BCG

THE BOSTON CONSULTING GROUP

WE+ 腾讯数据实验室

China Luxury Digital Playbook

No ordinary love – the changing relationship between brands and Chinese millennials

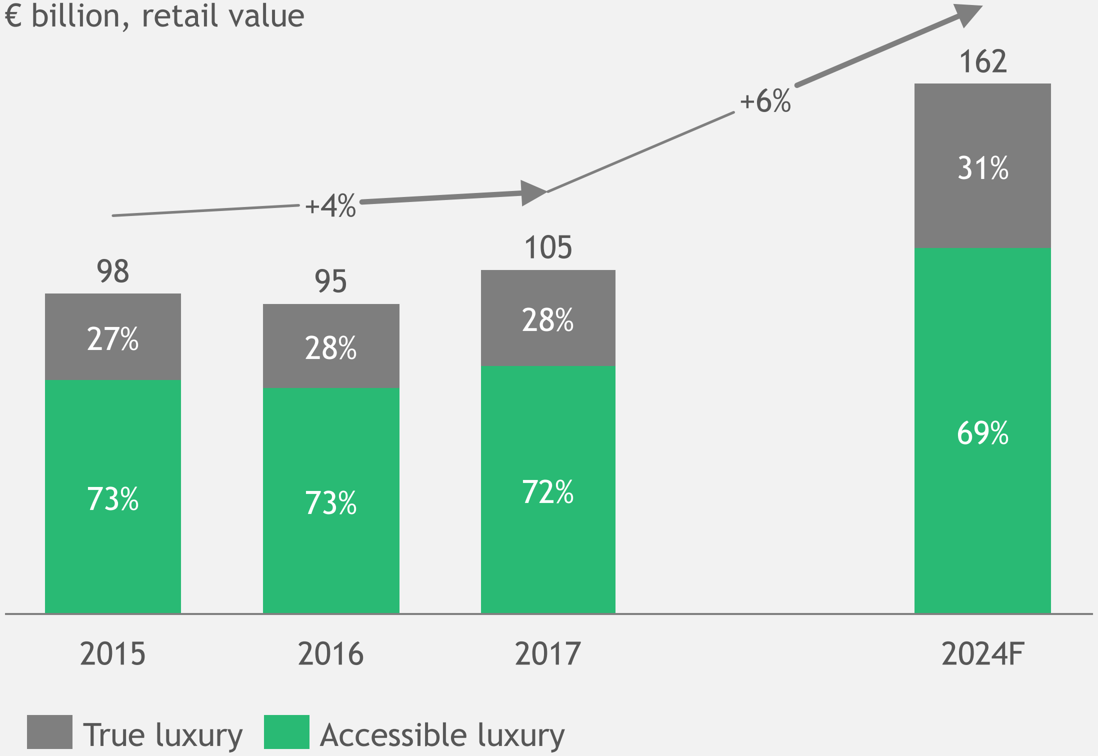
Tencent x BCG luxury consumer insight study

	Tencent data	Consumer survey
Data source	Tencent DMP	Tencent platform users' survey responses
Sample size	1.8mn Chinese luxury consumers (customized BCG x Tencent tags)	2620 consumers (luxury buyers in past 12 months)
Key outputs	Luxury consumer profiling	Luxury touchpoints and purchase pathway

Chinese luxury consumers to drive global luxury growth

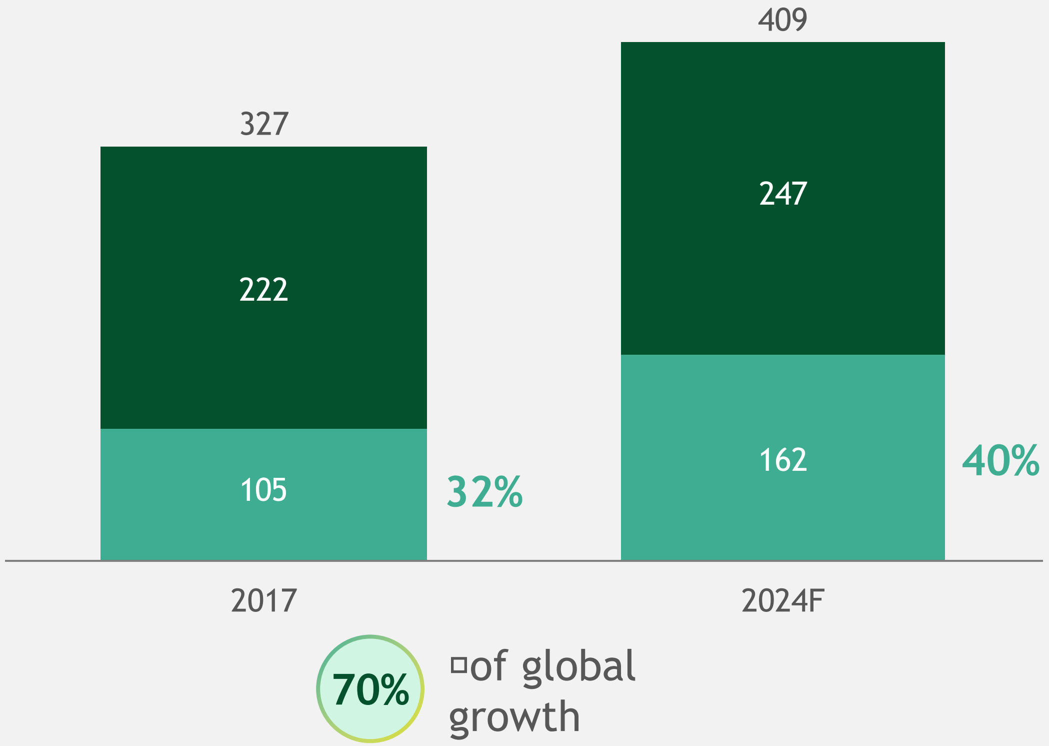
Chinese personal luxury market to grow at 6% CAGR

