THE BOSTON CONSULTING GROUP

China's Luxury Market in a Post-Land-Rush Era

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September 2009

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China continues to be an important market for global luxury-goods companies. Although not immune to the global economic crisis, the country has suffered far less than others, and economists are even revising upward their GDP growth estimates for the country to the high single digits for 2009. The continued health of China’s luxury market makes it an oasis of hope and possibility in a recession-battered world.

China is expected to become the world’s largest luxury market in the next five to seven years. Already, as wealth has spread from the nation’s large coastal cities to smaller cities in the north and west, luxury stores have begun to follow. In fact, the past few years could be characterized as a “land rush,” in which competing luxury brands have tried to establish themselves by capturing territory as fast as possible.

Although China’s luxury market will continue to grow, brands that have expanded rapidly will now need to think less about extending their footprint and more about improving store efficiency and optimizing their current network. This shift in focus will require a keener understanding of consumers’ attitudes about luxury goods in order to strengthen affiliation with the brand—both within China and in the countries where Chinese consumers travel. For brands with smaller footprints, continuing to grow might be important, but doing so wisely will be critical. Ultimately, all luxury companies will need to improve coordination between global and local offices, carefully assess the need for a physical presence in each of the cities in this market, determine how they might build a brand in cities where they lack a retail presence, and develop the tools necessary to win new customers at the point of sale.

To assist luxury companies as they begin experimenting with new approaches to their products and organizational processes, this White Paper summarizes The Boston Consulting Group’s most comprehensive study to date of China’s rapidly evolving luxury market. The insights we offer on these challenges are based on client work and proprietary data from interviews with senior managers of luxury companies in China and on 840 extensive exit interviews with Chinese consumers who were engaged in luxury shopping trips at the end of 2008. We also draw on BCG’s annual Consumer Sentiment Survey, conducted most recently from October 2008 through February 2009 by the Center for Consumer Insight (CCI), which provides world-class consumer-insight capabilities to the firm’s clients. Furthermore, the study taps a database on store expansion undertaken by 38 luxury brands through early 2009. The database also provides estimates on how the brands’ point-of-sale footprints will evolve; the projections are the result of direct calls to more than 1,000 points of sale around China. Finally, we also draw on BCG’s extensive experience in the luxury retail industry.

The Land Grab in Luxury Goods

For luxury purveyors, a big part of China’s allure is the rapid pace of its wealth accumulation. From our work with leading Chinese banks, we’ve determined that by the end of 2008, China boasted more than 460,000 high-net-worth households, each with more than RMB 7 million (about U.S.$1 million) in assets under management. This category is growing fast and is expected to include 750,000 households by the end of 2011. But it is not just the number of these households that is projected to increase—the amount of their wealth is too. We forecast that high-net-worth households in China will see their total assets under management roughly double from 2008 to 2011, rising from about RMB 12 trillion to more than RMB 23 trillion.

Although still small in relation to the total population of China, the nation’s high-net-worth population is larger than that of many affluent countries such as France and the United Kingdom. And the wealthy in China are spread over a much larger region than are the wealthy in other countries. Until recently, most of the wealth in China had been concentrated along the coast—with Guangdong, Shanghai, and Shandong provinces containing the highest number of wealthy households—and the current luxury point-of-sales network roughly mirrors that distribution. But as wealth has begun to spread throughout all city tiers and regions—with some of the most explosive growth occurring outside of Shanghai and Beijing—luxury stores have begun to follow. Therefore, it will be increasingly important for companies to understand how best to approach this dynamic market.

