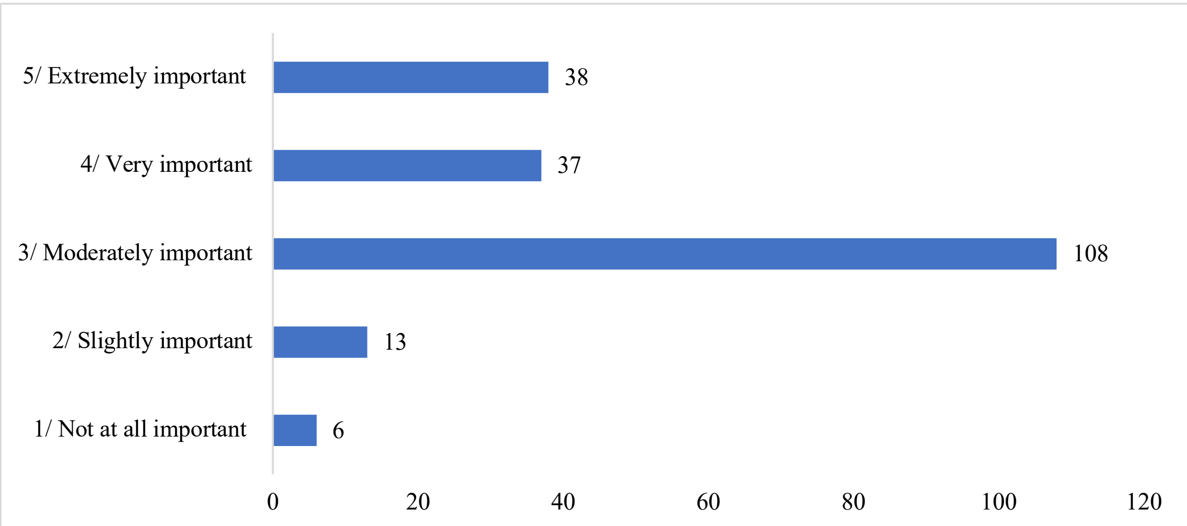
#	*Field*	*Choice*	*Count*
1	Yes, I own more than five luxury goods	33.17%	67
2	Yes, I own more than one luxury good	48.51%	98
3	No, but I intend to purchase luxury goods in the future	8.42%	17
4	No, and I have no intention of buying luxury goods in the future	9.90%	20
			202

Q7 - 您购买奢侈品的频率如何?/ How frequently do you purchase luxury goods?



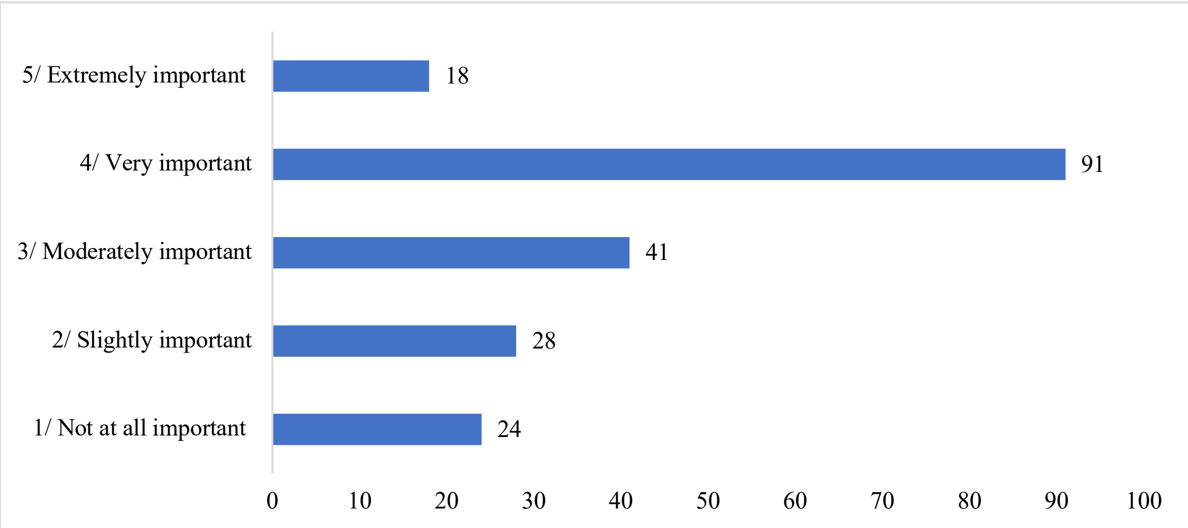
#	*Field*	*Choice*	*Count*
1	Weekly	0.99%	2
2	Monthly	2.97%	6
3	3-4 times a year	23.27%	47
4	Once or twice a year	31.68%	64
5	Every other year	4.46%	9
6	Rarely	25.74%	52
7	Never	10.89%	22
			202

Q8 - 在购买奢侈品时，价格是影响你购买决定的重要因素吗？请在1-5分中打分(1表示完全不重要 5表示极其重要) / How important is the price of luxury goods when making a purchase decision? Please rate from 1-5 (1 being not at all important 5 being extremely important)



