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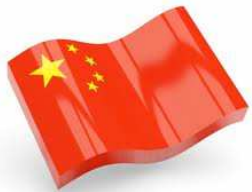
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China Luxury Survey 2013

Changing tides: catching the next profit wave



*The results presented in this document cover all the brands surveyed.
Brand-specific results are available upon request.*

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Introduction: the knowns and unknowns of China

Discover in this study the potential of the next Chinese profit wave

- The Chinese market is **continuously evolving**, not only through tremendous **wealth creation**, but also through changes in consumers' **mind-set and consumption patterns**
- It is becoming clear that many **inland areas** are very quickly **catching up** with the more developed coastal zones, and that China's provinces overall are growing ever more **interconnected** also with the outside world
- Monitoring such **macro-economic trends** is highly important to firms for which the Chinese market is a key source of growth and profitability; however, **much remains to be explored**
- In particular, Chinese consumers' **price sensitivity and willingness to pay** are still poorly understood today, with **pricing strategies** generally defined at far-away headquarters
- Access costs and taxes have historically led to **pricing products in China at around 40% above** prices in home markets, depending on the category, but this strategy is reaching its limits
- In order to grow profits sustainably in China, luxury firms must be **able to accurately measure Chinese consumers' willingness to pay**, as well as to **closely monitor its fast-paced dynamics**






Executive summary: Chinese Luxury Survey 2013 (1/2)

Our study reveals that Chinese luxury buyers have changed in terms of:

-  **Maturity**
Luxury product **value drivers have evolved** from a pure mirror of social position to an indication of fashion and expertise: product style, product quality and comfort are now Chinese consumers' main purchasing drivers
-  **Profile**
Spending among **men** has strongly increased, **in all product categories**, resulting in a higher average amount spent than for women: **men are the future growth driver of luxury in China**
-  **Habits**
Online shopping has become a privileged buying channel, even for luxury goods. Shoppers are seduced by **convenience**, permanent product availability and simplicity: **luxury digital strategies must be rethought**
-  **Loyalty**
Changes in luxury maturity **have increased the loyalty** of Chinese shoppers to their favorite brands
-  **Price sensitivity and price knowledge**
Purchases abroad account for more than **half the money spent** by recurring luxury buyers, however, untapped willingness to pay remains in China: **price knowledge has increased, and the perceived fairness of luxury prices in China seems as important as the absolute price level**

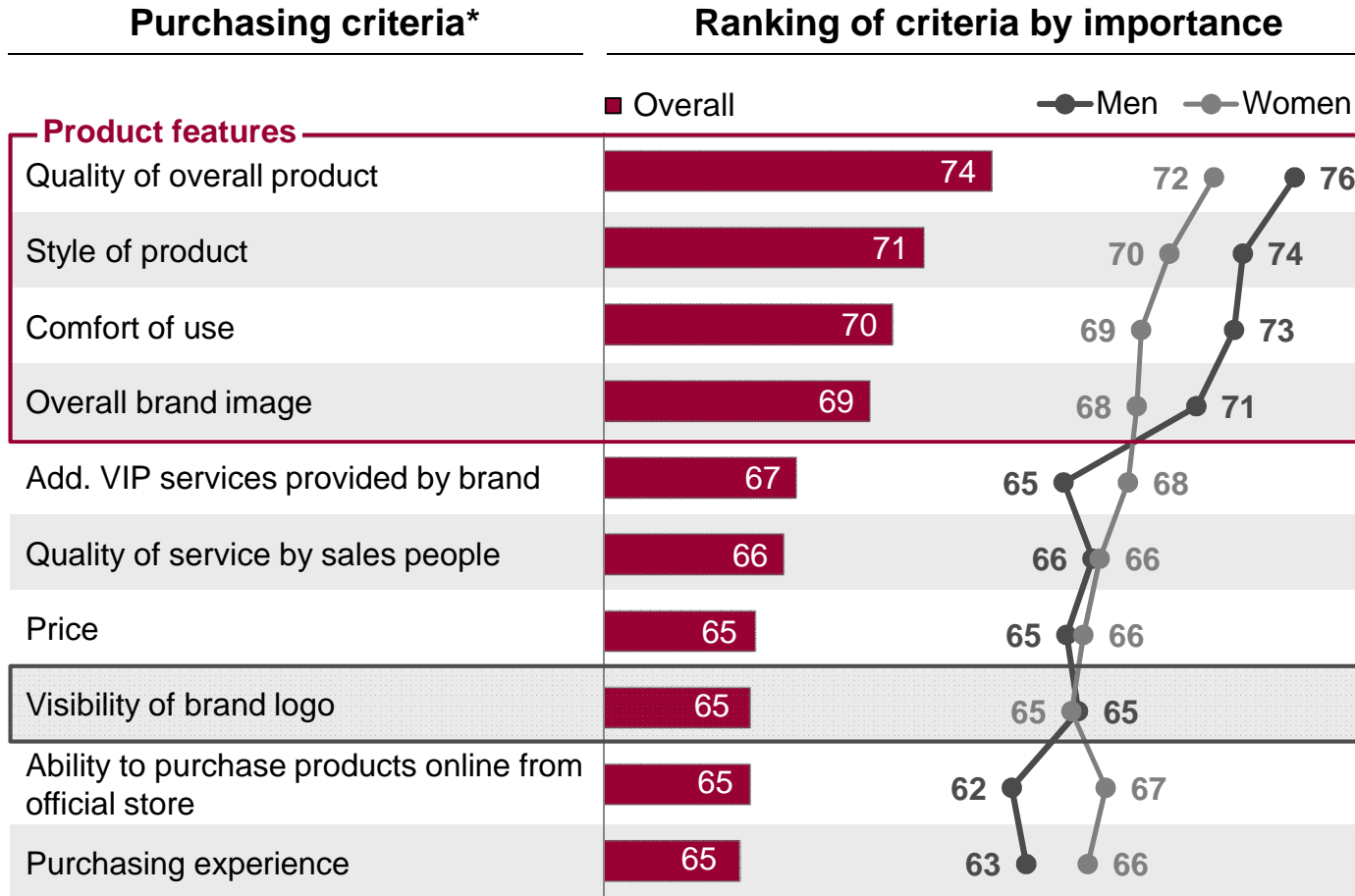
Executive summary: Chinese Luxury Survey 2013 (2/2)

With each change comes a strong call for action:

