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A Study on the Closing of Luxury Stores in China
--From the overseas purchasing and e-commerce's point of view

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Abstract

At present, with the increasing proportion of Chinese in the global luxury consumption, Chinese have become the largest luxury consumption group in the world. Chinese have strong purchasing power, but the growth in the number of luxury stores is negative. This report aims to analyze the reason why luxury brands in China are closing their brick-and-mortar stores.

The main result states that there are two aspects which have impact on the physical store: overseas purchase and e-commerce purchase.

Compared to the physical store, overseas purchase has a certain price advantage. For the increasingly widespread situation of counterfeit luxury goods, the goods purchased overseas are more likely to be guaranteed. In terms of the speed of product update, overseas purchasing can ensure that the latest product information can be obtained at the first time, and the choice of products is not limited to domestic products on the market. Because of these advantages, the overseas purchase of luxury goods had a great impact and squeezed the sales of the physical store, resulting in the decline in sales and the closure of many stores.

Faced with a huge impact on physical store sales from overseas purchasing, most luxury goods companies have reduced the number of bricks-and-mortar stores and turned to e-commerce channels. With the increasing popularity of the Internet, more and more people get luxury information and buy goods from the Internet, e-commerce market has a large potential. At the same time, ecommerce channels reduce the cost of running physical stores, better adapt to the needs of new consumers, reduce geographical constraints, access more data through the Internet, and making products exposure more through social media. As a result, luxury companies can not only close bricks-and-mortar stores to reduce costs, but also increase turnover through e-commerce channels.

The research method used in this report is desktop research. We collected relevant information and data from papers, questionnaires and Internet. Based on the model of

4P marketing theory, we compares the two marketing modes of overseas purchase and traditional physical stores from the four aspects of product, price, place and promotion, analyzes why it can affect the brick-and-mortar store. We employed two cases of what luxury brands do when they close their stores in China.

Keywords:

Luxury goods, physical store, overseas purchase, e-commerce, China

CHAPTER 1. INTRODUCTION

1.1 Research background

In recent years, the global luxury consumption and trade has maintained a steady growth trend, the Chinese factor plays a crucial role. As China becomes more open, its economy continues to grow. With the size of the middle and wealthy classes continues to expand, spending power and consumption levels rise, Chinese consumption of luxury goods is increasing year by year.

However, as the largest buyer in the global luxury market and the main growing point of the luxury market, China is in an extremely disadvantageous position in the development of the domestic market and international trade of luxury goods. On the one hand, the luxury goods market in mainland China has not been fully developed, so that luxury consumption does not bring the stores enough income, but they are mostly happened in the way of overseas consumption. In the period of rapid growth of luxury consumption in China (2011-2015), the scale of luxury goods market in mainland China did not keep up with the same growth, and it even shrank a little in 2014 and 2015. In 2015, 83% of luxury brands in China reported the closures. Even more, a research (Bernstein, 2017) showed that China has recorded the most number of closures of luxury physical stores between July 2016 and July 2017.

With the steady and sustainable development of Chinese economy, the continuous improvement of people's living standard and the accumulation of social wealth, luxury goods consumption supposed to be growing. But we're not seeing a corresponding growth in numbers of luxury stores. The main reason for this will be analyzed in this report.

1.2 Objectives of the study

At present, with the increasing proportion of Chinese in the global luxury consumption, Chinese have become the largest luxury consumption group in the world. Chinese have strong purchasing power, but the growth of physical stores is negative. This report aims to analyze the reason why luxury brands in China are closing their physical stores. For the purpose of getting understanding on this, we collected relevant information and data from journals and internet, then compare those information and data to dig out the answer.