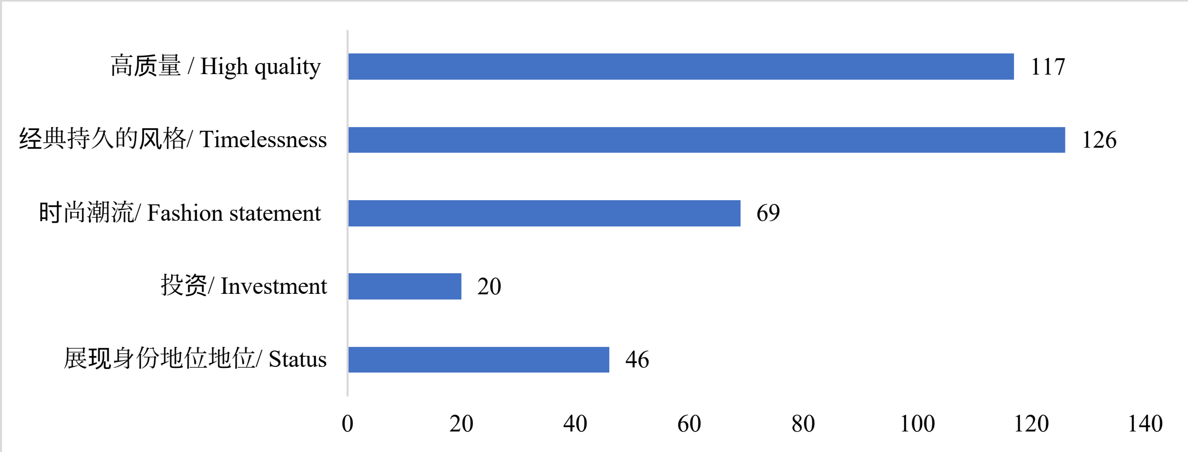
#	Field	Choice	Count
1	Extremely important	18.91%	38
2	Very important	18.41%	37
3	Moderately important	53.23%	108
4	Slightly important	6.47%	13
5	Not at all important	2.99%	6
			202

Q9 - 奢侈品的实际使用对**你来说有多重要**? 请在1-5**分中打分**(1**表示完全不重要** 5**表示极其重要**)。/ How important is the practical use of a luxury good for you? Please rate from 1-5 (1 being not at all important 5 being extremely important)



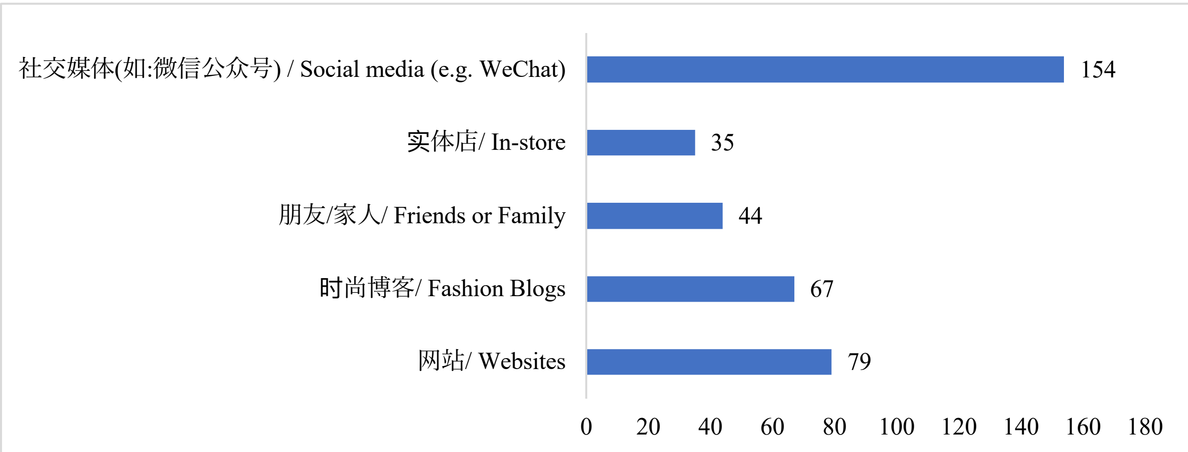
#	Field	Choice	Count
1	Extremely important	8.91%	18
2	Very important	45.05%	91
3	Moderately important	20.30%	41
4	Slightly important	13.86%	28
5	Not at all important	11.88%	24
			202

Q10 - 您购买奢侈品的动力?(可以选择多个答案) / What motivates you to purchase a luxury good? (Multiple answers can be selected)



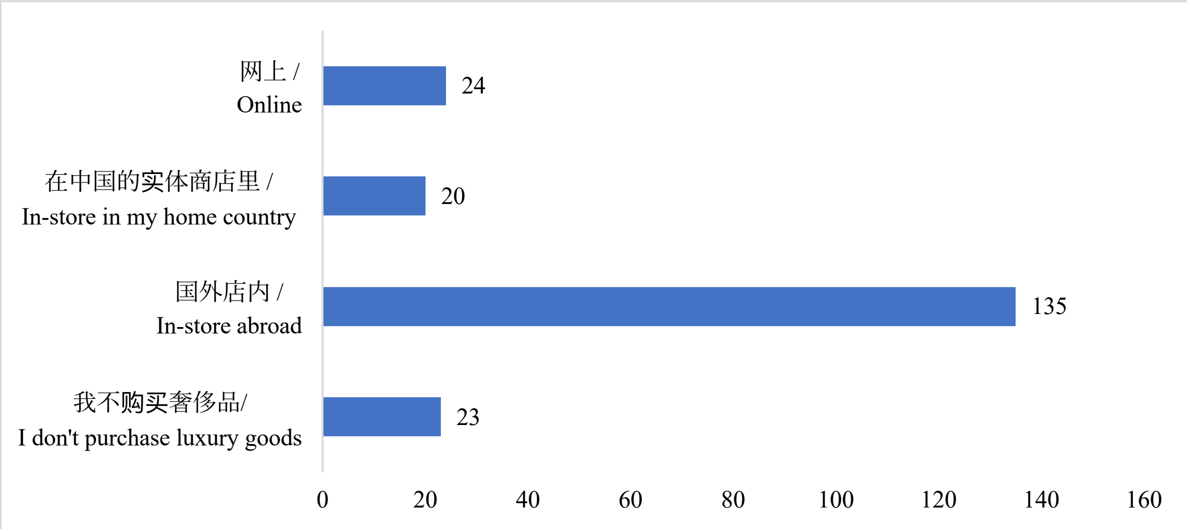
#	Field	Choice	Count
1	High quality	30.95%	117
2	Timelessness	33.95%	126
3	Fashion statement	18.25%	69
4	Investment	5.29%	20
5	Status	12.17%	46
			378

