

In China, 'Demonstration of Success' Contributes to Luxury's Rise

Luxury is fundamental to Chinese consumers' aspirations

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An interview with:
Tom Doctoroff

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When it comes to sales of luxury goods across the globe, all eyes are on China. Already the world's largest market, the country is expected to be a major driver of luxury sales in the next few years. eMarketer's Man-Chung Cheung spoke with Tom Doctoroff, chief cultural insights officer at marketing consultancy Prophet, about the underlying socioeconomic trends in China. Doctoroff was interviewed as part of eMarketer's upcoming report, "The Rise of China's Omnichannel Luxury Consumers: How Ecommerce Is Changing the High-End Market."

eMarketer:

Bain & Company reported a 21% growth rate in personal luxury goods sales in China during 2017, and the consultancy is equally bullish about 2018. What's behind that increase?

Tom Doctoroff:

Three factors: One is that the price differential of buying abroad vs. in China in certain categories is decreasing. It's not as much of a bargain as it was before to go abroad and shop. The second reason is that the anti-corruption fears, which stalled growth in 2015 and 2016, seem to have somewhat abated. So 2017 actually was a continuation of a trend, not an exception to one. The third and most fundamental reason is that, on a cultural level, luxury is fundamental to the aspirations of Chinese consumers.

eMarketer:

What do you mean by a cultural level?

Tom Doctoroff:

Luxury, no matter what demographic cohort in China you're talking about—whether it's young consumers who have limited out-of-pocket funds or the man on top of the mountain—is used as a demonstration of the ability to get ahead in the game of life or maintain one's place. And this is largely driven by Confucian culture.

eMarketer:

Could you explain what Confucian culture is and how it's connected to luxury consumption in China?

Tom Doctoroff:

Confucian culture is a combination of rules and regimentation, and [the idea] that the individual does not exist independent of his obligations and responsibilities to others. Therefore, there is a need to obey certain standards; in this case, demonstration of success. But the other part of Confucian culture that people don't usually think of is that it's a meritocratic culture. Not by rebelling but by mastering the rules, you are able to climb up the hierarchy. Luxury goods and the type of positioning that luxury goods have reflect the aspirations of what people want to project about themselves in society. So luxury is not frivolous at all.

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If you look at the role luxury plays in American society, it is relatively minor compared with Chinese society. In the US, these types of expression [aren't required], no matter how subtly they are displayed. In America, people don't have the same rule [to demonstrate] a marker of success, due to the nature of its individualistic culture.

eMarketer:

And in China, the luxury phenomenon is not limited to affluents, right?

Tom Doctoroff:

Correct, and this is fairly unique among Chinese and Asian societies, more so than in Western societies. Of course, incomes are very limited here and people do spend more than they earn in their pre-marriage and pre-family years. A lot of this spending is on luxury goods, as well as experiences that people can share on social media to earn social currency.

Luxury has a very broad base, and the challenge for luxury goods marketers is to bring people into the franchise at a relatively low out-of-pocket price but still high premium. That's why you get much more focus on accessories — key chains, belts, wallets, sunglasses, etc. And there's also a new tier of accessible luxury brands like Coach and Michael Kors. But I don't think we can restrict ourselves to the lower level of luxury, [as that's geared toward the younger consumer]. Anything that is capable of projecting status is doing well.

eMarketer:

Will luxury sales continue to grow?

Tom Doctoroff:

Yes, the growing wealth of the middle class and its emerging affluence continues to rise. There will not be a fundamental rejection of luxury as a means of expressing one's identity. As long as the Chinese economy keeps growing and creating wealth, things will stay on the same path.

Interview conducted on August 14, 2018