-  **Maturity**
Customer segmentation must be enriched to better reflect Chinese customer value drivers and developments in luxury behavior. Current **sales and marketing actions** (brand communication, sales experience, loyalty rewards/recognition, ...) must be **consequently adjusted**
-  **Profile**
Men are the future growth driver of luxury in China. Thus it has become essential for luxury firms to be **able to accurately measure men's willingness to pay**, as well as to **closely monitor its fast-paced dynamics** (needs, expectations, ...)
-  **Habits**
Rethink digital strategies (pricing, category management, animation) to better leverage Chinese consumer's Internet savvy by providing adapted services and an improved purchasing experience.
Move from a pure brand website to a real distribution/e-commerce channel
-  **Loyalty**
Leverage brand loyalty by developing new product categories such as perfumes and cosmetics
-  **Price sensitivity and price knowledge**
Implement dynamic tools to **monitor competitor prices** around the world, **assess price sensitivity per customer segment and changes in purchase areas**

 The maturity of Chinese luxury buyers has changed

Value drivers have evolved from a pure mirror of social position to an indication of fashion and expertise: product style, product quality and comfort are now essential for Chinese consumers.



- Chinese luxury buyers are essentially looking at product features when purchasing luxury products
- Prices are less important than might be expected
- The visibility of brand logo is no longer crucial to them

Source: Simon-Kucher Survey, Question: What factors are most important when you are deciding on which product or brand to purchase? (Scaled to: 0 = not important at all, 100 = extremely important)
 * Ranked by importance

 The maturity of Chinese luxury buyers has changed

This trend away from status towards fashion and expertise is visible for all product categories.

Purchasing criteria	Ranking of criteria by importance			
	Men		Women	
	Bags and luggage	Watches	Bags and luggage	Small leather goods
Product features				
Quality of overall product	1	1	1	1
Style of product	2	3	4	3
Comfort of use	3	2	2	2
Overall brand image	4	4	4	4
Quality of service by sales people	5	7	10	7
Add. VIP services provided by brand	6	5	6	10
Purchasing experience	7	7	3	7
Visibility of brand logo	8	6	8	9
Price	9	10	7	6
Ability to purchase products online from official store	10	9	9	5

Source: Simon-Kucher Survey, Question: What factors are most important when you are deciding on which product or brand to purchase? (Ranked from most to least important)



The profile of Chinese luxury buyers has changed

Spending among men has strongly increased, in all product categories, resulting in a higher average amount spent than for women: men are the future growth driver of luxury in China.

Average expenses in the past two years (¥ '000)



Source: Simon-Kucher Survey.

Question 4: How much money did you spend on western-brand luxury products in the past 2 years?

Note: €1 = ¥8

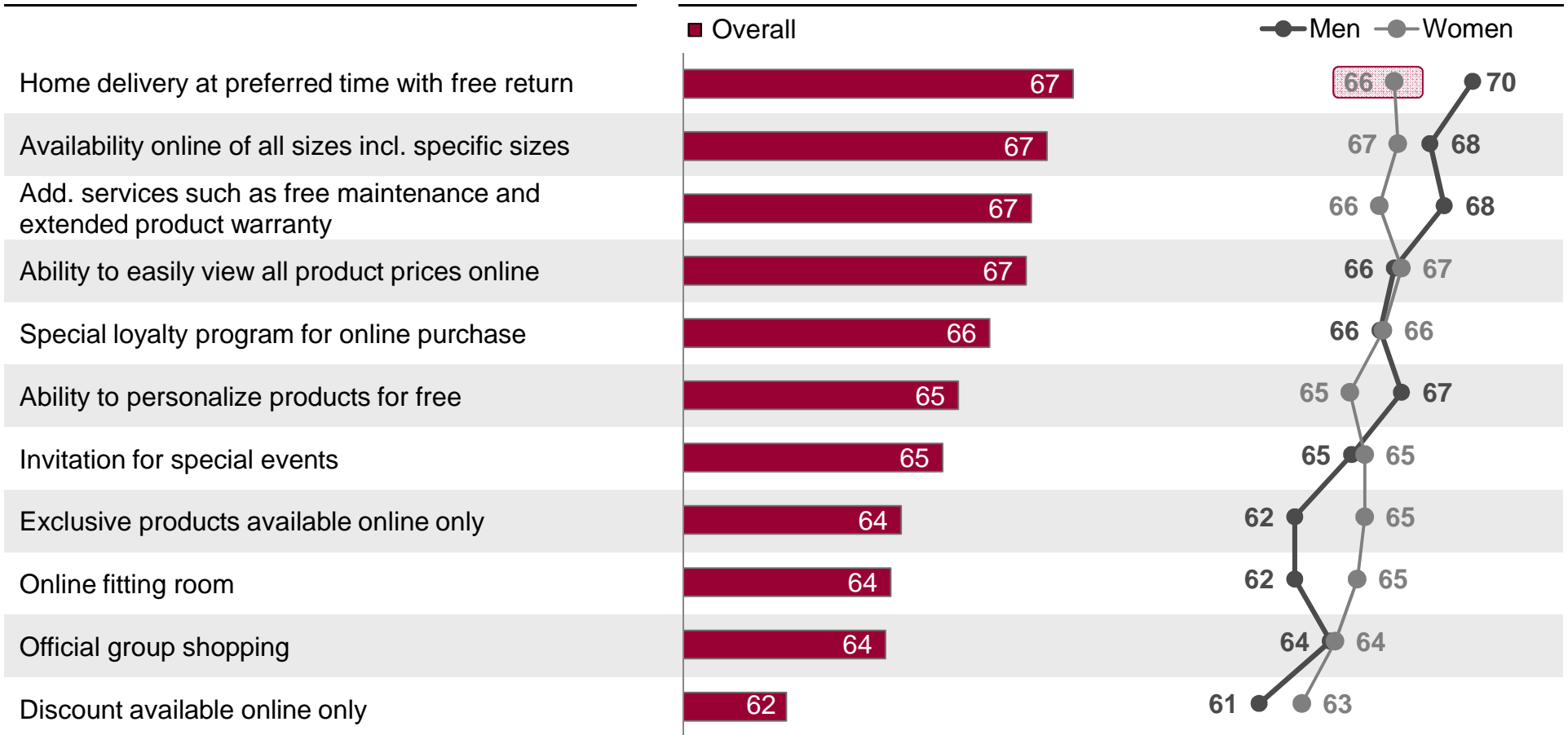


The habits of Chinese luxury buyers have changed

27% of the respondents plan to shop for luxury goods online. Simon-Kucher has tested innovative services to steer online sales.