Q11 - 你通常是如何了解新的奢侈品牌或产品的? (可以选择多个答案) / How do you typically learn about new luxury brands or products? (Multiple answers can be selected)



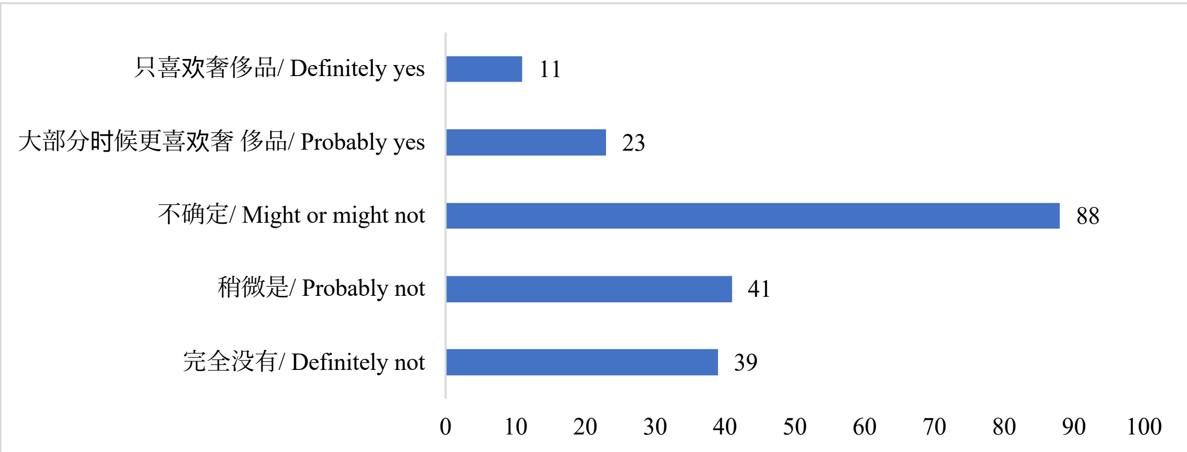
#	Field	Choice	Count
1	Social Media (e.g. WeChat)	40.63%	154
2	In-store	9.23%	35
3	Friends/ Family	11.61%	44
4	Fashion blogs	17.68%	67
5	Websites	20.84%	79
			379

Q12 - 你在哪里购买的奢侈品最多? / Where do you purchase your luxury goods most?



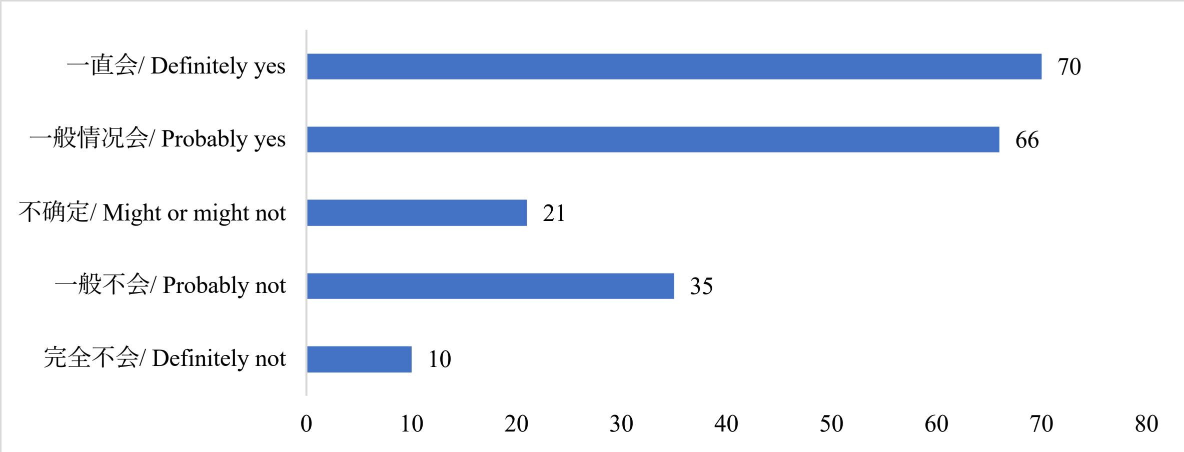
#	*Field*	*Choice*	*Count*
1	Online	11.88%	24
2	In-store in my home country	9.90%	20
3	In-store abroad	66.83%	135
4	I don't purchase luxury goods	11.39%	23
			202

Q13 - 相比普通品牌，你是否更喜欢高端/奢侈品牌?/ Do you prefer premium/ luxury brands over mass market brands?



#	*Field*	*Choice*	*Count*
1	Definitely yes	5.45%	11
2	Probably yes	11.39%	23
3	Might or might not	43.56%	88
4	Probably not	20.30%	41
5	Definitely not	19.31%	39
			202

Q14 - 您在做出购买决定之前，是否会花时间研究奢侈品的特点(如价格、材料、替代品 等)? / Do you spend time to research features (e.g. price, material, alternatives, etc.) of a luxury good before making a purchase decision?