€ billion, retail value



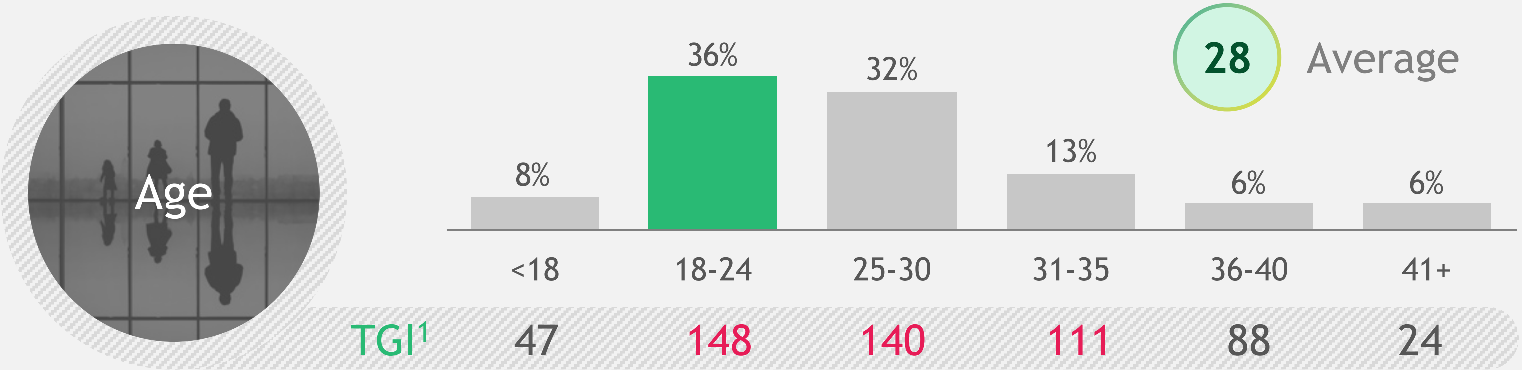
40% of global true luxury market will be in China