Elements encouraging online purchasing*

Ranking of potential drivers by importance

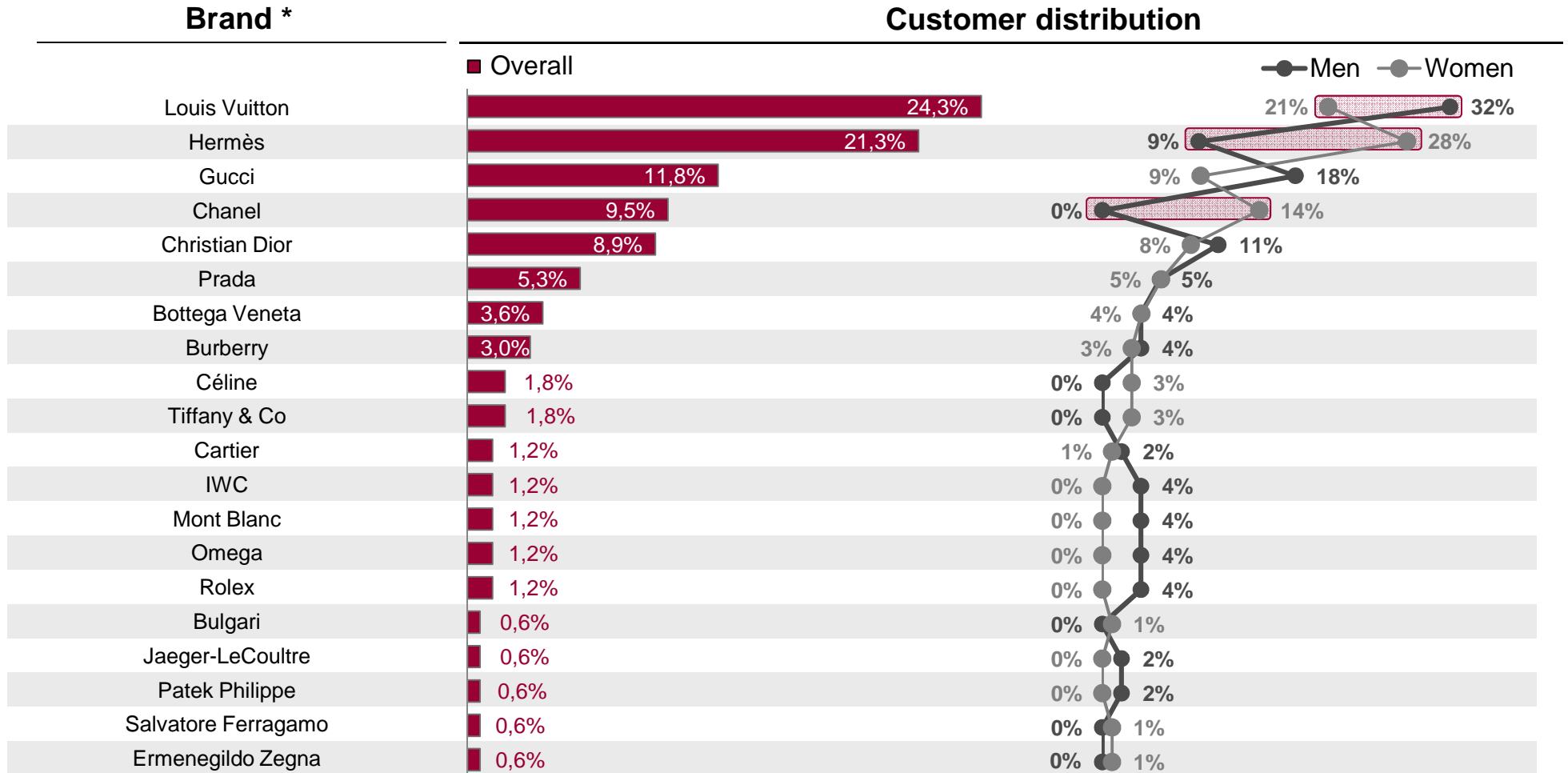


Source: Simon-Kucher Survey. - 7 -
 Question 15: How strongly would the following elements encourage you to purchase luxury goods online?
 (0 = not encouraging at all, 100 = extremely encouraging)
 * Ranked by preference



The loyalty of Chinese luxury buyers has changed

Changes in luxury maturity have increased the loyalty of Chinese shoppers to their favorite brand. Louis Vuitton and Hermès are by far the 2 most preferred brands.



Source: Simon-Kucher Survey, Question: What is your favorite luxury brand?

* Ranked by attractiveness



The loyalty of Chinese luxury buyers has changed

For bags and luggage, Hermès and Louis Vuitton are spontaneously mentioned as the favorite brands.

Brand *	Spontaneous answer	1 st choice among 10 listed brands	2 nd choice among 10 listed brands
Louis Vuitton	39%	42%	12%
Hermès	25%	18%	4%
Gucci	12%	15%	26%
Chanel	4%	5%	8%
Christian Dior	4%	6%	15%
Giorgio Armani	4%	Not listed **	Not listed **
Burberry	4%	3%	1%
Bottega Veneta	1%	9%	12%
Christian Dior	1%	2%	17%
Salvatore Ferragamo	Not cited	Not chosen	4%
Others	4%	1%	2%