#	*Field*	*Choice*	*Count*
1	Definitely yes	34.65%	70
2	Probably yes	32.67%	66
3	Might or might not	10.40%	21
4	Probably not	17.33%	35
5	Definitely not	4.95%	10
			202

Appendix 4

Finding Alignment of Research

Category	Finding		Literature	Qualitative findings	Quantitative findings
Status-quo	State of transition		X	X	
	Rebound		X	X	
Growth drivers	Economic	GDP growth	X	X	
	Social	VIC growth	X	X	
		Growing affluent consumers	X	X	
	Recovery of Covid-19	Restoring flight capacity	X	X	
		Reopened borders	X	X	
Consumer trends	Higher consumption levels		X	X	
	Luxury education		X	X	X
	Changing consumer expectations & values		X	X	X
	Preference for luxury over mass-market		X		
General trends	Credibility & cultural efforts		X	X	
	Cooperations with KOLs		X	X	
	Expansion to lower-tier cities		X	X	
Digitalization	Necessity		X	X	X
	Digital native consumers		X	X	X
Target group	Importance of Gen Z		X	X	X
	Growing purchasing power		X	X	
	Digital affinity		X	X	X
	Luxury savvy		X	X	X
Place of spending	Dependent on:	Price gap	X	X	X
		Travel restrictions	X	X	X
		Consumer status	X		
Opportunities	Luxury affinity		X	X	X
	Effective targeting		X	X	X
	Digital experiences		X	X	X
	Gaining credibility		X	X	X
	Expansion into lower tier cities		X	X	
	Hainan duty free shopping		X	X	
Threats	Unpredictable nature		X	X	
	Geopolitical tensions		X	X	
	Nationalism		X	X	
	Aftermath of Covid-19		X	X	
	Price gap		X	X	
	Luxury democratization		X		

Appendix 5

Coding Table

Category	Explanation	Codes	Examples
Growth drivers	Growth drivers are elements that fuel the expansion and success of an industry.	**Social**	"So, consumer sentiment in a way to go back to pre-covid kind of era." – Winnie Lo, line 170 "This growth in luxury is because in China consumer confidence is higher than in the rest of the world. (…) But in China, people are very confident. So, I think consumer confidence is an important driver in China." – Celestine Tan, line 24-28 "The third thing is that celebrities, have a strong influence in China. So, the celebrity effect could also be a growth driver for the luxury industry in China." – Shuxuan Shen line 103-105 "But now they are all thrusting and they have saved money accordingly and are coming back even greedier, even hungrier, and happy to be able to go shopping again. (…) Reinforced by the restrictions last year, they now want to buy again even more." – Interviewee 6, line 16-20 "(…) growing middle and upper class is definitely a growth factor." – Interviewee 6, line 84
		Economic	"I would say overall economic back to growth, positive news, happy mood, because during the entire last year the mood was bad." – Winnie Lo, line 169 "The third driver here, I would say is the economy."– Celestine Tan, line 32 "I think consumer confidence and GDP would be important. I mean these are your solid growth drivers. We look at the wealth of the country because without wealth there's no luxury basically." – Celestine Tan, line 118

			"The Chinese luxury market mirrors in many ways the Chinese economy, so if young consumers feel optimistic about their income potential and/or secure in their careers, they will return to the market." – Avery Booker, line 19-23 "One thing is because of the country's push into the economy growth. Just because it's a very pushing and urgent agenda for China like to recover its economy from Covid-19 as soon as possible. (…) I believe along with that; the luxury industry will also grow." – Arie Yang, line 25-31 "(…) the other there is a trend that the companies in the luxury industry are actually sinking into the lower tier cities compared to the previous when you talk about luxury you only think of like Beijing, Shanghai or those mega cities in China. (…) Some of these cities are the "tier one to be" they are currently tier 2 tier 3 but they are like tier one to be. These cities are growing very rapidly because of the Internet and because tech companies are based there, and they have their own growing economy in the cities. So, like these lower tier cities have been a really good focus for the luxury brands and because these lower tier cities they're also recovering from their previous decrease from Covid-19 and that's why I believe that there is momentum for the luxury industry to continue to grow." – Arie Yang, line 32-42 "I think one is definitely the economy growth. Just if the bigger picture is good enough definitely the luxury industry will grow along with it as well." – Arie Yang, line 124-125 "So the rising income and product categories that are not yet saturated are clear growth drivers." – Interviewee 6, line 89-90
Consumer trends	Consumer trends describe the general course that consumer behavior is taking in a	**View of luxury**	"(…) the consumers are getting very sophisticated now. (…) They're going for more niche and design and quality, so overnight they become so sophisticated." – Winnie Lo, line 66-69 "They now start to not just appreciate just the brand name but the quality of it like the craftsmanship behind the heritage of the brand. So, I see that, designs and what the brand stands for in terms of giving back to the world in terms of heritage that the values of the brand plays a role now." – Winnie Lo, line 70-73