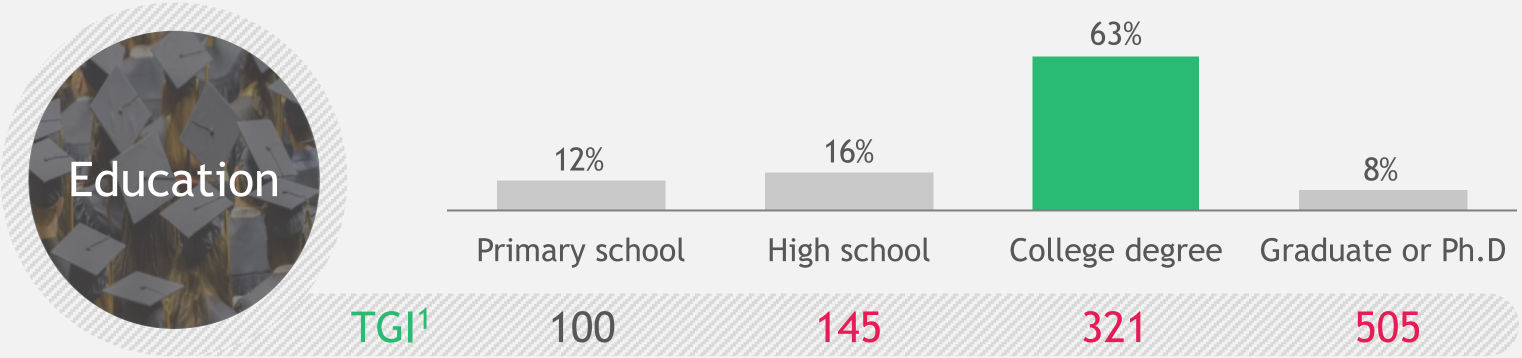
€ billion, retail value

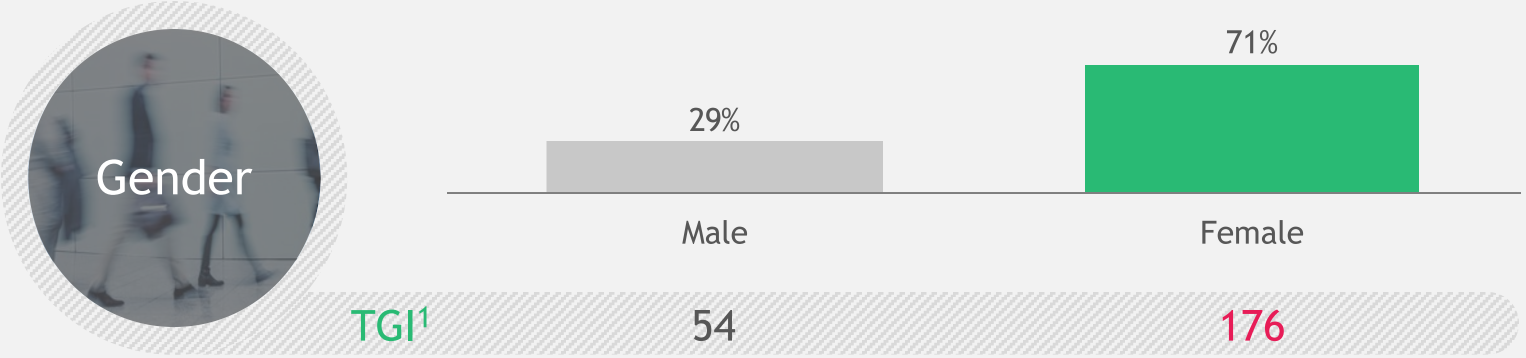


1. Monthly household disposable income >23k RMB in 2016 prices
Note: Chinese includes purchases abroad; personal includes leather accessories, apparel, watches and jewelry and perfumes and cosmetics
Source: BCG Luxury Market Model

They are very young, better educated, more female

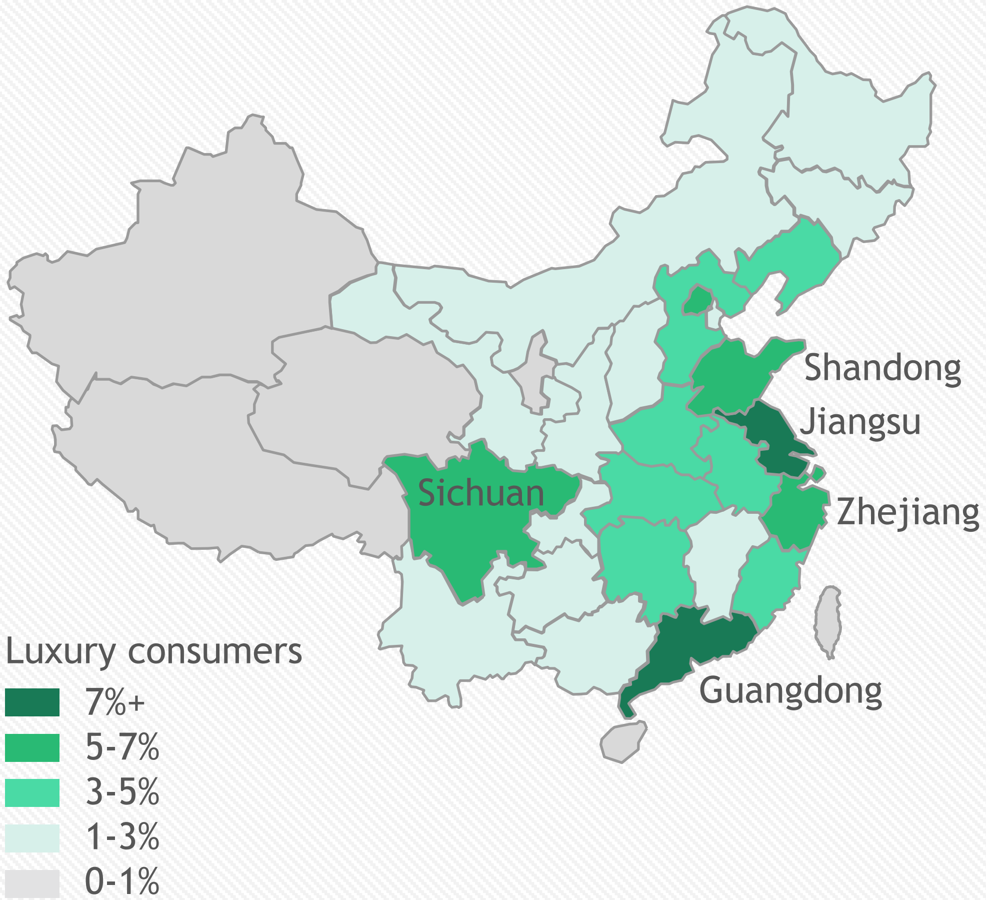






1. TGI measures whether the group is over or under represented compared to the general population (base = 100)
Source: BCG X Tencent Luxury Study, 2018