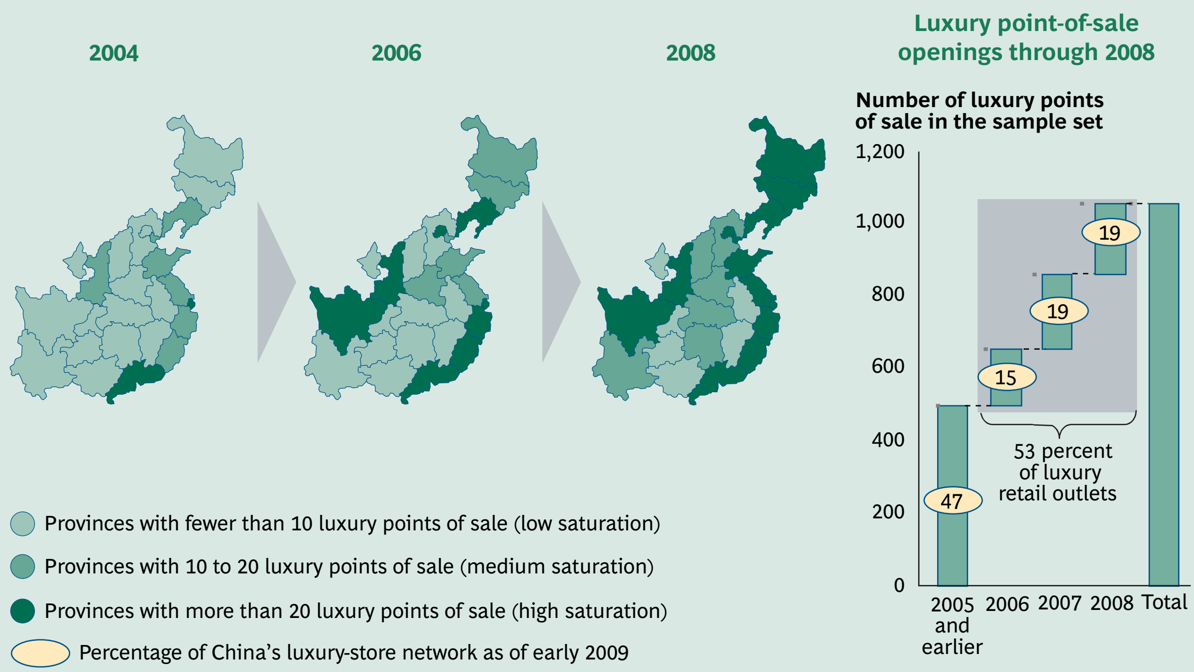
The competition to establish luxury stores in China has been remarkably intense. More than half—53 percent—of all point-of-sale locations for luxury goods in China have opened in just the past three years. (See Exhibit 1.) One striking aspect of the China market is the wide variation among individual brand strategies: some brands have grown rapidly, others more slowly. But a few patterns have emerged. (See Exhibit 2.) Many super-premium brands (Patek Philippe, for example) have focused mainly on the top three cities of Beijing, Guangzhou, and Shanghai, whereas premium-priced brands, such as Dunhill and Burberry, have established a considerable percentage of their point-of-sale locations in tier 2 and lower-tier cities.[1] And although the luxury market has historically concentrated in menswear and business gifts (sectors with deep penetration into China's lower-tier cities), we are starting to see a shift toward women's categories as more women enter the workforce and become more familiar with luxury brands.[2] (See Exhibit 3.)

Yet as often happens with rapid expansion, not all of the growth in the luxury market has been well planned. Some companies seem to have conducted very little market analysis. Only a few executives we spoke with had a clear picture of where their competitors were located and how consumers differed from one city to another. Some companies, encouraged to open new stores by luxury-mall developers (many of whom offered attractive terms and said, in effect, "if we build it, customers will come"), now find

1. BCG has segmented China's cities into six groups on the basis of their population and per capita disposable income. In order of decreasing size and income, they are the top three cities of Beijing, Guangzhou, and Shanghai, followed by the country's first-, second-, third-, fourth-, and fifth-tier cities.

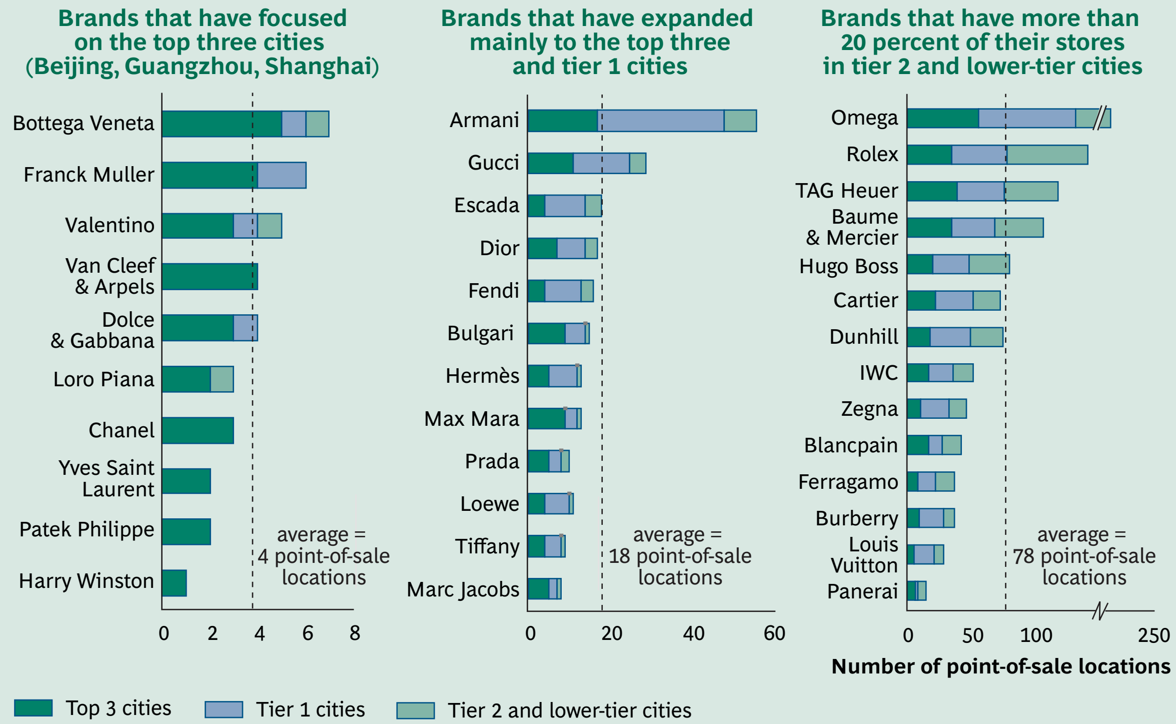
2. For more about women's purchasing behaviors, see *Women Want More,* a new book by BCG's Michael Silverstein and Kate Sayre. It was published this month by HarperCollins.