	particular industry.		“There's also a growing appreciation of what luxury actually means. High quality products rather than just brand names, consumers are not following or like it, just because you have a brand logo on it.” – Celestine Tan, line 44-46 “Minimal luxury continues to be a draw among urban professionals as well.” – Avery Booker, line 34 “(…) more low-key luxury consumption and a focus on lesser-known designer brands from a wider range of countries, and building on the "cleanfit" trend, which is a logo-free and minimalistic aesthetic.” – Avery Booker, line 71-73 “Chinese customers are more open to unusual, colorful things than European customers.” – Interviewee 6, line 41-42
		Education	“Thanks to social media and the fact that they can study very well, you know in terms of knowledge and all.” – Winnie Lo, line 69-70 “And luxury is not just into brands but also into education, into sort of like etiquette school, learning about etiquette, upgrading yourself in terms of your looks and your behavior, how people perceive you, this is considered a new type of luxury.” – Celestine Tan, line 51-54 “Chinese millennials do not purchase simply the most expensive brands or items, but instead, educate themselves and purchase the brands that speak to them.” – Avery Booker, line 56-57 “Especially with us growing and with us being more educated about the luxury industry, the products, designers, and the brand values. We're getting more and more educated and cultured than our previous generation” – Arie Yang, line 81-83 “Chinese consumers are just becoming more and more well educated about the luxury part. For example: Why do you need this? Why like is this worthy of buying? Why do you need to pay this

			amount of money for this kind of product? They're getting a much clearer picture of why this kind of luxury industry is there." – Arie Yang, line 126-131
		Attitude & Behavior	"Whether the sentiment is back to before, not yet but it will slowly. You know when your events start to be in full bloom again, when people's mood is back to more consuming." – Winne Lo, line 51-53 "This growth in luxury is because in China the consumer confidence is higher than in the rest of the world." – Celestine Tan, line 24-25 "I would say China is to go more elegant, more discrete. You don't want to show off your wealth too much because not everyone is as wealthy these days with a recession going on, so you don't want to flaunt it too much. So, I think discretion is important." – Celestine Tan, line 42-44 "Now consumers are really looking for differentiation, more finesse." – Celestine Tan, line 51 "(…) due to China's overall economic environment, during the consumption and when they make the purchasing for luxury products compared to the past decade, they will also be more conservative." – Shuxuan Shen line 59-61 "And the Chinese consumers really value these CRM activities." – Arie Yang, line 63 "Not to mention that for the people who really have the money they are actually more concerned with the service they are going to get. So, as I said, if they are already like a VIC or a VIP customer in one store in China or if they have a very close connection with the salesperson at one store in China I don't think they will bother to just make the international purchase." – Arie Yang, line 102-106 "(…) customization is a big story. The Chinese like group memberships because they like to express through their luxury purchases that they belong to a certain social class. But they still want to stand out in some way." – Interviewee 6, line 25-27

<table>
<tr><td></td><td></td><td></td><td>“Also, another trend is the fast-paced environment in China, so customers are permanently greedy and want to buy new products.” – Interviewee 6, line 39-41</td></tr>
<tr><td rowspan="2">Role of Digitalization</td><td rowspan="2">The role of digitalization describes the degree to which digital technologies have been incorporated into several facets of business and society.</td><td>E-commerce</td><td>“Social commerce becomes very important versus e-commerce. (…) But social commerce eventually is taking over. In terms of commerce and driving transaction and the influence of the influencers on your TikTok and all your social media.” – Winnie Lo, line 60-64

“Definitely e-commerce has made a big dent into the history of luxury (…) in China, e-commerce serves for all sorts of luxury.” – Celestine Tan, line 62-65

“(…) digital sales channels are increasing. Like TMALL, WeChat mini stores, and Farfetch, there are more and more channels.” – Shuxuan Shen, line 96-97

“(…) many luxury brands (…) rolled out virtual try-on services and e-commerce capabilities even if they had no interest in these things pre-pandemic.” – Avery Booker, line 41-42

“(…) Social commerce is still nowhere near as big in Europe as it is in China. On Weibo and WeChat, there are various programs that drive social commerce. Also, for example, there are livestream apps through which you can directly buy the products. So, the digital topic is extremely important in China (…).” – Interviewee 6, line 50-54</td></tr>
<tr><td>Social media</td><td>“When China was first getting to the luxury purchasing, the consumer was hugely influenced by social media. This really drives the market and drives the demand.” – Winnie Lo, line 136-138

“I would say they're still deeply being influenced by social media. So TikTok.” – Winnie Lo, line 60

“(…) the most popular social media in China is the red, little red book and TikTok. Those two platforms are more focused on the content exploring. There is a lot of fashion and creative content, especially on the little red book. So, people will gradually have more knowledge about the luxury industry.” – Shuxuan Shen line 97-100</td></tr>
</table>

			"(…) the Chinese have their own platforms and are much more digitally affine than the Europeans." – Interviewee 6, line 49-50
		Necessity	"It will remain necessary, it's the absolute essential because I think this is how China is being run overall. (…) I would rather say it's not like digital is part of luxury, luxury is part of the digital ecosystem of China." – Winnie Lo, line 83-89 "Also, I think for the younger generations the younger consumers, they have more knowledge and recognition of the digital channels. (…) Because for Chinese audiences this is very important. They have strong interest and are very confident about that kind of new technologies." – Shuxuan Shen line 46-51 "(…) brands have had to increase their digital efforts to effectively market and sell to consumers, as well as for post-purchase service." – Avery Booker, line 38-39 "They (the luxury brands) had no choice but to go digital to survive. Meanwhile, consumers became accustomed to this level of easy service. This means any digital efforts brands debuted over the past couple of years must be maintained." – Avery Booker, line 42-44 "I think it's getting more and more important. (…) in terms of driving traffic in terms of creating a buzz on the social media. I feel like that is the way how digitalization is used by brands to get the word out and spread the information (...) I think it would be more dependent on the digitalization part." – Arie Yang, line 67-75 "(…) digitalization is of course super important (…)" – Interviewee 6, line 48
Future target group	Refers to the group of people that a given industry	**Age group**	"Younger and younger I would say. But it depends on how good the luxury brands are in recruiting younger customers, honestly." – Winnie Lo, line 98