Over 50% of luxury consumers live beyond top 15 cities

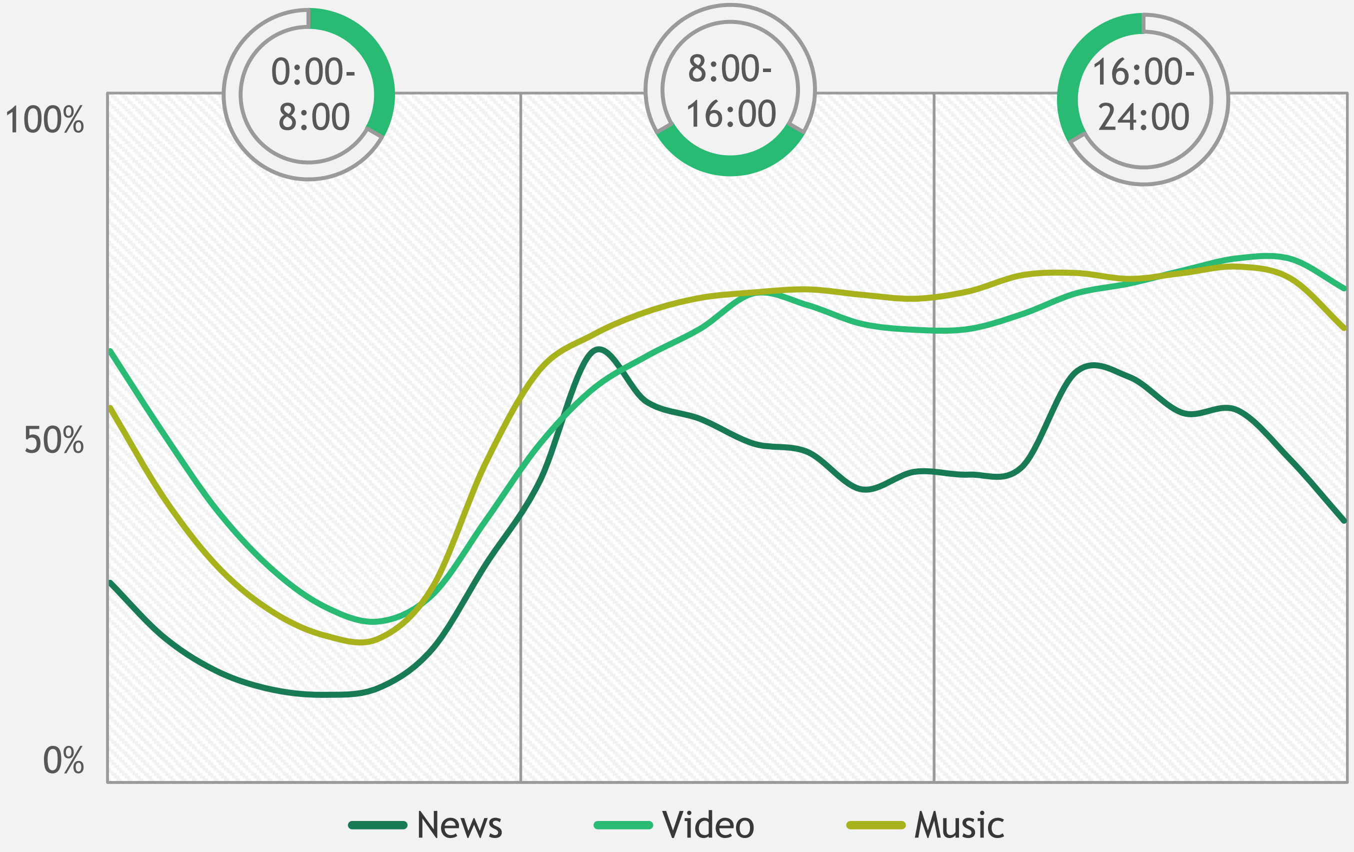


City tier	% of luxury consumers	# of cities
Top 4	20%	4
Tier 1	22%	11
Tier 2	22%	32
Tier 3 and below	36%	2,158

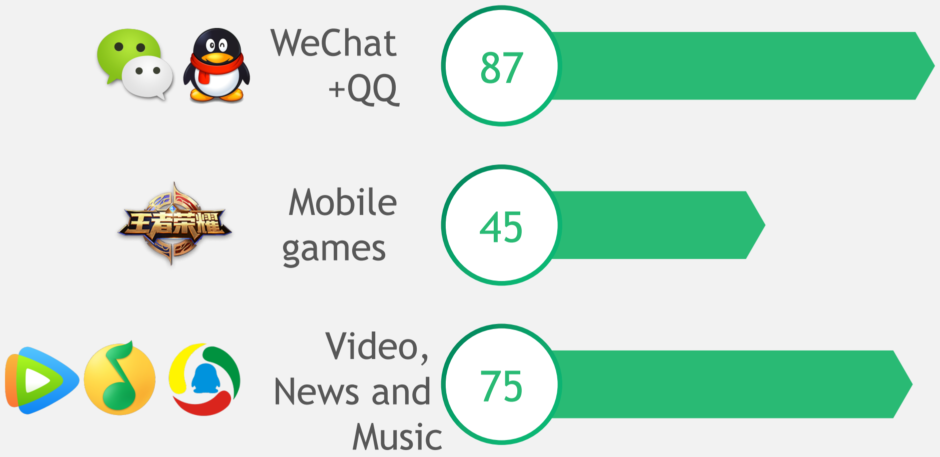
Source: BCG X Tencent Luxury Study, 2018; BCG MAC database