Exhibit 1. China's Luxury Outlets Have Expanded Rapidly in the Past Three Years



Sources: Annual reports; company Web sites; discussions with public relations departments of luxury brands; BCG's direct calls to 1,051 retail outlets; BCG analysis.

Exhibit 2. Some Luxury Brands Have Extended Their Footprint More Broadly Than Others



Sources: We determined the counts of point-of-sale locations by drawing on the company Web sites and annual reports of luxury brands, literature reviews, discussions with public relations departments of luxury brands, and BCG's direct calls to 1,051 retail outlets.
Note: Point-of-sale locations include both directly owned and operated stores and franchisees; numbers reflect China's luxury-store network as of mid-2009.

Exhibit 3. Watches and Menswear Brands Have Penetrated Most Deeply into Smaller Cities

Sources: Company Web sites of luxury brands; annual reports; literature searches; and BCG's direct calls to the retail outlets and public relations departments of luxury brands.
Note: Data reflect China's luxury-store network as of early 2009.
[1]In our study, the watch category includes Cartier jewelry.
[2]The watch category includes points of sale within multibrand retailers.

themselves with empty retail outlets. Others were caught up in an arms race for point-of-sale locations that led to saturation in some areas. Still others passed up promising cities only to find that competitors are now building successful brands there.

Today, Shanghai and Beijing have as many luxury point-of-sale locations per capita as New York and Chicago do. And some tier 2 cities, such as Harbin and Shenyang, are not far behind. (China's top cities have about the same number of luxury fashion and jewelry points of sale per capita as developed countries do—and they have a slightly higher concentration of retail outlets for luxury watches.) Although average disposable income in China is predicted to more than double by 2015, it will still remain one-third to one-sixth that of many international luxury hubs. This fact should give pause to companies that believe they have nothing to fear from a saturated luxury market in China. At the end of the day, store economics will be a critical success factor. Already, some executives at luxury companies are planning on closing underperforming stores and moving to better-targeted locations. One executive we spoke with said he would close or relocate 20 percent of his company's stores in order to concentrate on the most profitable ones and would open others in more promising areas.

Challenges for Luxury in New Markets

The fact that so many of China's luxury points of sale opened in the past three years has significant implications for market dynamics. Luxury goods are hard to introduce into new markets, especially into smaller cities, where experienced partners and distributors are difficult to find, and few sales people are trained to deliver the high levels of customer service that luxury sales require. Brand recognition also poses a challenge, with many Chinese consumers relatively unfamiliar with luxury brands.

As brands expand into lower-tier cities, some companies partner with franchisees, although established brands are doing this less often. Franchisees enable companies to penetrate new markets deeper and faster, and often with fewer financial resources, but many lack the high standards that luxury brands require. Consequently, as companies begin to feel more confident going it alone in China's market, they have been quick to reclaim their franchises when partners weren't showcasing their brands appropriately. One top luxury brand discovered that a franchisee was selling knockoff goods along with the company's authentic items, thereby diluting the brand image.

Even in cities where most brands have their own stores, managers bemoan the fact that qualified sales associates are difficult to find. They note that while sales associates in Europe typically consider luxury sales to be a respected career, their peers in China often see it as a temporary job. The lack of experience among sales associates and the significant gap between their incomes and the wealth of their customers make it particularly difficult to develop the close customer relationships that Western sales associates cultivate. Therefore, a key success factor in China will be the ability to attract, train, and retain qualified sales staff.

But the greatest challenge is consumers' lack of familiarity with luxury brands. When we asked luxury shoppers to name at least three brands for a particular luxury product, very few could name more than two—even when they were in the process of shopping for the product. Men were more likely to know luxury watch brands, and 77 percent could name at least one brand. By contrast, women, particularly those under age 25, were most familiar with luxury apparel brands. Still, only 3 percent of the women we surveyed could name more than four apparel brands, and 47 percent could name only one. Many consumers also misidentified midtier brands, such as Miss Sixty and G-Star, as top luxury brands.

This state of affairs isn't all bad, however, since it presents a tremendous opportunity for smaller and midsize brands to gain share among consumers new to luxury products. Still, a brand pioneer expanding into new cities must find the right mix of products for consumers who have lower incomes and less experience with luxury goods—and that mix may differ from the brand's strategy in other countries. Some brands operate like Louis Vuitton, which carries its entire line in only three stores in China and offers a more limited range in its other stores. Others operate like Hermès, which offers its full line in every boutique but limits the selection of products within each category. Still others simply carry fewer of their most expensive items in the smaller cities.