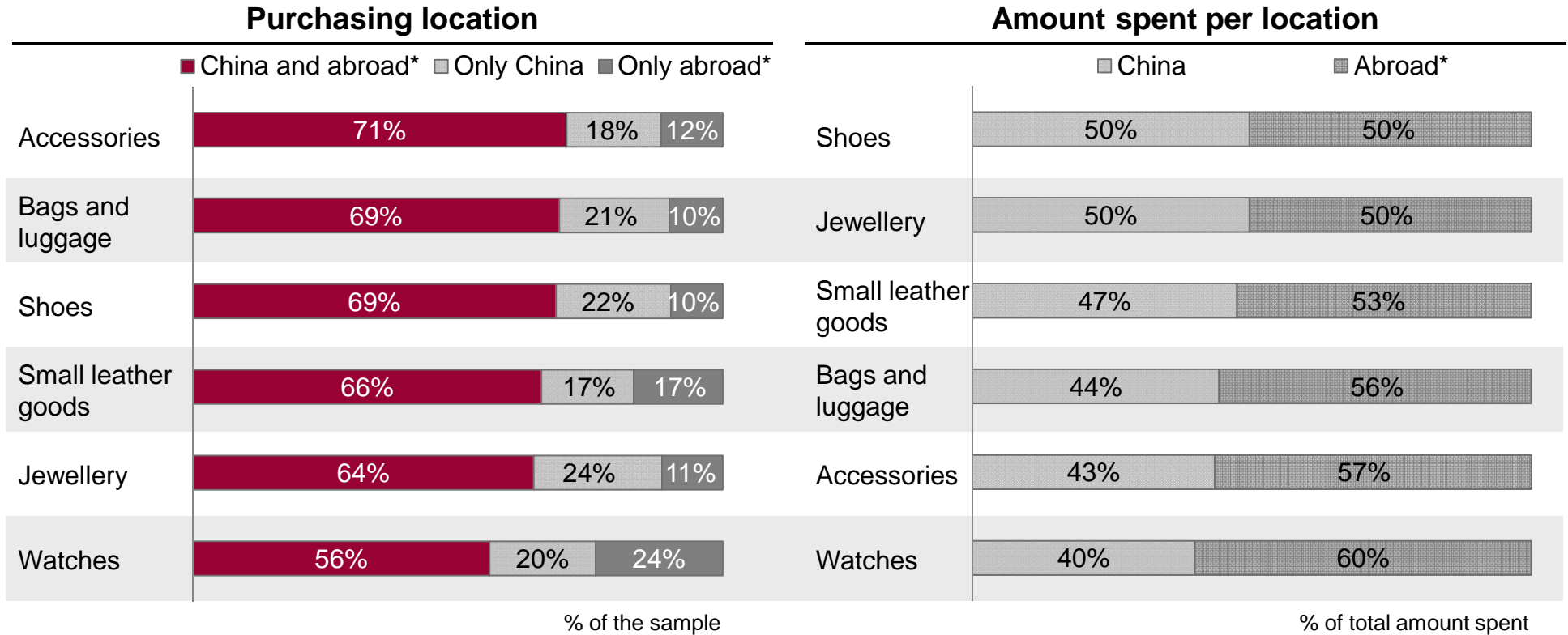
Source: Simon-Kucher Survey, Question: What brands do you find most attractive?

* Ranked by attractiveness

** Not listed in the brands list proposed on the survey

€ Knowledge of prices has changed among Chinese luxury buyers

Purchases abroad currently represent more than 50% of the money spent by regular luxury buyers.

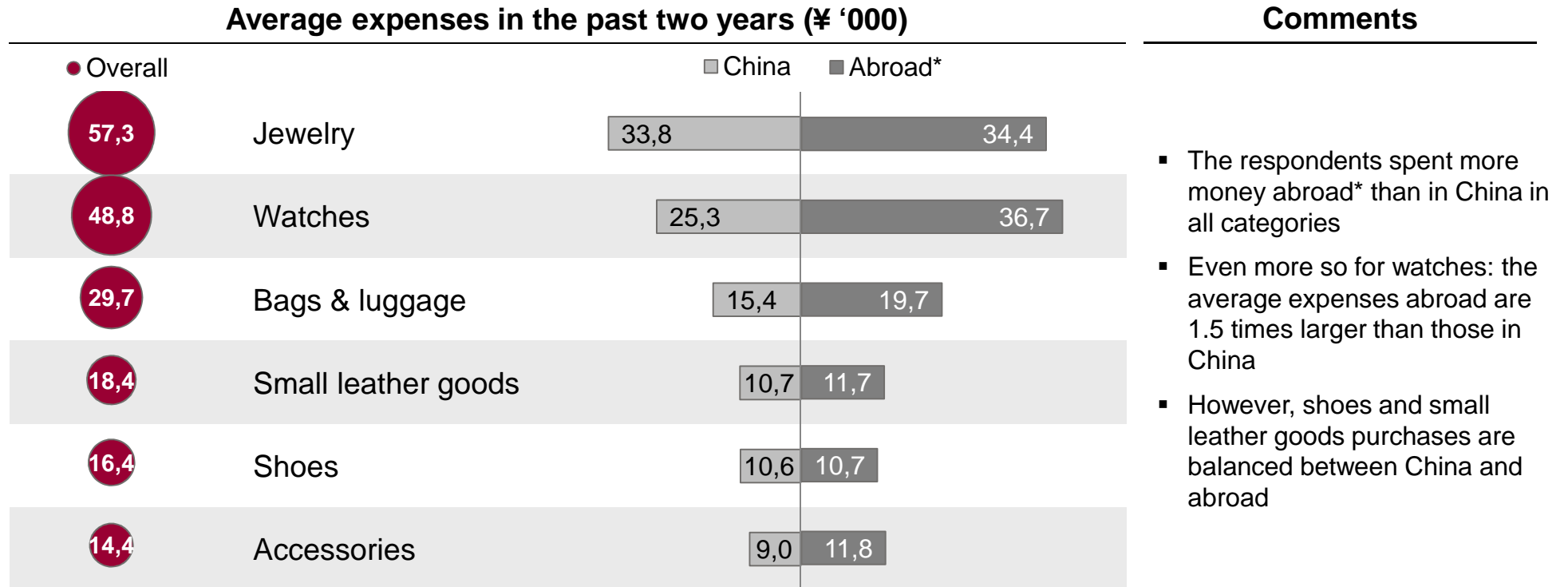


Reading example: 71% of the sample has purchased western-brand luxury Accessories in the past two years both in China and abroad, 18% in China only and 12% abroad only

Reading example: 50% of the money spent on western-brand luxury shoes in the past two years was spent in China and 50% was spent abroad

€ Knowledge of prices has changed among Chinese luxury buyers

Even for accessories or shoes, regular luxury buyers spent 50% of their amount abroad.



Source: Simon-Kucher Survey.