	will target in the future by identifying their changing preferences, interests, and behaviors.		"So, the consumers are younger, but it depends on which brand can really capture these younger customers." – Winnie Lo, line 102 "The target group will always be the younger generation only because people will die off. So, there's no point, I mean the millennials are going to be superseded by the Gen Zs the Gen Zs are superseded by the generation alphas and so on and so forth. You always need new consumers and it's always going to be younger audience." – Celestine Tan, line 74-77 "(…) the younger generation will be the future target group of the luxury industry in China. So, to this point like I mentioned, they are more open, they have higher acceptance and understanding of the technology, the channels, and the cultural experience, and you know the creative concepts of the luxury." – Shuxuan Shen, line 56-59 "Gen Z consumers are the obvious answer because they are now entering the luxury market, but millennials -- broadly defined in China as the "post-80s" and "post-90s" cohorts born after 1980 and before 2000 -- will be core to luxury consumption for at least the next decade or two." – Avery Booker, line 51-53 "I would say it's the Gen Z of course (...) So, Gen Y, Gen Z would be the future target group (…) But the luxury companies will be moving to the next generation after us which will be a pretty good target for them as well." – Arie Yang, line 79-85 "Gen Z is of course the important target group that will make up a larger part of the labor market in 10 years." – Interviewee 6, line 59-61
		Income level	"And younger and younger it means that the income increases naturally. (…) I would see younger people and middle-class people like less high-income class trying to afford luxury in China." – Winnie Lo, line 105-111 "Because that's also where we see where the wealth is, people are wealthier at an earlier age in China." – Celestine Tan, line 80-81

			"(…) at the present the high-net-worth individuals, they still make up the main consumptions in the Chinese market (…)" – Shuxuan Shen line 28 "(…) in China there is also a growing middle class and upper class and these are definitely the target groups of the luxury industry." – Interviewee 6, line 60-61
		Buying Motivation	"They care really about the future, about sustainability, about what the brand stands for. It means a lot more to them than to my generation which is about 40 years old." – Winnie Lo, line 103-104 "(…) main motivations for people to buy the luxuries mainly is the perceived value of the product and if value can be added through the product (…)" – Shuxuan Shen, line 29-30
Trends	Trends are the direction of change over time regarding social, cultural, economic, or technological variables, which affect people's attitudes, behaviors, and preferences in numerous aspects of society.	**Rebound**	"It is resettling from the COVID-19 crisis." – Winnie Lo line 4 "So now I would say the dust is still settling it is not yet done. I think by the end of the year we should see sort of the back to before Covid-19 situation." – Winne Lo, line 53-54 "In the luxury industry in China, we have seen a rebound with the opening of the borders in China. The rebound is happening, but it depends on which brand we are talking about." – Celestine Tan, line 4-6 "So, I would say in China there is a rebound in the luxury market slowly but surely." – Celestine Tan, line 10 "(…) but I definitely believe in China's rebound. China's luxury market will be stronger than ever. We are looking at exceeding pre pandemic levels (…)" – Celestine Tan, line 19-21

			"(…) And compared to the last year the most terrible situations, we do believe that the people's consumption ability will gradually turn back to normal. It could grow very slowly and maybe not to the best situation like before, but it will keep growing. (…)" – Shuxuan Shen, line 15-17 "The luxury industry in China is currently in a state of transition." – Avery Booker, line 4 "It's difficult to say when the market will return to pre-pandemic numbers, but in all likelihood, it will in the next few years due to younger consumers entering the market." – Avery Booker, line 18-19 "I would say its recovering, I think that's the word that I would use." – Arie Yang, line 4 "(…) the Chinese luxury market is still a growth market with further big growth potential. Only because of the Covid-19 restrictions the market declined." – Interviewee 6, line 5-6
		Place of spending	"I would say global sales will still play a big role because I think I see also the traveling trend of Chinese. (…) So, I would say still a good number of purchases will be done overseas. Because I don't see luxury goods import tax in China coming down any time. So, the price discrepancy between China and the rest of the world will still be there in the next three to five years at least." – Winnie Lo, line 118-124 "I think a lot of spending will happen in-country because China's consumers understood that with the price harmonization across the world, there isn't really much, for the major luxury brands, of a difference between buying in China or in the rest of the world." – Celestine Tan, line 90-92 "So, versus pre pandemic we will see more local spends rather than international spends." – Celestine Tan, line 93 "Overseas consumption will keep increasing when there will be more and more people travelling from China to different countries. (…) But also, for the online channels in China they will keep developing and will become more mature." – Shuxuan Shen, line 71-74

			"(…) there will be more commercial centers in China so the number of the physical stores of luxury brands will also keep increasing. So, the domestic spending will also increase durably." – Shuxuan Shen, line 76-78 "(…) the next year or two will be wait-and-see, whether Chinese consumers will continue to make much of their luxury purchases domestically or if they will return to international shopping in great numbers." – Avery Booker, line 10-12 "I do expect international travel to pick back up in the second half of 2023, which means 2024 may see the percentage of luxury sales made overseas rise significantly and the domestic sales stabilize." – Avery Booker, line 64-66 "Usually if you buy a product from a luxury brand in Europe that might be the cheapest. It's usually around 10% to 20% lower than a China price. (…) So, I think if the luxury brands decide not to close that price gap, say after the borders are not all open and when Chinese consumers are free to travel there are no more restrictions and the luxury brands are continuing that price gap, then I would be leaning more toward that trend of international purchase being still present. (…) But say if the luxury brand decides to close that gap then I think a lot of the Chinese customers will still spend domestically. – Arie Yang, line 93-102 "(…) this depends on how the travel restrictions develop. The price gap also plays an important role here (…) it depends on the restrictions, if people are allowed to travel it will balance out and there will be more purchases abroad, but otherwise the purchases will focus on the tier 1 and tier 2 cities, because there are the highest incomes." – Interviewee 6, line 67-75
		Duty free shopping	"Another point will be duty free to get goods tax free." – Celestine Tan, line 92 "The second driver is the duty-free store. The first one is in the province of Hainan in China. Chinese people really tend to buy the duty-free products because of the cultural difference, so in China there is no tax. If the product is duty-free, it is more accessible for Chinese consumers." – Shuxuan Shen line 100-103