Although top brands have put considerable effort into nurturing a strong following, such loyalties are still quite fragile. In each of the product categories we asked about, more than 60 percent of survey participants said that they could find suitable substitutes for their favorite brands.

And when we compared the brands that consumers said they preferred with the brands they eventually purchased, we found significant mismatches. (See Exhibit 4.) In most cases, consumers defaulted to the most famous and so-called iconic brands when making their actual purchases.

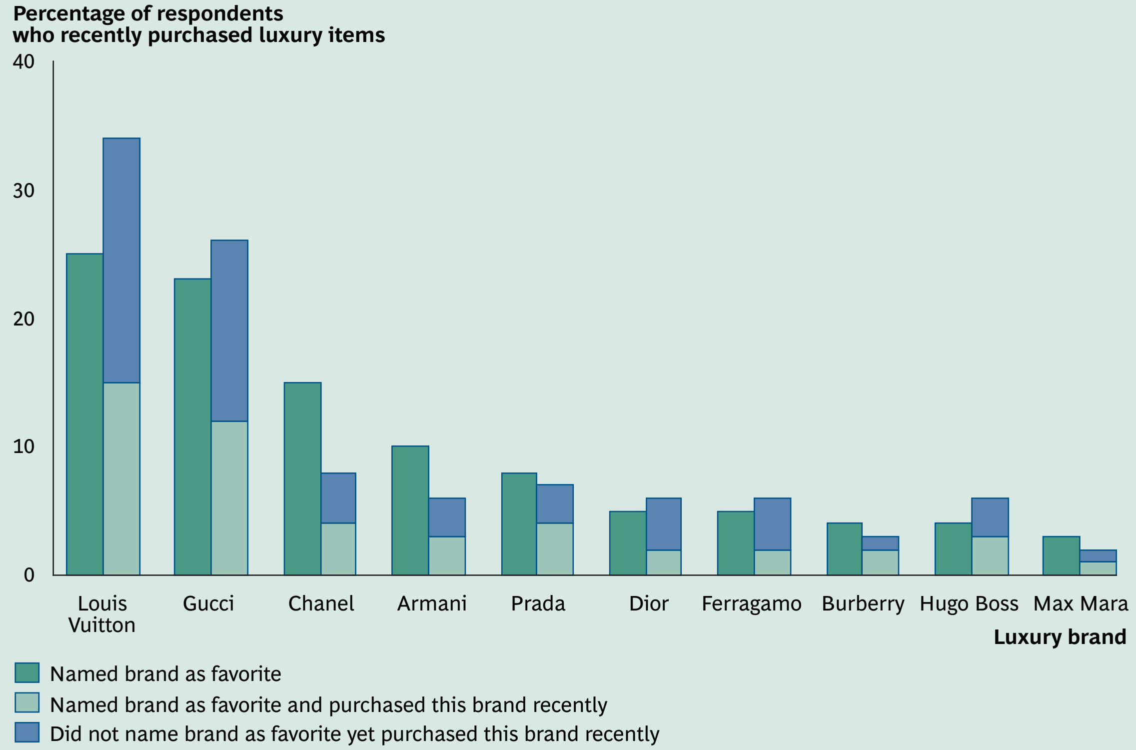
Our data indicate that some brands win a considerable percentage of their customers at the point of sale by converting uncommitted shoppers—or even competitors' customers. Such a tactic requires excellent sales skills, merchandise at the right price points, and compelling displays. Indeed nearly 30 percent of consumers told us that a window display had been responsible for their purchasing a brand that they hadn't been considering.

Excluding the watch category, as many as 25 percent of our survey participants' luxury purchases were made when the shopper had no brand or category in mind—and for an additional 20 percent of their purchases, participants said that they had in mind a category but no brand when they began shopping. These percentages are higher than in mature luxury markets, and they present significant opportunities to win new consumers at the point of sale.

Seasoned managers in China know to expect these challenges, but executives at global headquarters are often unaware of them and aren't always ready with support. That is why the communication and alignment of strategies between local and global offices are so crucial.

Once brand awareness grows in a particular market, then shares in that market are bound to shift. Therefore, laggards should not despair—and current leaders in China's luxury market should not take their positions for granted.

Exhibit 4. Consumers Often Did Not Purchase the Brand They Claimed to Prefer



Source: Exit interviews with shoppers in Shanghai, Beijing, Hong Kong, and Nanjing in October and November of 2008.
Note: These data reflect 627 responses.

Where to Go Next?

As China's luxury market moves into a new era, executives are taking a deep breath and considering the implications of luxury's deep expansion into China. For established and successful brands, the key question is how to sustain their lead. How should they make the best of their current network? Are there alternatives to opening new stores? How can they convert their competitors' customers at the point of sale? Which stores, if any, should they close? How can they leave a city without weakening the brand's image? For brands new to China, the most pressing question is whether it is too late to enter. What are the advantages and disadvantages of early entry into the market? Should they use franchises?