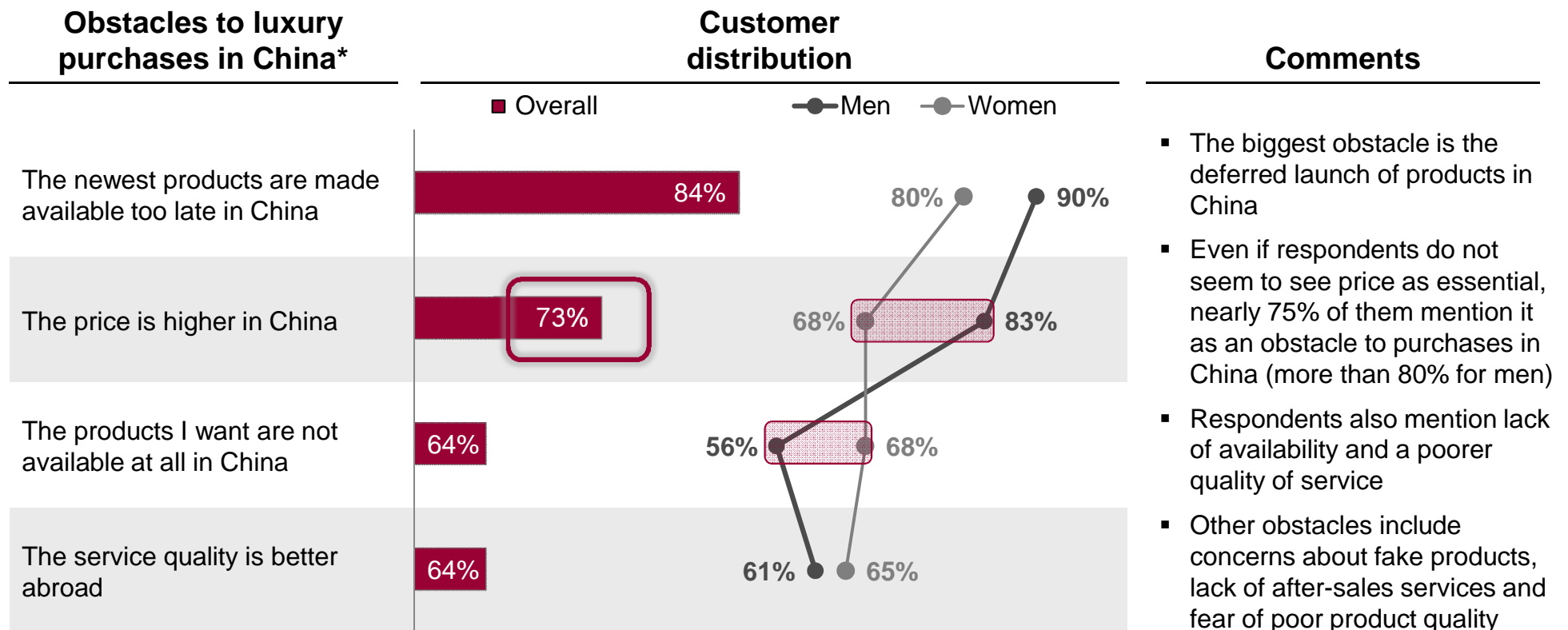
Question: How much money did you spend on western-brand luxury products in the past 2 years?

*Abroad includes Hong-Kong and Macao

Note: €1 = ¥8

€ Knowledge of prices has changed among Chinese luxury buyers

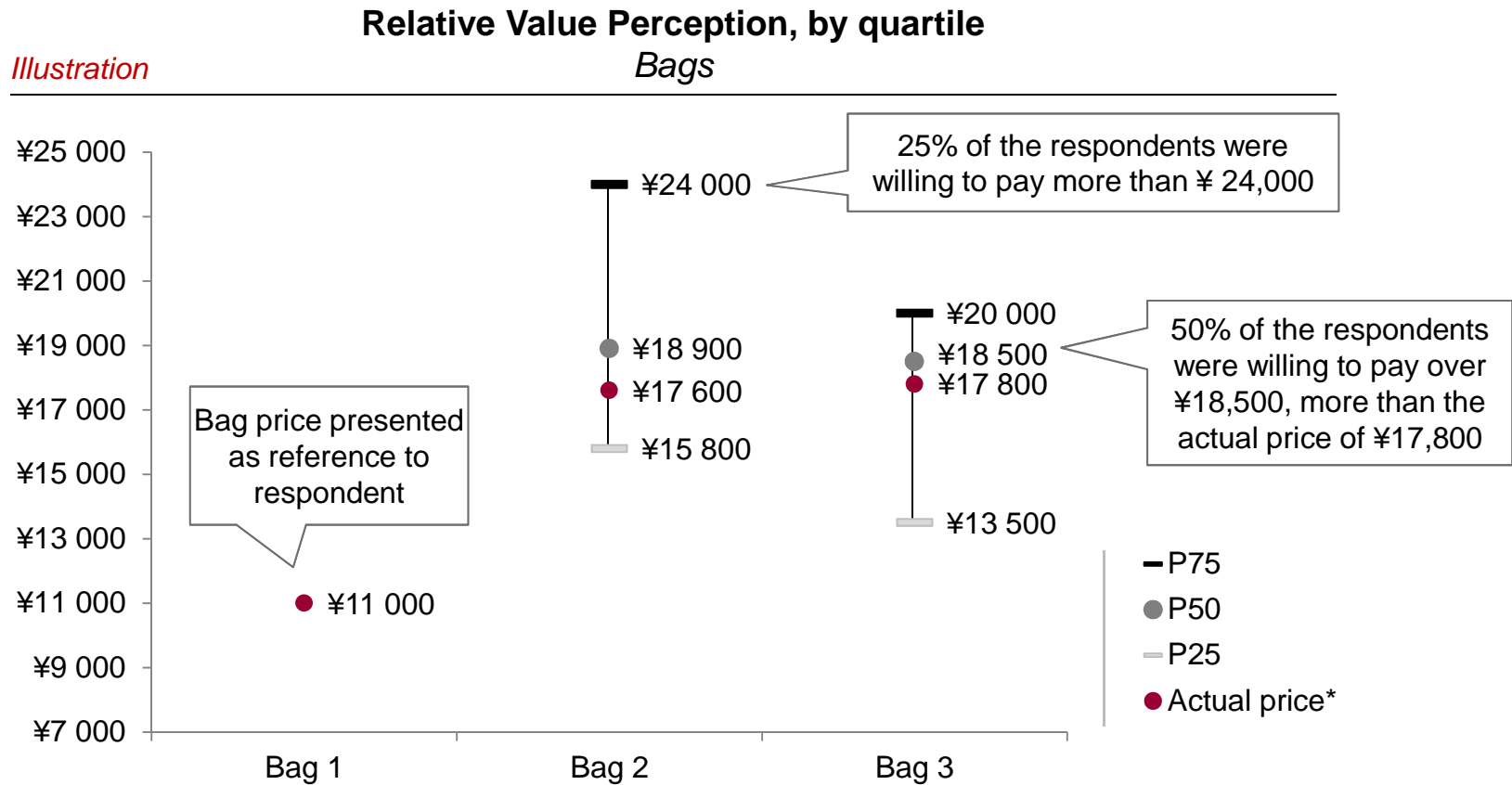
Price and product availability are the two main obstacles to luxury good purchases in China.



