China Luxury Digital Playbook
No ordinary love - the changing relationship between brands and Chinese millennials
Tencent x BCG luxury consumer insight study

**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

<table>
<thead>
<tr>
<th>Year</th>
<th>True Luxury</th>
<th>Accessible Luxury</th>
<th>Total</th>
<th>Growth</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>27%</td>
<td>73%</td>
<td>98</td>
<td>+4%</td>
<td>73%</td>
</tr>
<tr>
<td>2016</td>
<td>28%</td>
<td>73%</td>
<td>95</td>
<td>+4%</td>
<td>73%</td>
</tr>
<tr>
<td>2017</td>
<td>28%</td>
<td>72%</td>
<td>105</td>
<td>+6%</td>
<td>72%</td>
</tr>
<tr>
<td>2024F</td>
<td></td>
<td></td>
<td>162</td>
<td>+6%</td>
<td>69%</td>
</tr>
</tbody>
</table>

40% of global true luxury market will be in China

€ billion, retail value

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<th>Total</th>
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<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>32%</td>
<td>68%</td>
<td>222</td>
<td></td>
<td>70%</td>
</tr>
<tr>
<td>2024F</td>
<td></td>
<td></td>
<td>409</td>
<td></td>
<td>70%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Age</th>
<th>&lt;18</th>
<th>18-24</th>
<th>25-30</th>
<th>31-35</th>
<th>36-40</th>
<th>41+</th>
</tr>
</thead>
<tbody>
<tr>
<td>TGI¹</td>
<td>47</td>
<td>148</td>
<td>140</td>
<td>111</td>
<td>88</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>Primary school</th>
<th>High school</th>
<th>College degree</th>
<th>Graduate or Ph.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>TGI¹</td>
<td>100</td>
<td>145</td>
<td>321</td>
<td>505</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>TGI¹</td>
<td>54</td>
<td>176</td>
</tr>
</tbody>
</table>

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

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)

- WeChat + QQ: 87 minutes
- Mobile games: 45 minutes
- Video, News and Music: 75 minutes

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

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

### Digital Luxury 1.0
- Traffic shift from offline to online channel

### Digital Luxury 2.0
- Traffic conversion uplift as on/offline integrates

### Total mix
- % of purchase by channel

<table>
<thead>
<tr>
<th>Year</th>
<th>Offline</th>
<th>Online</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>2017</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>2023</td>
<td>85-90%</td>
<td>10-15%</td>
</tr>
</tbody>
</table>

Bubble size = Traffic volume (consumer)
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

6 trends re-defining the rule of game
Over 50% of luxury consumer attention is online, mostly on mobile ...

Discovery touchpoints by consumer attention

- Social content traffic: 24%
- Other digital media traffic: 26%
- Other digital media traffic: 26%
- Earned traffic: 18%
- Organic traffic: 29%
- Traditional media: 3%
- Online/mobile: 12%
- Offline: 12%
- Brand Social Media (WeChat and Weibo): 12%
- Brand web and mini-program: 11%
- Digital impression-based advertising: 8%
- Third-party EC: 7%
- Store: 29%
- Offline word-of-mouth: 14%
- Online word-of-mouth: 4%
- TVC/Print/Event/OOH: 3%

1. Primarily Moments ads and OTV ads
Source: BCG X Tencent Luxury Study, 2018
... attention focuses platform consolidated by super APP

Dominance of mobile time by Tencent

2017 share of time spent on smartphones (%)

Tencent 50%

Facebook 22%

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

- 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

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)

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1. Researched Online, Purchased Offline
Source: BCG X Tencent Luxury Study, 2018
Digital is crucial to reach and convert consumers living in lower tier cities

**Consumers by city tier**

- **Top 4 and Tier 1**
  - Pure offline: 28%
  - Pure online: 8%
  - ROPO: 64%

- **Tier 2**
  - Pure offline: 29%
  - Pure online: 9%
  - ROPO: 56%

- **Tier 3 and below**
  - Pure offline: 27%
  - Pure online: 16%
  - ROPO: 51%

**Consumer journey type**

- **ROPO**
  - (research online, purchase offline)

- **Pure offline**

- **Pure online**

- **Showrooming**
  - (research offline, purchase online)

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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

City categories
- Emerging
- Top Tier
- Cluster

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

<table>
<thead>
<tr>
<th>Category</th>
<th>China</th>
<th>Germany</th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generalist marketplace</td>
<td>51%</td>
<td>23%</td>
<td>33%</td>
<td>23%</td>
</tr>
<tr>
<td>Mono-brand website</td>
<td>23%</td>
<td>33%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Social media linked sales</td>
<td>11%</td>
<td>2%</td>
<td>2%</td>
<td>32%</td>
</tr>
<tr>
<td>Luxury multi-brand</td>
<td>8%</td>
<td>32%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Online flash sales</td>
<td>7%</td>
<td>4%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Off price e-tailer</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
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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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Marketplace dominates luxury e-commerce, yet social-linked shopping rapidly emerging
A broad range of tools re-defining the rule of the game

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<tr>
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<th>Offline to offline</th>
<th>Online to online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social gifting</td>
<td>SCRM tools</td>
<td>Online sales platform</td>
</tr>
<tr>
<td>Social-linked gift cards and coupons</td>
<td>‘Wechat For Work’[^2]</td>
<td>Wechat store, mini-program</td>
</tr>
<tr>
<td>KOL amplification</td>
<td>New retail application</td>
<td>Personalized online offerings</td>
</tr>
<tr>
<td>E.g. Online celebrities as SA</td>
<td>Scan and go/order</td>
<td>Targeted messages in Wechat OA</td>
</tr>
<tr>
<td>LBS ads/shopper instant discounts</td>
<td>Offline engagements</td>
<td>Online content and social marketing</td>
</tr>
<tr>
<td>LBS Moment Ads</td>
<td>Instore tournaments /interactive screen</td>
<td>Wechat OA articles, mini programs</td>
</tr>
<tr>
<td>O2O gamification/engagement</td>
<td>E.g. O2O treasure hunt game[^1]</td>
<td></td>
</tr>
<tr>
<td>Impression-driven marketing tools: QQ Music, OTV, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensed IP for promotion and product differentiations</td>
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<tr>
<td>Data-driven member management</td>
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<tr>
<td>Store-level shopper profiling and traffic analysis</td>
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