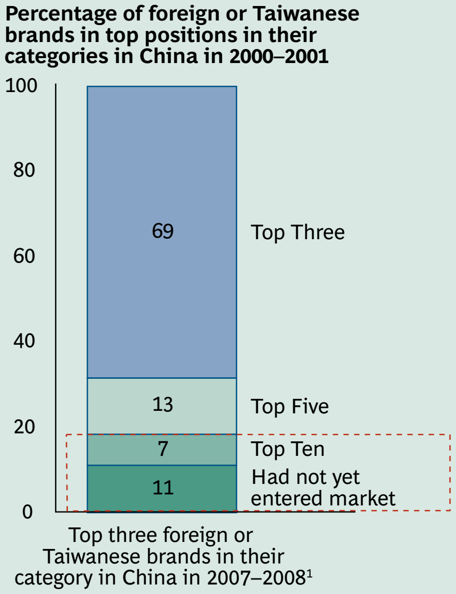
In the luxury category, early entry does seem to provide some benefits. One top fashion brand claims that its early success has created highly loyal customers who return to its stores an average of nine times per year. Louis Vuitton, one of the most highly recognized luxury brands in Beijing and Shanghai, opened its first point of sale in 1992. Still, early entry isn't necessarily the only path to success. Patek Philippe and Van Cleef & Arpels entered China as late as 2005 and have quickly become favored brands among luxury consumers in Beijing and Shanghai.

To provide a point of comparison, we examined 18 consumer-goods categories for which we had consistent market-share data for China over a number of years, and in which foreign or Taiwanese firms had held the number-one position in 2000–2001. In most cases, the early leaders kept their leadership position—in fact, 82 percent of the companies that achieved top positions early remained leaders. But such an outcome is not a certainty. Almost one-third of the foreign and Taiwanese brands that ranked among the top three in their categories in 2000–2001 had lower positions by 2007–2008, and one-fifth of them had fallen below the top five. (See Exhibit 5.)

For brands not yet in China, waiting may have its costs. One risk is rising competition: with luxury sales in the rest of the world either shrinking or growing more slowly than in China, many brands are counting on China as a stable source of growth during the downturn—and they are focusing on near-term momentum.

Exhibit 5. A Late Start Can Sometimes Be Overcome

Nearly one-fifth of the top three brands in 2007–2008 were not among the top five brands in 2000–2001



Sample: top three brands in 2007–2008, by brand share in category

Category	Top three brand (2007–2008)	Ranking[2] (2000–2001)	Ranking (2007–2008)
Two-in-one products	Clairol Herbal Essences	NA	2
Chocolate confectionery	Nestlé Wafer	6	2
Color cosmetics	L'Oréal Paris	8	3
Eye care	Bausch & Lomb	NA	3
	Moisten	NA	2
Eye make-up	Mary Kay	7	3
Fragrances	Mary Kay	NA	3
Hair care	Pantene Pro-V	7	3
Juice drinks (up to 24% juice)	Minute Maid	NA	1
Malt-based hot drinks	Fu Pai Lacovo	NA	3

Sources: Euromonitor; BCG analysis.
[1]We examined the top three brands for 18 categories, for a total of 54 brands.
[2]NA denotes not applicable; these brands were not in China in 2000–2001.

Companies that wait to enter also risk falling behind in consumer insight. Some executives believe that the biggest benefit that they derive from a brand network is a deeper understanding of the rapidly evolving Chinese consumer. This knowledge is not only valuable in driving sales in China's mainland but is also just as relevant in serving Chinese tourists, who already constitute the fourth-largest outbound-tourist market in the world.

Failing to establish a presence in China could mean that an organization will have less insight than its competitors about serving these tourists. Still, although a late start may put some brands at a disadvantage, it does not doom them to obscurity. It is true that, in the categories we examined, most of the brands that held the top three positions in their product category in 2007–2008 also held them back in 2000–2001. However, 18 percent of the recent leaders either weren't in China in 2000–2001 or weren't among the top five brands at that time.

Imperatives for a New Luxury Market

The luxury market is approaching saturation in some Chinese cities. Many stores in shopping malls sit empty. And—with the exception of a few top brands—many luxury firms are experiencing declining financial performance. But there is still room for luxury brands to grow their point-of-sale networks—the stakes will simply be higher and the effort a little more challenging than it has been. We've identified three critical imperatives for success in China's future luxury market. The first focuses on capturing the attention of Chinese travelers, the second on conducting quantitative analysis of the market, and the third on acquiring tools for improving productivity and competing in the market.

Imperative 1: Market to Chinese consumers traveling outside mainland China. Japanese tourists have made a significant impact on the global luxury market, and Chinese tourists will likely do the same. Nearly 70 percent of the luxury shoppers we spoke with in Beijing and Shanghai preferred to shop outside of mainland China. Furthermore, mainland consumers already account for more than half of sales in cities such as Hong Kong. Indeed we found that many Chinese tourists spend more on luxury items on a single trip to Hong Kong than they do in an entire year in their home city. And it is not just price that drives purchases outside the mainland. Consumers also cite authenticity, a wider selection, and better service as reasons for shopping away from home.