Source: Simon-Kucher Survey,
 Question: What prevents you from buying more luxury goods in China (mainland) rather than abroad?
 * Ranked by preference

€ The price sensitivity of Chinese luxury buyers has changed

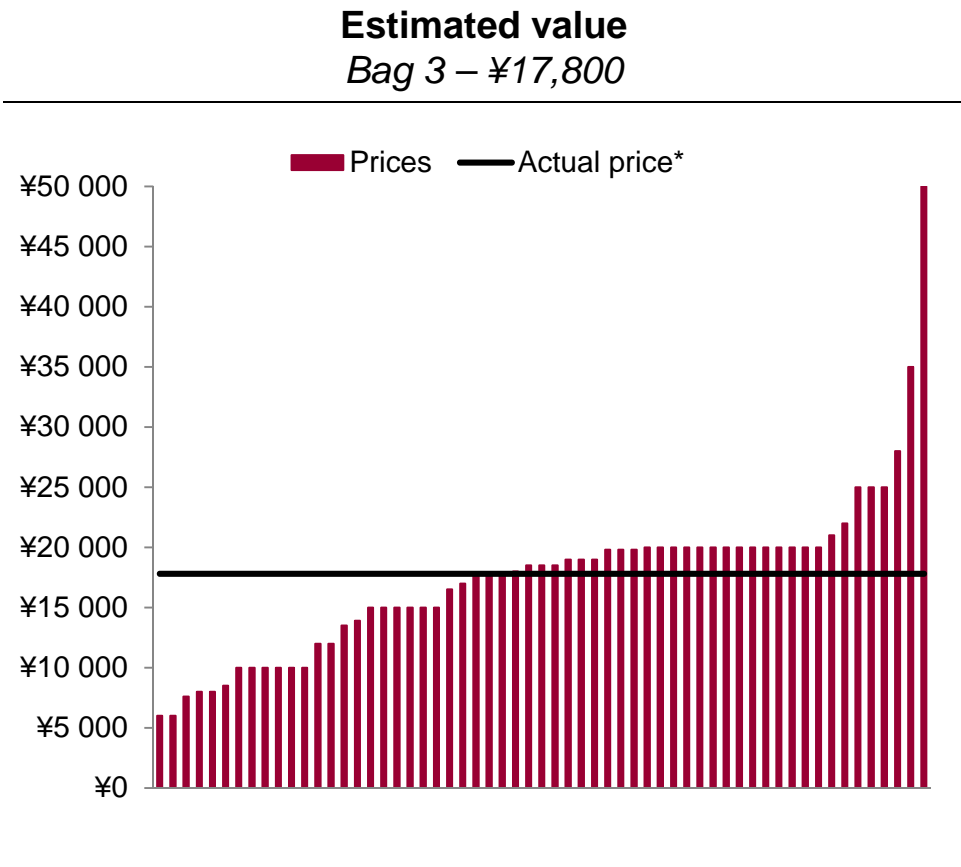
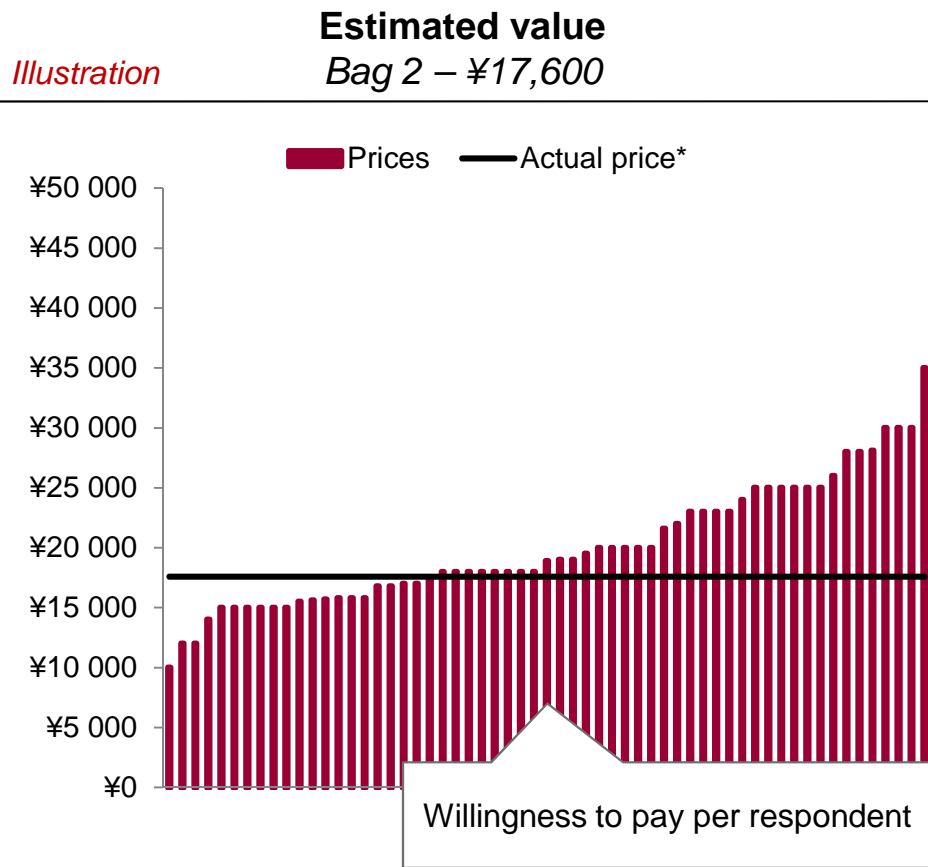
Despite higher Chinese prices, there is untapped willingness to pay for some products/categories.



Source: Simon-Kucher Survey, - 13 -
 Question: If the current price of Bag 1 is ¥ 11 000, what prices do you expect the following 2 products to have?
 * Actual price = price as of June 2013
 Note: €1 = ¥8

€ The price sensitivity of Chinese luxury buyers has changed

Precisely measuring price sensitivity supports price optimization.