		Communication efforts	"I would say of course you know you see that luxury brands are collaborating with local brands to give them a bit more credibility that they understand the Chinese consumers."– Celestine Tan, line 100-103 "Luxury brands are more open in China, it's actually fascinating because they're more open than in the rest of the world and they will be more explorative and crazier. I think the general trend is figuring out how to understand the Chinese consumers more. Because there's no such thing as a global consumer." – Celestine Tan, line 106-108 "I notice is that luxury brands have long term collaborations, entering the Chinese market. They actually have a deep understanding of the local cultures and they're bringing the innovations and creativity to the Chinese market. So, for example some luxury brands they collaborate with local Chinese artists. Not only to create some special products but also to build around very special cultural events in China." – Shuxuan Shen, line 83-87 "So, in every collaboration with artists, the creative workers focus on the creativity and innovation to build a different experience which is a trend in China." – Shuxuan Shen line 90-91 "And also because of the continuous growth in the end of celebrity and in the influencer industry. I feel like that's all connecting because the luxury industry works very closely with the celebrities and influencers, they understand the rules of the Halo effect very well. So, like since now we're not seeing any decline in this celebrity-effect."– Arie Yang, line 129-133 "(…) in terms of communication, a big trend that will probably always remain is collaborations with brand ambassadors or key opinion leaders (KOL). The Chinese have different cultural values, which can also be communicated by European luxury brands with the help of proper collaborations and corresponding KOLs. Besides, Chinese customers are very much influenced by KOLs" – Interviewee 6, line 30-34
Opportunities		**Credibility**	"China's main opportunity is the growing market share and credibility and building relationships with the Chinese customers." – Celestine Tan, line 125-126

	Refers to advantageous circumstances or conditions that can result in beneficial outcomes or benefits for businesses that operate in a particular industry.		“I think one thing is that the top luxury industry giants have the great knowledge, the deep understanding of the Chinese cultures which can help the luxury industry to bring more creativity to the Chinese market.” – Shuxuan Shen line 110-112 “Another important trend, in terms of product category, is limited collections in collaboration with other brands in limited quantities.” – Interviewee 6, line 38-39
		Social	“The big opportunity is Gen Z, who will take a larger share of the labor market and therefore have a higher income. Gen Z is of course also very social media affine and social media is of course also a big driver and therefore a big opportunity for the luxury industry in China but also worldwide. the growing middle and upper class are of course also a great opportunity for the luxury industry in China.” – Interviewee 6, line 95-99
		Geographical focus/ Expansions	“Expansion into lower-tier cities remains a smart move for many if not most brands, and there remains potential to reach and entice Chinese consumers in places like the Middle East and Southeast Asia.” – Avery Booker, line 85-87 “I would still say, the sinking part that the luxury brands are going to the lower tier cities compared to the previous ones when they were more focused on the tier 1 cities.” – Arie Yang, line 111-112
		Media	“It's not about China fitting in to the brand it's the brand fitting into the China consumer system and consumer habits already.” – Winnie Lo, line 92-93 “Also, media for example these are opportunities that should not be missed and there's more of a human touch than we realize when it comes to selling luxury to Chinese customers even though we have e-commerce, but these are opportunities.” – Celestine Tan, line 126-129 “Also, the digital sales channels are increasing. For luxury brands themselves they will also develop the digital experience through very interesting social media content, to bring the luxury experience to the consumers.” – Shuxuan Shen line 113-116

			"The other part I think is more about the online to offline and offline to online connection. A lot of luxury brands are opening their cafes or pop-up events, pop up stores in China and those are usually closely connected to their online or to their digitalization programs (…). So, I think online to offline, this kind of omni-channel campaign is definitely another trend in terms of the luxury marketing." – Arie Yang, line 112-119
		Exceptional service	"Being able to deliver faster, with more precision and no mistakes even to the furthest of the cities like the fourth and fifth tier cities with the consumer growth there. – Winnie Lo, line 151-153 "(…) the complementary businesses, the operational side really the unglamorous side, like the transporting the product in the right way." – Winnie Lo, line 183-185 "But which brands would win are the brands that said, ok, got the desired product with the communication, but servicing that desire. Servicing, fulfilling the product they want to purchase, in a sophisticated and timely high level service manner." – Winnie Lo, line 189-191 "I think one thing that brought to my sight would be the customer service. We are used to see VIPs but in China we have KOCs, key opinion consumers and VICs very important consumers. I feel like this kind of customer service and how the luxury brands are handling these customers has been very interesting." – Arie Yang, line 46-49
Threats	Refers to unfavorable circumstances or conditions within a specific industry that may have a detrimental effect on companies that	**Geopolititcal tensions**	"Main threats are geopolitical tensions. Right now, there are a lot of countries that are anti-China. I mean the world wants Chinese money, but the world doesn't want China, to be honest." – Celestine Tan, line 134-135 "The other threat is more geopolitical -- any conflict or controversy relating to South Korea or Japan, or the United States or Europe, can threaten a brand's prospects for months or years in some cases." – Avery Booker, line 94-96 "Because now there are a lot of tensions between China and America and sometimes maybe between China and Japan. There are these very heated topics for brands not to touch." – Arie Yang, line 163-165