Effective marketing in mainland cities can drive as many consumers to stores in Hong Kong or Macao as it does to stores on the mainland. Similarly, a significant percentage of the marketing in Hong Kong should target mainland tourists in order to create brand affiliation and increase revenues back home as well. Marketing budgets and customer relationship management (CRM) programs for Chinese tourists throughout the world should be planned jointly to avoid misallocation. Companies with global loyalty programs that target the emerging Chinese tourist and provide after-sales services for goods purchased overseas will have an advantage over their competitors.

To be sure, we're not necessarily suggesting a single layer of management for Hong Kong, Macao, and Mainland China, or that one market must report to another. But executives should be concerned if managers focus on independent country presentations or if budgets fail to account for integration across markets. Managers should also align incentives so that high-performing executives benefit from growth in all the markets in Greater China.

China's global consumers call for global training of staff. An advantage of having a presence in China is that insights on Chinese consumers' habits, preferences, and biases can be shared in regularly held training sessions for managers and sales associates around the world. In fact, some leading luxury companies are considering sending some sales associates from mainland China to work in Hong Kong, London, and New York shops as part of their employee-training programs.

Imperative 2: Conduct rigorous quantitative analysis to determine the appropriate footprint for the brand. The land rush may be slowing, but most brands will continue to extend their footprint in China—albeit much more carefully and possibly with some retrenchment in certain areas. Chinese executives are now stepping back and taking a measured look at their expansion plans over the next five years. Every brand in China should have a plan ready to be implemented for the top 20 to 40 cities; plans may include establishing points of sale, focusing on marketing, or delaying action for the next few years. The first step to developing such a plan is gathering for each city a strong fact base that includes the following:

- Data on current demographics and the expected evolution of wealth.
- The number of points of sale that each key competitor owns, the business model it has selected, and the customers that each point of sale attracts. (Interestingly, very few luxury executives we spoke with knew how their network compared with that of their competitors.)
- The retail environment and available partners.
- Other key factors that will drive consumption of luxury products, such as proximity to other luxury hubs and the presence of major commerce centers and tourist attractions.

BCG has developed extensive databases that capture the demographic and competitive profiles of the top 200 to 300 cities in China. We have concluded that many luxury brands have expanded without sufficient planning and analysis. That might have been acceptable when these brands were trying to move quickly during the early land rush, but now that rich data are available, companies must use this information.

Going forward, CEOs will expect their executives in China to clearly articulate not only the precise size of the brand's footprint there but also the rationale behind it. We believe that once executives conduct a thorough analysis, few brands will continue with their store network as it currently exists.

Data gathering also helps to prioritize and allocate marketing resources in cities without a retail outlet. All brands should have clear goals for these cities, whether as potential locations for adding a point of sale, for building brand loyalty without a physical presence, or for passing over for now. A city-by-city plan will give local and global leadership a clear view of brand economics: how revenues, costs, and capital will evolve in the market and how much store efficiency must improve to reach aggregate revenue goals. Such a plan will also highlight the need for future support services, such as staffing and training (very important in a high-turnover environment) as well as production and supply chain needs.

Finally, global and regional offices must identify what organizational changes they will need to support the country operations. For instance, should marketing resources be moved closer to the market? Are regional offices needed to support the expanding footprint? At what point (if at all) should companies separate the operation in China from the rest of the Asian organization?

Imperative 3: Acquire the tools necessary to win the competition at the point of sale. Luxury brands differ tremendously in both their ability to attract consumers to the point of sale and their success at closing a sale. To win customers at the point of sale, a sales associate should know what qualities consumers in different segments look for in luxury products and should be able to distinguish the brand's features from those of its competitors. Analyses of customer preferences and purchases, such as those shown in Exhibit 4, can help a company focus on achieving the following three key goals for improving sales:

- Increase the number of loyal customers
- Close sales with more of those loyal customers
- Close sales with a higher percentage of impulse shoppers (including competitors' customers)

Most brands fall short on at least one of these goals. Thus the first and most important step is using a quick diagnostic to determine which of the three dimensions offers the greatest potential. A more precise understanding of the competitive environment can help ensure that limited resources are put into the right areas.

There are several ways to acquire the data necessary for this diagnosis. In more mature markets, it is often possible to gather data from ongoing industry databases. But these ready-made resources are not yet available in China's luxury market, so brands are forced to create their own market intelligence. That is actually a good thing, because brands that create their own (more realistic) picture of the market are likely to capture a significant competitive advantage.

Gathering information does not have to be labor intensive. A series of well-designed exit interviews or quantitative surveys will bring together sufficient data. For instance, a company might seek to determine the number of consumers who preferred various brands, the percentage of consumers who planned to shop for a brand before they started their shopping trips, the percentage of consumers who actually shopped in each point of sale, and the final purchase decisions they made. It might also design surveys to capture competitive dynamics among brands. It is important to understand which brands a company’s customers consider to be part of their competitive set, since their perception isn’t always aligned with the global perspective. Most brands can easily perform such analyses on a regular basis.