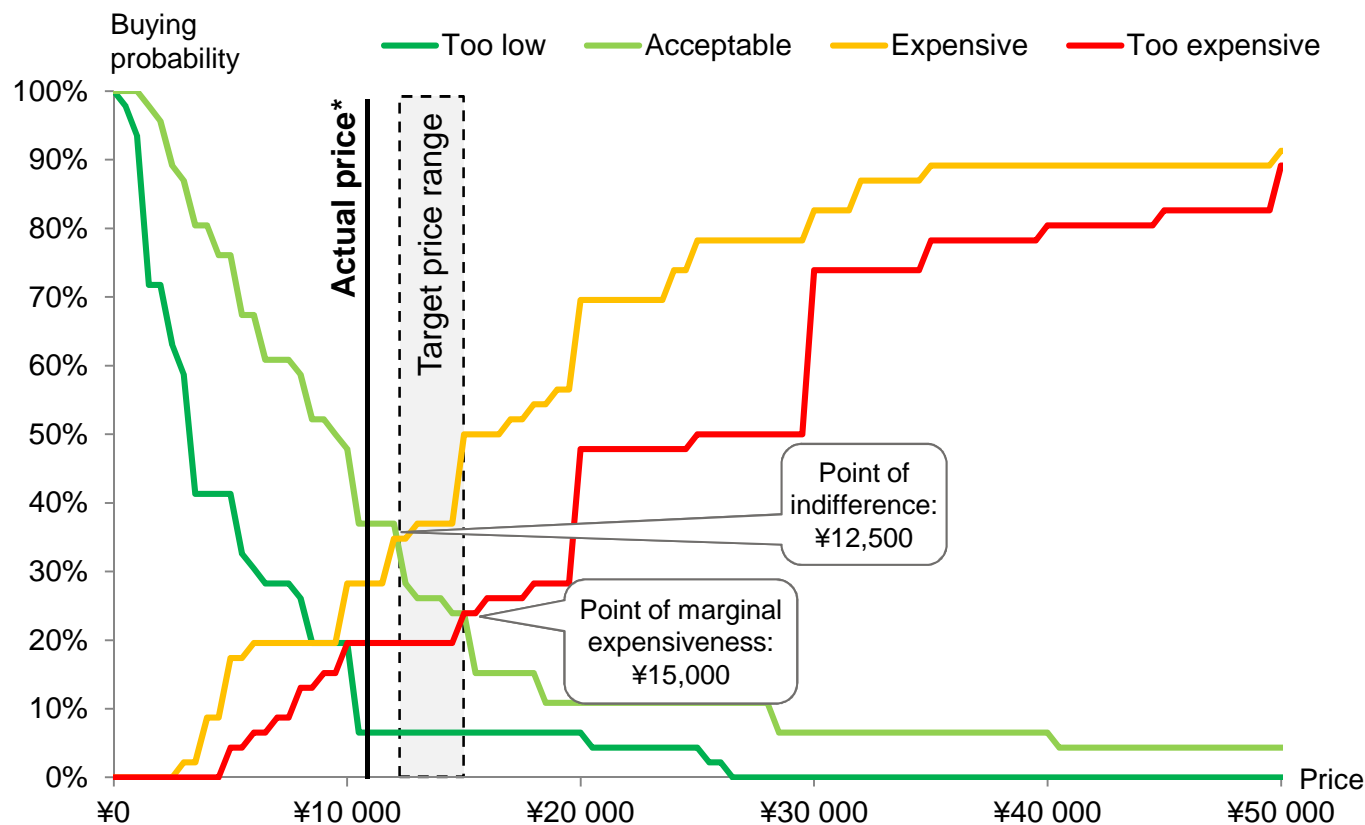
Source: Simon-Kucher Survey,
Question: If the current price of Bag 1 is ¥ 11 000, what prices do you expect the following 2 products to have?
* Actual price = price as of June 2013
Note: €1 = ¥8

€ The price sensitivity of Chinese luxury buyers has changed

To optimize the current price strategy, it is necessary to precisely measure the perception of the brand's value within customer segments.

Perceived Value – Customer segment 1
Bag 1 – ¥11 000

Comments



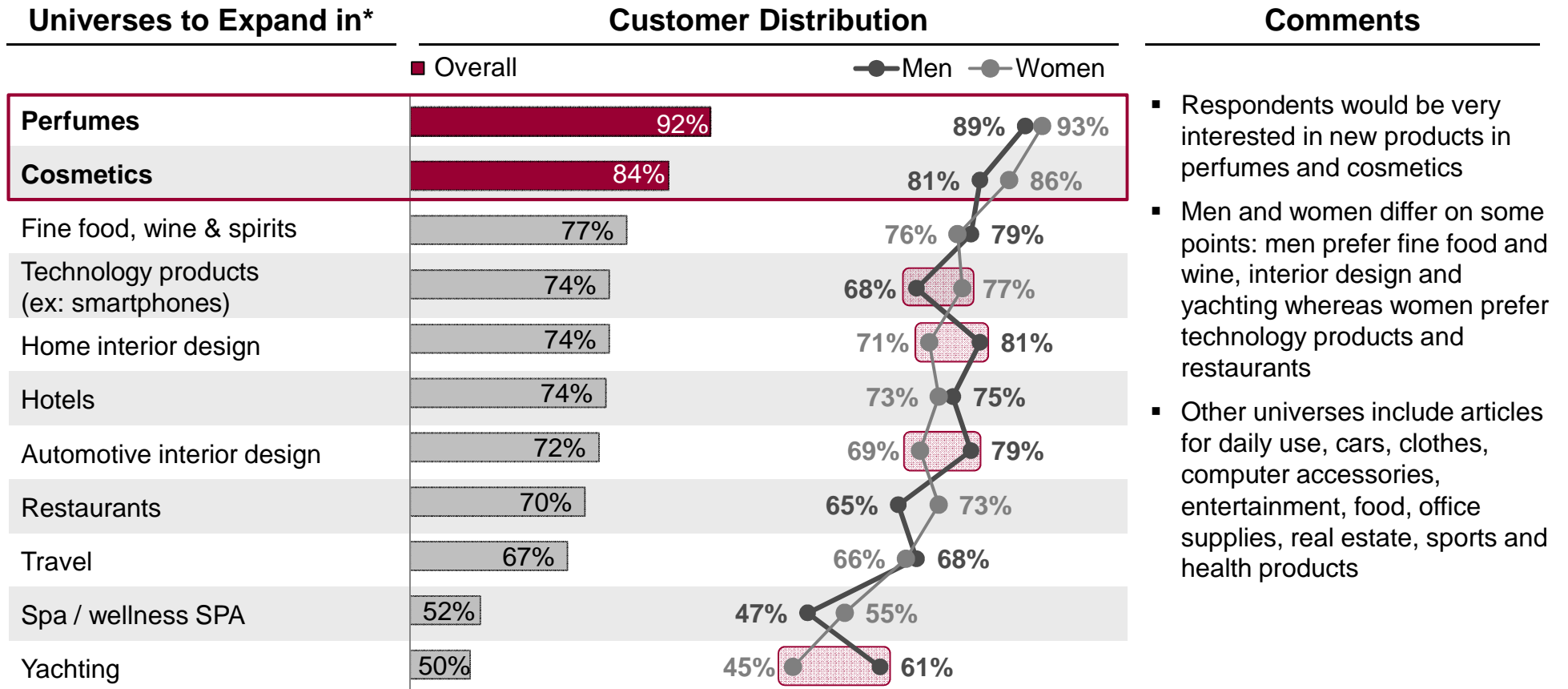
- Respondents are ready to pay between ¥12,500 and ¥15,000 to buy a bag currently sold at ¥11, 000
- There seems to be an untapped willingness to pay for some products in China