	operate in that sector.		"There have been tensions between the U.S. and China for a long time, and in the U.S., there are already import restrictions for Chinese goods, and then it could be that China bans American brands in the future or imposes import restrictions." – Interviewee 6, line 108-111
		Covid-19 related	"But this kind of traveling business will still take one year to recover back to pre-Covid levels. Due to two things: international flights capacity for China is still at 20%. Flights are not resuming and there is an overall backlog of Chinese people's passport being expired and they still need to renew it. So, the traveling is still not resuming yet, so people are still spending domestically." – Winne Lo, line 47-51 "So, versus pre pandemic we will see more local spends rather than international spends. I don't know if it's going to change as time goes, I am not sure, but I think this is going to be an issue for brands that rely on tourism." – Celestine Tan, line 93-95 "(…) something like the Covid-19 restrictions, there can be a similar story at any time, and that's a big challenge for the government when people suddenly aren't allowed to move around freely anymore. So, a situation as we had with the Covid-19 restrictions and the aftermath of that are a big factor." – Interviewee 6, line 104-107
		Consumer related	"(…) people sentiment is not happy. So, they won't be thinking about purchasing a bag or jewelry to pamper themselves. Events are not coming, so lacking social circumstances to wear the nice things also cause them to spend less overall." – Winne Lo, line 36-39 "When the key clientele starts to get old or are retiring, we cannot say whether at that time they would still be out there and buy super luxurious things. They are not old yet; the older consumers are 60 but in 10 years they will be 70. Will they still be out and about buying and is there a second generation having the same habits? We don't know. So again, it's the aging, eventual aging of the population and the clientele. Because Chinese they don't give a lot of birth, the population doesn't grow so fast. So, the ageing can be eventually the problem." – Winnie Lo, line 203-209 "So, the whole social atmosphere is very depressed, and I think that people's consumption ability is very related to the whole social atmosphere. If the people have more confidence about their own

			futures, they will be more open to consuming, to buy the products. But when the whole social atmosphere is in depression, people will be more conservative. They will be considering more their own survival issues the life matters and the consumption ability tends to be conservative too." – Shuxuan Shen line 8-13
		Policy	"(…) it also becomes political that some Chinese citizens enter the street and are really not happy about certain things that the government has done. That really drove down the economy of China" – Winnie Lo, line 29-31 "Policy, politics, you know with Covid-19 I'm surprised how overnight policies can change and the situation can get very complicated in China. The unpredictability of the Chinese government is a threat. Something you cannot predict is a threat and in China it is the government for me. Because when they overnight are going to increase taxes or if there is a high, public arrest of certain corruption or anti bribery kind of campaigns that would cause some disruptions in the industry. So, this kind of risk and unpredictability will still be there for China." – Winnie Lo, line 96-201 "The constant threat is that Xi Jinping's signature "common prosperity" push will turn to cracking down on luxury consumption and foreign luxury brands, forcing them to pull back from the market or crimping consumer demand." – Avery Booker, line 92-94 "So, I think a main threat for the Chinese luxury industry, especially for the foreign brands that want to do business in China, is that they have to be extra careful regarding these political issues and also the cultural issues. Because the Chinese group I believe is a pretty cultural proudly population. We are proud, we are kind of sensitive to our culture and it's very easy for foreign brands that do not have a clear understanding or a holistic understanding of the Chinese culture to irritate us or for them to be perceived as disrespectful." – Arie Yang, line 147-153 "China has a lot of political sensitive topics and it's very important for the luxury industry not to touch that part. Some luxury brands will list the other areas like Taiwan or Hong Kong or Macau. These are very sensitive areas as you know, and it is very dangerous for foreign luxury brands to do so in China mainland. Because we are very sensitive these are actions that may hurt our territory

			integrity. I think it's very important for the luxury brands to keep in mind that if they want to do business in China, they must play it by the Chinese rules" – Arie Yang, line 154-160 "The price adjustments would also be a risk for the Chinese luxury industry." – Interviewee 6, line 116-117
		Nationalism	"(…) they start to develop national pride. Meaning, people really value more you know products that are a lineage of the Chinese heritage, Chinese craftsmanship and what if there's an overall sentiment of that? Even with the younger generations they may become more or less nationalistic or patriotic." – Winnie Lo, line 210-213 "I think the biggest problem is the increase of the nationalism in China and I think the main reason is the international policy contradictions with the Western countries which influence the people's attitude." – Shuxuan Shen line 120-122 "(…) right now, it's more like that China is focused back to itself. So, the domestic brands could be the biggest competitors for the global luxury brands. Maybe the luxury consumers will be less influenced by this kind of nationalism, but generally people tend to have more investment on the local products and politics are the reason for this." – Shuxuan Shen, line 123-126 "(…) China has been promoting its domestic brands very very heavily in the domestic market. They have been promoting the necessity to be proud of our own brands, of our own culture. So, whenever domestic brands launch, they would usually get a lot of support from the government and also from the market or even from the local consumers to support a local business and a brand. So, I think that might be a threat to the foreign luxury brands in China (…)" – Arie Yang, line 166-171 "For international brands, a big risk is to understand the Chinese market and culture correctly. Incorrect communication can be extremely damaging to a brand's performance in China, especially in the long term.– Interviewee 6, line 112-114