They are attached to mobile app throughout the day

% of luxury users logged onto Tencent apps throughout the day

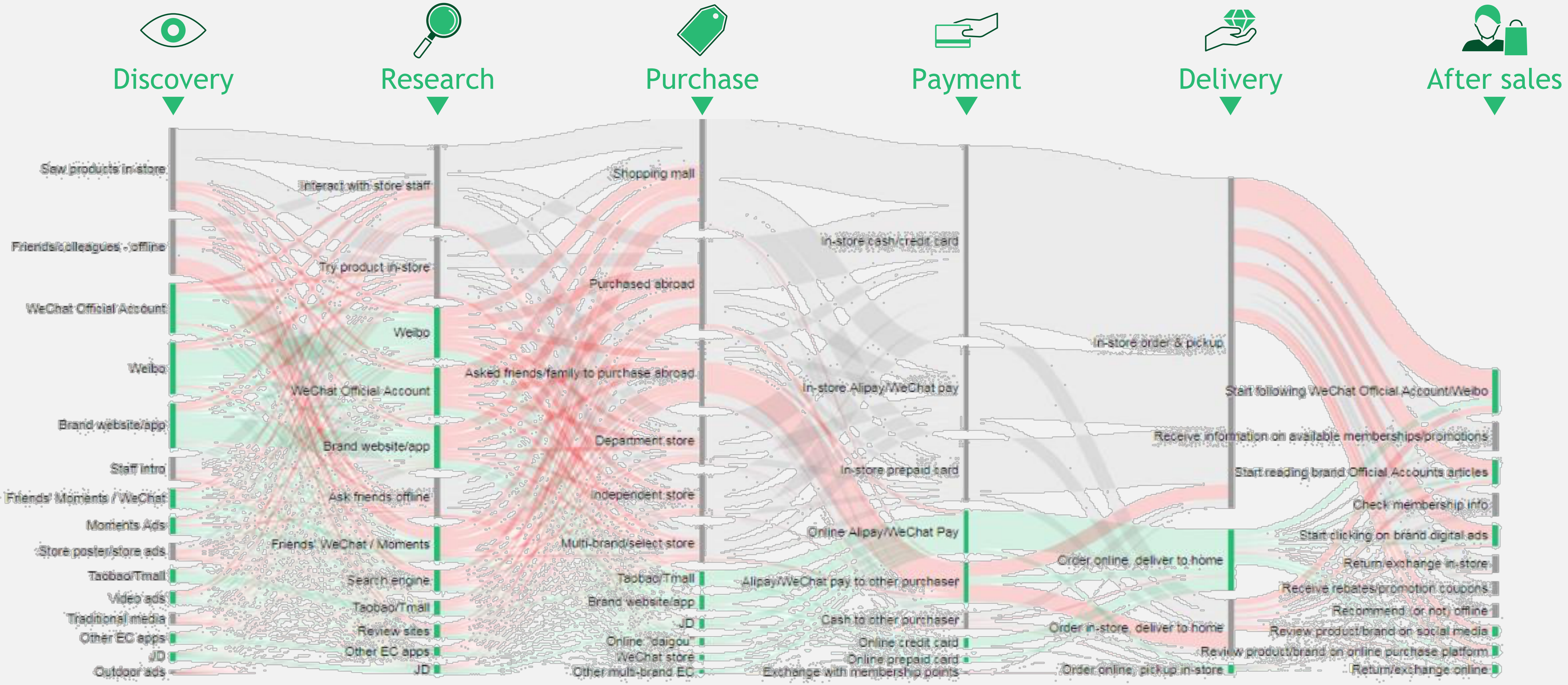


Daily 'mobile' time per user (min)



Source: BCG X Tencent Luxury Study, 2018

Luxury purchase pathway is highly fragmented …



Source: BCG X Tencent Luxury Study, 2018

… driving shift of luxury from offline to online

		Online: Research vol. → Purchase vol.	Offline: Research vol. → Purchase vol.	Total mix: % of purchase by channel
2012	**Traditional Luxury** Brand highly rely on physical presence			Offline[1] 100%; Online 0%
2017	**Digital Luxury 1.0** Traffic shift from offline to online channel			Offline[1] 95%; Online 5%
2023	**Digital Luxury 2.0** Traffic conversion uplift as on/offline integrates			Offline[1] 85-90%; Online 10-15%

Bubble size = Traffic volume (consumer)

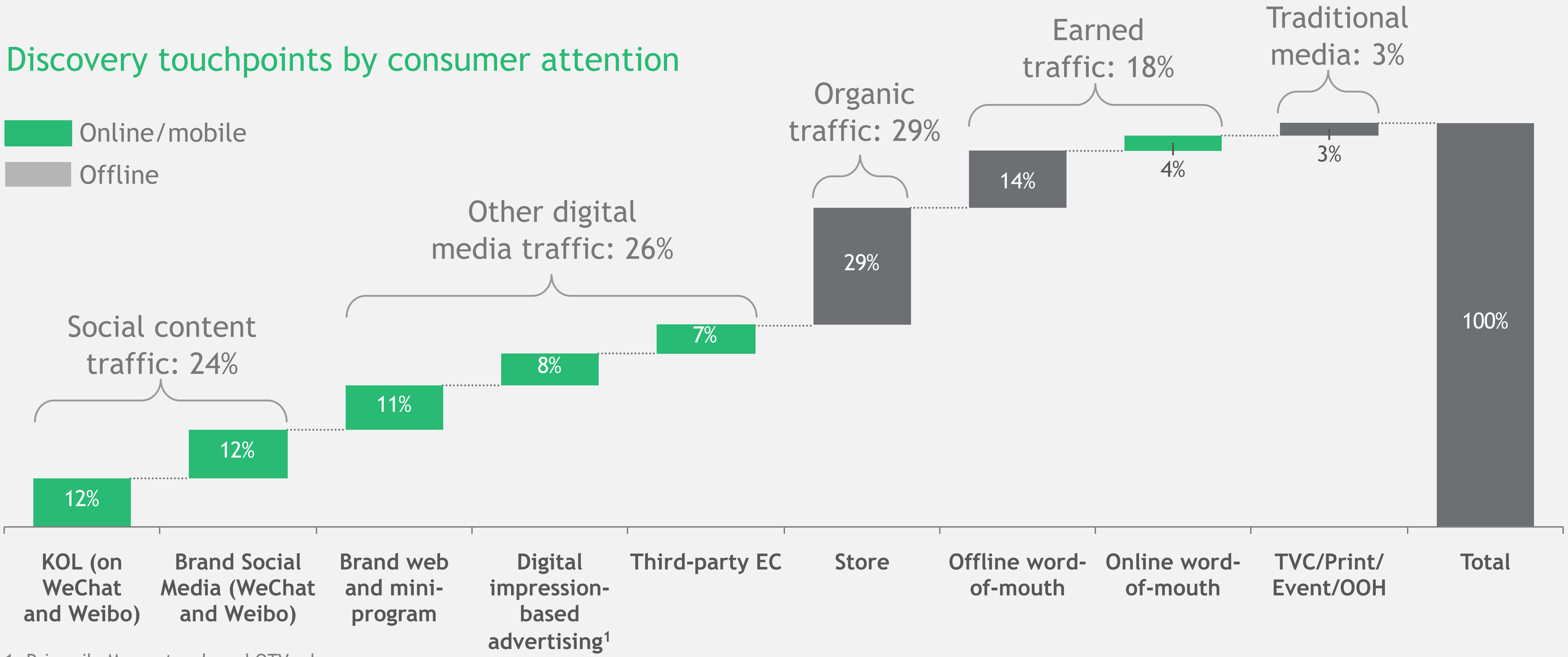
1. ~1/3 of offline purchased volume comes from ROPO (research online purchase offline)