A diagnosis will provide an early warning on emerging threats. For example, we helped a market leader understand that despite its strong position, the company was losing ground to an emerging competitor in head-to-head comparisons. This insight allowed the client to focus on the specific reasons that consumers preferred its competitor’s brand and to roll out products and selling tools to address these issues directly, thereby preventing further customer loss.

Once brands have focused on the goal that will have the most impact, we recommend that they also develop a clear strategy for all three of the goals; we address each in turn below.

Increase the number of loyal customers. As China’s luxury market evolves, brand-building tools, such as CRM, loyalty programs, and special marketing events, will become more important—even for strong brands, since customers will still be experimenting. Tools should include systems to maintain relationships with China’s traveling consumers, whether they are shopping in Wuhan, Hong Kong, or Paris. Top brands are already using their loyalty databases to encourage Chinese customers to invite friends to events and engage more frequently with the brands. Because luxury in China is a very personal business, live events will be a critical element of success. Although that gives an edge to brands that have a broad point-of-sale system, all brands need to leverage events—even if it means staging those events in cities where the brands do not have a point of sale (an event is less expensive than opening a new point of sale, after all) or inviting valued consumers to events in nearby cities where they travel.

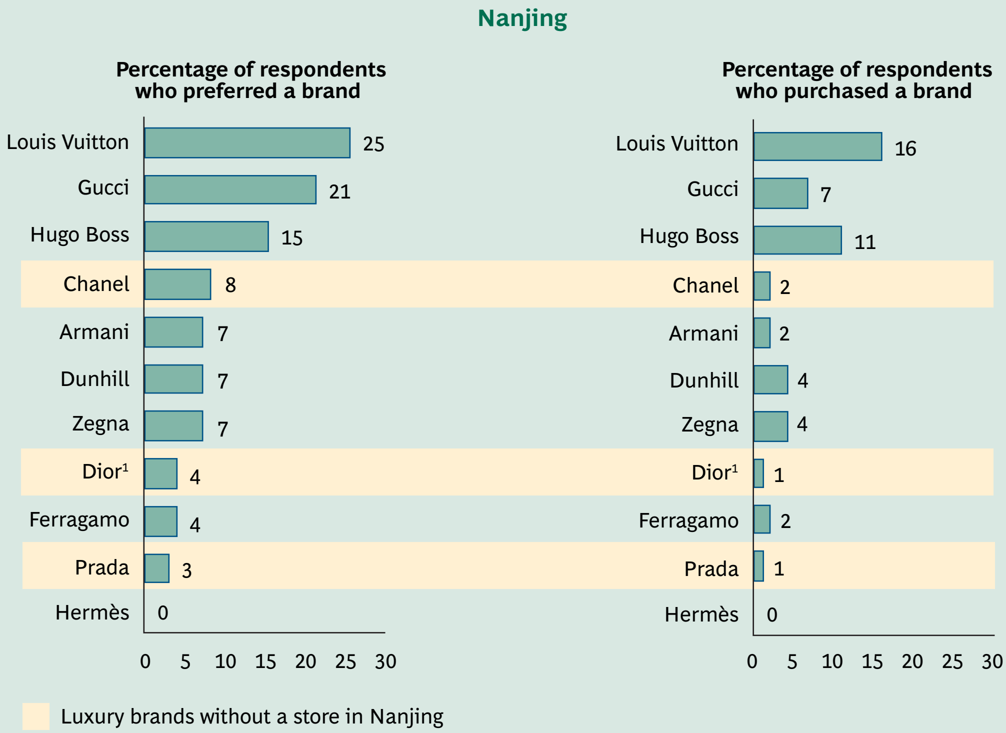
Companies must also learn to be more creative in building their brands. Traditional avenues for strengthening a luxury brand, such as glossy ads in fashion magazines, are often less useful in inland China, where circulation is low and consumers are less sophisticated about luxury products. That’s why many companies use a network of point-of-sale boutiques to strengthen brand identification.

In fact, the managing director of one major luxury-watch group told us that if he had the choice to cut advertising dramatically or eliminate a number of his points of sale, he would do without the advertising. Retail stores, he said, have been the most effective way to build brand awareness and capture new customers. That opinion was echoed by many other executives, who also told us that they considered stores and window displays to be their best marketing tools.

Still, our research suggests that even without a point-of-sale location in a city, a brand can develop a strong and loyal following there. When we surveyed consumers in Nanjing, for example, Prada and Dior ranked among their top-ten favored brands, even though neither brand had a fashion boutique within the city. But there are tradeoffs. Preference for these brands was still lower in Nanjing than in cities where those brands had a store presence. (See Exhibit 6.) Furthermore, our survey showed that followers of a brand who live in cities without a point of sale for the preferred brand are more likely to defect to a competitor’s brand than are consumers in cities with a point of sale for the brand they follow.