Source: Simon-Kucher Survey,
Question: Please consider the following product. What price would you consider to be Too Low? Acceptable? Expensive? Too expensive?
Note: €1 = ¥8



Chinese luxury buyers expect luxury brands to expand into new categories

Luxury goods buyers are very interested in perfumes and cosmetics. Women are also interested in technology products and men in home interior design and yachting.



Source: Simon-Kucher Survey, - 16 -
 Question: If your favorite luxury brand were to expand into the following universes, would you be interested?
 * Ranked by preference

Simon-Kucher & Partners: No. 1 in Pricing worldwide!

Unique positioning

Worldwide Strategy & Marketing Consultants

Clear Focus: Revenue-driven profit growth

Core Competency: Pricing & pricing processes

> 2,000 projects in the last three years

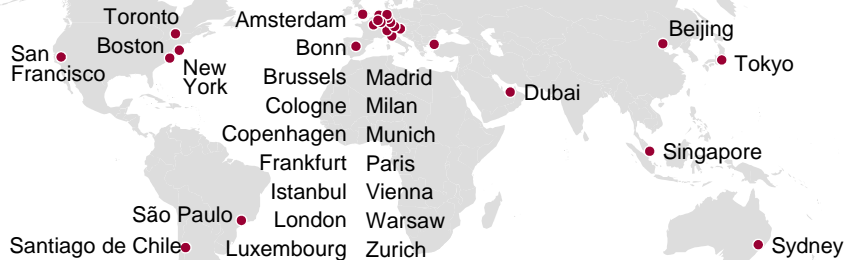


- Growth and competitive strategies
- Product portfolio (re-)design
- Pricing excellence
- Customer relationship and customer value management
- Sales strategies and sales channel optimization

Global presence

27 offices worldwide

Employees: 690



Revenue, 2012: €145m

Global No. 1 in Pricing

BusinessWeek

"World leader in giving advice to companies on how to price their products"

The Economist

"The world's leading pricing consultancy"

The Wall Street Journal

"Pricing strategy specialists"

Peter Drucker

"In pricing you offer something nobody else does"

Contact us



Martin Crépy

Partner
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- Martin Crépy is a **partner in the Luxury and Apparel competence center in France**
- He graduated from **Université Technologique de Compiègne (UTC)** and **Concordia University** in Canada
- Martin has conducted project assignments in all luxury segments: watches, PAP , jewelry, bags & luggage, cosmetics
- All those projects have a common ambition: **develop the profitability and pricing power of companies** though reinforced and differentiated **pricing strategies**

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Fan Oswald-Chen

Managing Director Greater China
Beijing office

- At Simon-Kucher & Partners, Fan specializes in the development and implementation of pricing, sales and marketing strategies in Greater China
- She holds a **Master's in Industrial Engineering** from Karlsruhe and also studied psychology at the University of Mannheim and Freiburg
- Fan's extensive project experience covers pricing strategies for new products, portfolio optimization, new business model development, and pricing processes, with a strong focus on **multinational firms looking to tap the Chinese market in the most profitable way**

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Appendix: Study sample

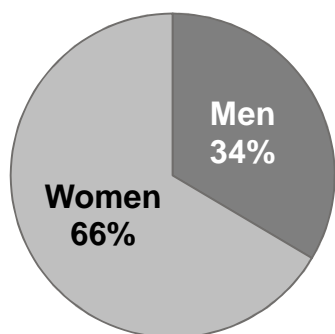
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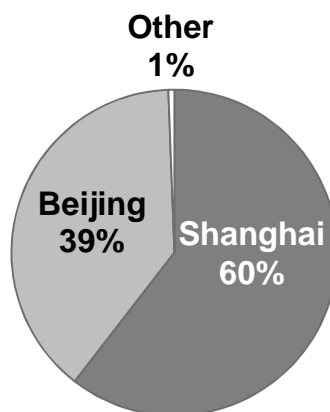
Set-up and methodology of the China Luxury Survey

The respondents are a representative sample of Chinese luxury goods buyers

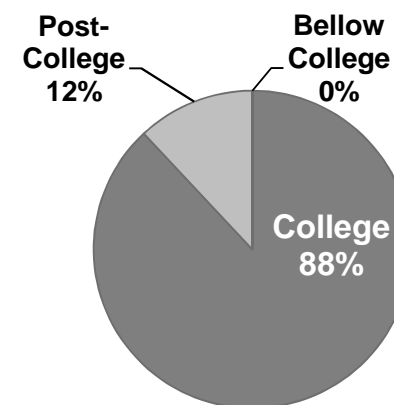
Gender distribution



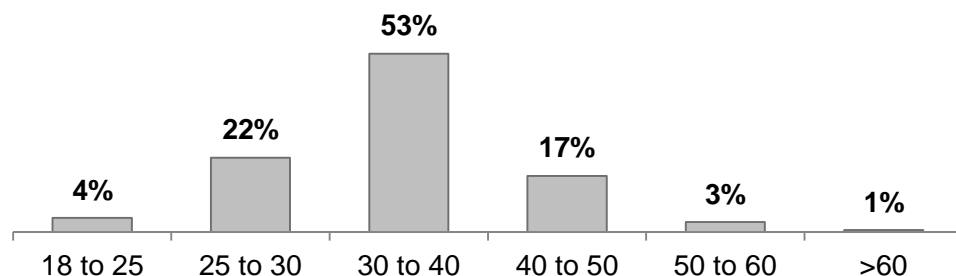
Geographic distribution



Education



Age distribution



Income distribution (¥ '000)