□6 □trends re-defining the rule of game

- Over 50% of luxury consumer attention online, mainly mobile super APP
- Chinese KOL important touchpoint to reach luxury consumers
- Brand Official Account becoming an impactful way to reach and engage
- Research online purchase offline (ROPO) is the dominant purchase pathway
- Low-tier luxury consumers active in digital; cluster-based targeting more effective to reach them
- Marketplace dominates luxury e-commerce, yet social-linked shopping rapidly emerging

Over 50% of luxury consumer attention is online, mostly on mobile ...

Discovery touchpoints by consumer attention



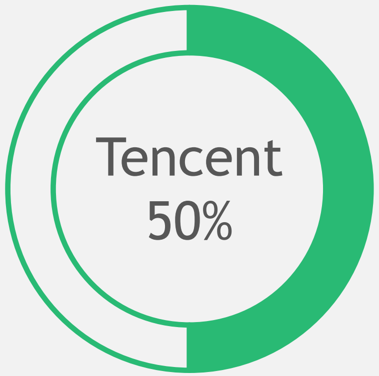
1. Primarily Moments ads and OTV ads
Source: BCG X Tencent Luxury Study, 2018

… attention focuses platform consolidated by super APP

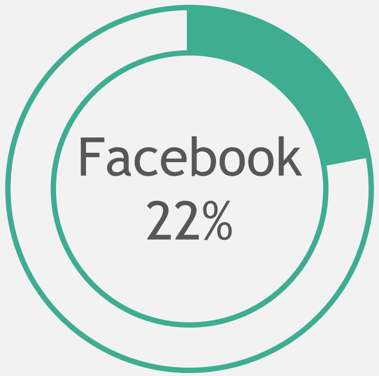
	Tencent 腾讯	Alibaba.com	Baidu 百度
Social	▫WeChat ▫QQ	▫Weibo	
E-com	▫Mini-program Store	▫Tmall ▫Taobao	
News & info	▫Tencent News	▫Weibo	▫Baidu
Music	▫QQ Music	▫Xiami Music	▫Baidu Music
OTV	▫Tencent Video	▫Youku	▫iQiyi
Games	▫e.g. Honor of Kings		

▫Dominance of mobile time by Tencent

2017 share of time spent on smartphones (%)



China

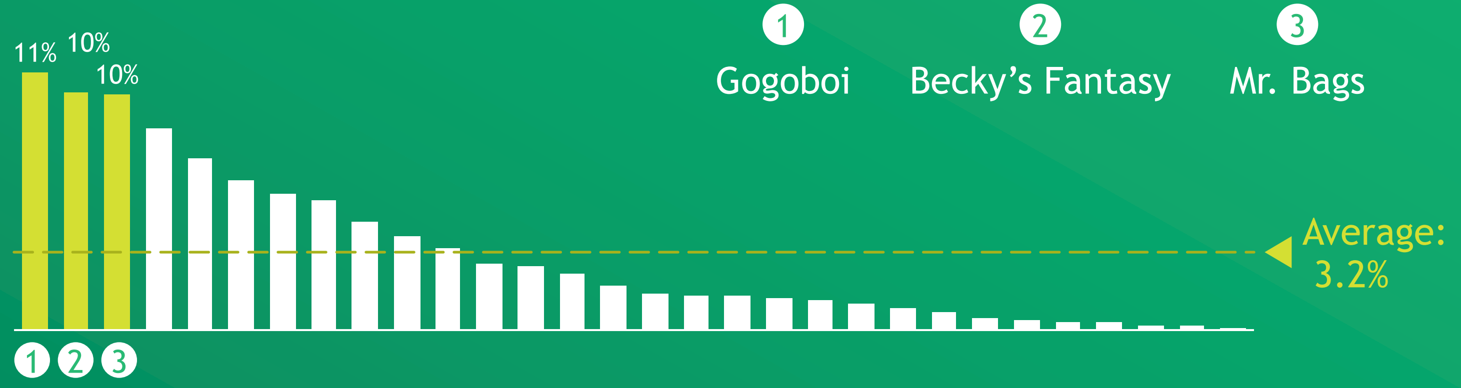


US

Source: BCG China Internet Trends Report

Chinese KOLs important touchpoint to reach luxury consumers

Top 30 Tencent KOL accounts by % of followers among luxury users



- While top KOLs have widest reach, they are not necessarily followed or liked by your target consumer
- Brands should work with Tencent's analytics to identify which long-tail KOLs are most relevant