Brands that have chosen more modest footprints can compensate with a number of actions. For instance, even if they have no stores in a city, they can create brand affiliation by placing points of sale in Hong Kong, Macao, airports, and top mainland cities to attract frequent travelers. In fact, many brands that are reporting declining sales to Hong Kong natives are continuing to see strong sales to travelers from mainland China. Companies can also target nationally publicized events, as Ferragamo did with its 2008 exhibit in Shanghai’s People’s Square. Or they can hire famous Chinese actors, as Omega has done to

Exhibit 6. In Smaller Cities Lacking a Store Presence, Consumers Can Be More Difficult to Attract and Win



Source: Exit interviews with shoppers in Shanghai, Beijing, Hong Kong, and Nanjing in October and November of 2008.
Note: We interviewed 99 respondents from Nanjing.
[1]Dior did not have a store in Nanjing when we conducted our study, but it added one in 2009.

support its industry-leading point-of-sale network. Other companies use public relations firms to strategically place articles alongside ads in local dailies.

Marketers of luxury goods in China must also realize that the country continues to be very diverse—with numerous cultures and submarkets that make it even less homogenous than the European Union or the United States. They therefore need to choose the media most appropriate for a city's tier, regional tastes, seasonal weather, and the presence of competitors.

Close sales with a higher number of loyal customers. In our research, we found that brands differed considerably in their ability to convert loyal customers who enter a store. Much of the disparity can be attributed to different levels of sales force effectiveness. Losing a sale to a loyal customer not only affects that day's revenues but also can hurt long-term profitability if that customer is won over by a competitor.

Salespeople should be trained to recognize loyal customers and treat them accordingly. In China's rapidly developing market, it is also critical to ensure that frequent feedback loops are established to understand why sales are lost. For instance, are there specific competitors that are winning over loyal customers? Are loyal customers walking away because a product isn't available? Are there gaps in the product portfolio? Are the range of prices and styles right for Chinese consumers? Revisiting these questions regularly with current customer data will prove tremendously valuable. It will also allow global headquarters to better understand any local differences that might require unique solutions.

Close sales with a higher percentage of impulse shoppers. A focus on capturing impulse shoppers is not an appropriate strategy for every brand, but for the right brand, it can significantly boost sales. Our research showed that impulse purchases account for a substantial percentage of sales for brands such as Louis Vuitton and Gucci. Attracting impulse purchasers requires tactical decisions about location, design of window displays, and product availability. To do it well, a company must train sales staff to guide the customer to the most appropriate products within his or her price range. Salespeople should also be able to help customers select gifts for business associates and friends. The strategy may justify investing in key locations with highly visible window displays. Finally, because most consumers rely on sales associates to explain a brand's value proposition, the staff should be trained to compare their brand's features favorably with those of competing brands.

The land rush in China's luxury-goods market is coming to an end, forcing global luxury companies to turn in their running shoes for their thinking caps. Competition will become much more intense as companies find it necessary to make smarter decisions in their pursuit of brand leadership. The following questions will help executives of global luxury-goods companies in China—those that have already expanded as well as those that are considering their next move—to develop winning strategies:

- Do we have sufficient data on consumers, competitors, and the retail environment to develop a plan for the top 20 to 40 cities in China?
- Do we know which tradeoffs, if any, we are willing to make—across our product-portfolio, category-coverage, and partner choices—in pursuing markets in smaller cities?
- Do the executives at global headquarters understand and agree with our business-model choices? Do they trust our assessment of the Chinese market? Will they support any changes that might be needed in the business model for China?
- Do we market to the global Chinese consumer and share our insights with other areas of the company?
- How can we strengthen our brand in markets where we do not have a presence?
- Do we know in which areas we are winning and losing, and do we have clear strategies for both situations?

Like consumers everywhere else, the Chinese are becoming a little more cautious in their spending, but they still aspire to luxury brands. In a BCG survey of 2,550 Chinese consumers conducted in early 2009, 26 percent of participants told us that they planned to spend more on luxury in 2009 than they did in 2008. The bottom line is that Chinese consumers present a tremendous opportunity for innovative luxury companies that have well-positioned brands both inside and outside mainland China.

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The authors would like to acknowledge Bo Lu, Gillian Moore, and Lauren White for their contributions to the research, Sally Seymour for helping to write this paper, and Mary DeVience and Angela DiBattista for contributions to its editing, design, and production.

For Further Reading

BCG has published many recent reports on doing business in China, including the following:

Foreign or Local Brands in China? Rationalism Trumps Nationalism
A Focus by The Boston Consulting Group, June 2008

Creating People Advantage: How to Address HR Challenges Worldwide Through 2015
A report by The Boston Consulting Group, April 2008

Aligning Talent for Global Advantage:
How Top Companies Develop the Right Talent in the Right Places
A Focus by The Boston Consulting Group, September 2007

Winning the Hearts and Minds of China's Consumers
A Focus by The Boston Consulting Group, June 2007