Source: BCG X Tencent Luxury Study, 2018

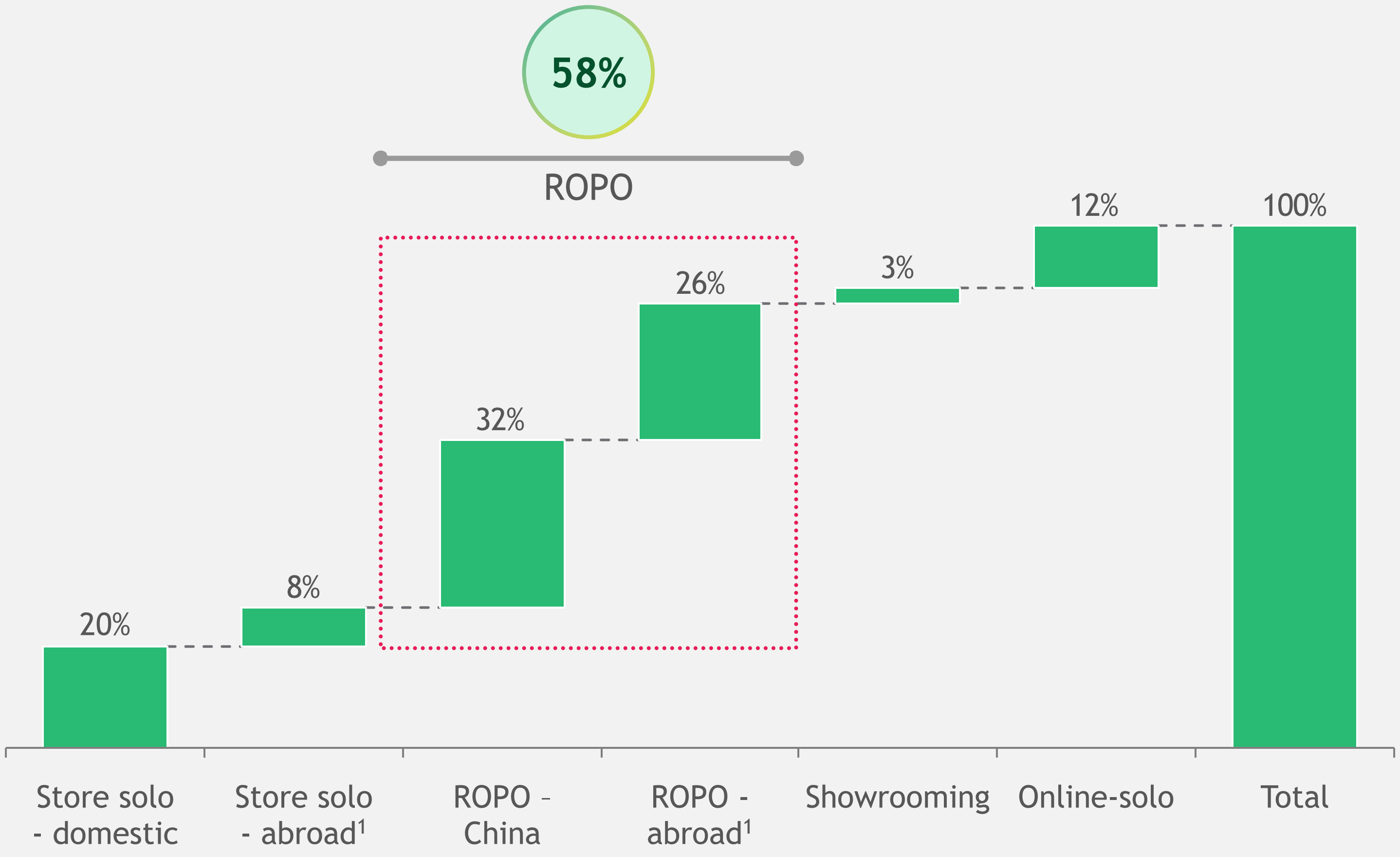
Brand Official Account becoming an impactful way to reach and engage

Average views per Official Account article (indexed)

- ~20k views per article on average, though top brands' articles can hit >100k views
- Brands can invest resources to make content more engaging, and/or co-develop new content formats with Tencent

Note: Average views of last 3 articles on WeChat Official Account
Source: Brand accounts on WeChat, BCG analysis

ROPO is the dominant purchase pathway



1. Researched Online, Purchased Offline
Source: BCG X Tencent Luxury Study, 2018

Our observations

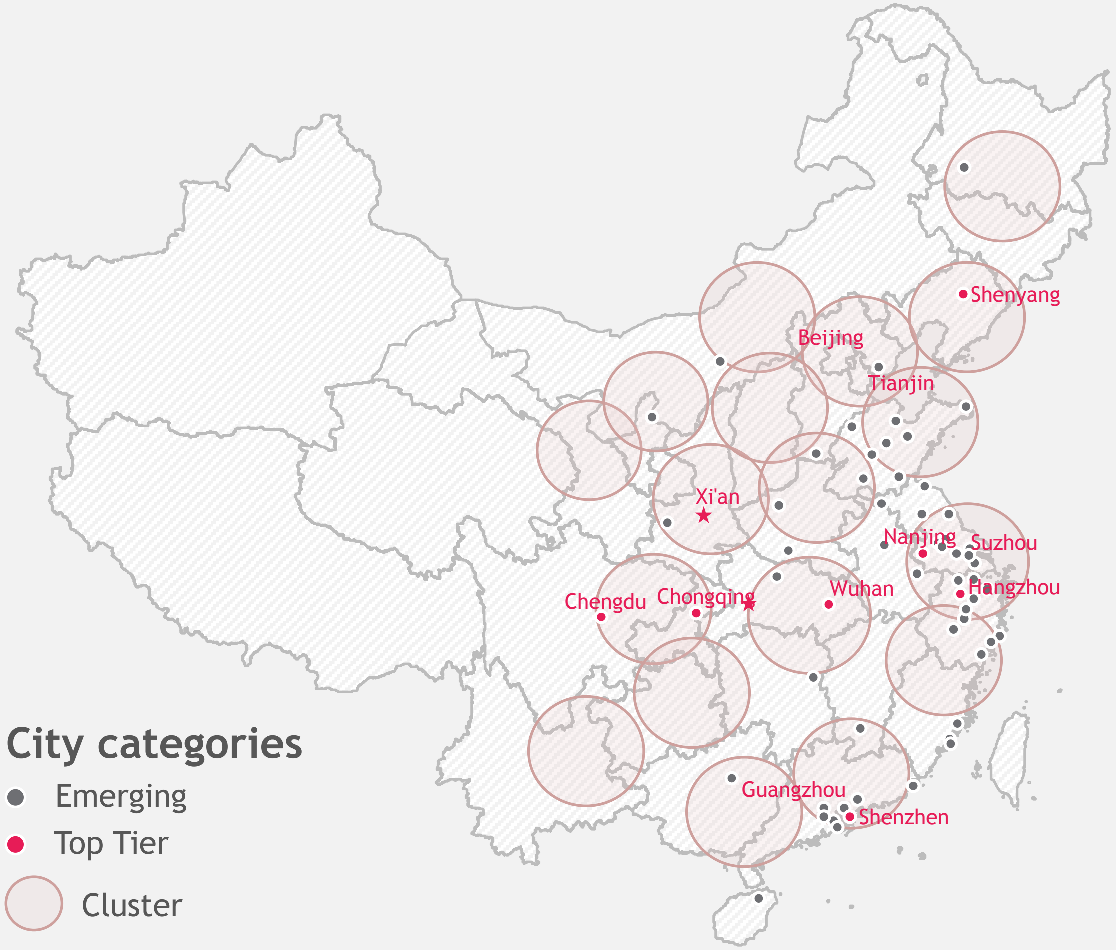
- **ROPO** relevance driven by:
  - New luxury buyers educate themselves online before entering store
  - **~45% of online-inspired consumers buy abroad** due to pricing and/or lack of stores
- **Online solo** to grow as EC platforms in China further develop luxury offering (e.g. Tmall Luxury Pavilion, JD Toplife)

Digital is crucial to reach and convert consumers living in lower tier cities

Consumer journey type	Consumers by city tier: Top 4 and Tier 1	Tier 2	Tier 3 and below
ROPO (research online, purchase offline)	64%	56%	51%
Pure offline	28%	29%	27%
Pure online	8%	9%	16%
Showrooming (research offline, purchase online)	1%	5%	6%

Note: Abroad purchases includes asking friends/family to purchase abroad
Source: BCG X Tencent Luxury Study, 2018

Location-based cluster approach helps amplify brand marketing reach



"Chuzhou (Tier 5) is less than 20 mins train to Nanjing (Tier 1), I travel there to buy luxury goods several times a year

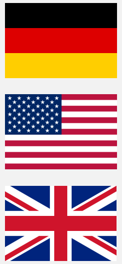
— 28 years old, Chuzhou

"Consumers from Liaocheng (Tier 4) typically go to Jinan (Tier 2) for luxury goods. Therefore, we only do marketing in high-tier cities

— Luxury brand Sales Manager

Note: 18 official clusters defined by Gov based on proximity and intensity of economic activities
Source: BCG MAC database

Marketplace dominates luxury e-commerce, yet social-linked shopping emerging fast

	Generalist marketplace (e.g. T-mall, Ali Pavilion, JD, JD Toplife)	Mono-brand website	Social media linked sales (e.g. WeChat)	Luxury multi-brand (e.g. NAP, Farfetch)	Online flash sales (e.g. VIP)	Off price e-tailer
	51%	23%	11%	8%	7%	N/A
	23%	33%	2%	32%	4%	6%

Source: BCG X Tencent Luxury Study, 2018

6 trends re-defining the rule of game

Over 50% of luxury consumer attention online, mainly mobile super APP

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A broad range of tools re-defining the rule of the game

Online to offline	Offline to offline	Online to online
Social gifting Social-linked gift cards and coupons	**SCRM tools** 'Wechat For Work'[2]	**Online sales platform** Wechat store, mini-program
KOL amplification E.g. Online celebrities as SA	**New retail application** Scan and go/order	**Personalized online offerings** Targeted messages in Wechat OA
LBS ads/shopper instant discounts LBS Moment Ads	**Offline engagements** Instore tournaments /interactive screen	**Online content and social marketing** Wechat OA articles, mini programs
O2O gamification/engagement E.g. O2O treasure hunt game[1]		

Impression-driven marketing tools: QQ Music, OTV, etc.

Licensed IP for promotion and product differentiations

Data-driven member management

Store-level shopper profiling and traffic analysis