CHAPTER 2. INTRODUCTION OF LUXURY GOODS

2.1 Luxury definition

Luxury is a kind of consumer goods, but different from general consumer goods, it is a more high-end differentiated goods, and has the characteristics of "expensive", "low stock", "fine production" and so on. It is a very luxurious enjoyment. Luxury goods is a kind of consumer goods which is beyond the range of the people's survival and development needs. We usually think that the purpose of luxury goods is to show off wealth, or to show off the personal taste of life. It has always been a symbol of a small number of people to highlight the luxury lifestyle. However, with the development of the society, new things are constantly emerging. The gap between the rich and the poor is gradually narrowing, the number of people with the ability to buy luxury goods is gradually increasing, and the role of luxury goods in highlighting their status is gradually weakening. The reason people buy luxury goods is not only to own and show off, but also to enjoy luxury itself to bring the perfect experience and meet the personalized needs. It mainly more to enhance confidence, not to own wealth.

Therefore, the simple definition of luxury goods, tradable goods, has not been comprehensive enough. In fact, to some extent, luxury has now been able to determine a certain social hierarchy. For example, luxury goods that are specially tailored or rarely produced may not be bought by ordinary people with money, they need to be matched by a high social status. In other words, people who can own it must be the highest class in society, and when a person can own private jets, luxury yachts, luxury villas, and other expensive luxury items that can be purchased with money, we can judge that he belongs to the rich class in this society. Therefore, luxury goods itself does not have social status, but it can show the owner's own value, wealth ability and identity status. The times are developing, the society is progressing, the traditional ideas are slowly changing. In the past, only people with a high status and a lot of

wealth would buy luxury goods in pursuit of the highest quality of life. But now, even if an ordinary office worker, he can also work hard to buy luxury goods. Everyone has the right to control his own property and has the right to enjoy a better life.

2.2 Category of luxury goods

Like other goods, luxury goods include a wide range of products, covering every sector of our lives, including vehicles such as cars and yachts, jewelry, clothing, bags, wine and other tangible goods, such as luxury travel packages, high-end club members and other intangible enjoyment of luxury goods. Generally speaking they are divided into the following five categories of products.



Figure 1: Category of luxury goods

2.2.1 Accessories

Luxury accessories include leather goods, leather shoes, silk products and so on. This

kind of luxury goods, due to the diversity of styles, high quality, strong durability and other characteristics, can attract the attention of old customers. In addition, it is also a good choice for new customers who are getting familiar with it.

2.2.2 Cosmetics

This category includes cosmetics, perfumes and personal care products. Beauty luxury goods should be regarded as the most popular luxury goods category. I believe that all consumers who have purchased luxury goods have more or less purchased cosmetics or perfumes from luxury brands, especially large groups of women. To those old luxury companies such as Chanel, Dior and Estée Lauder, beauty category is a large part of the turnover.

2.2.3 Watches and jewelry

Jewelry and watches are often classified into the same category, and because of their "precious", "rare" and "eternal" characteristics, these products have always been regarded as precious in luxury goods. Some of the high-end businessmen, in particular, often buy expensive watches as a sign of identity and taste in business negotiations or in daily communication. For example, a Vacheron Constantin watch costs more or less 100,000 dollars. Even if the price of a Patek Philippe watch is as high as tens of millions of dollars, only a very few people can afford. As the advertisement of Patek Philippe says, "No one can really own it. It's just for the next generation. "

2.2.4 Apparel and bags

This category is the most prevalent in the luxury category. Now, a lot of famous brands of luxury goods manufacturers are willing to pass the company's design idea to the public through the large-scale clothing show as well as the famous person's endorsement. However, the impact of apparel and bag products on the sales and profits of luxury goods companies is declining. Due to the intensification of competition, lack of unique innovation, affected by the season and other objective factors, clothing luggage luxury goods in recent years has not achieved better results.

2.2.5 Special categories

In addition to the above four categories of luxury goods, there is a growing market and a growing range of fields for luxury goods, such as luxury cars like Maybach and Ferrari, private jets, luxury yachts, and even customized luxury travel. These all belong to the category of luxury, its important characteristic is to pay a high price at the same time, can enjoy a unique, comfortable, exquisite experience. Compared with other luxury goods buyers, the number of people who buy such luxury goods is very rare. In this article, the main analysis does not consider the special categories very much.

2.3 Product characteristics of luxury goods

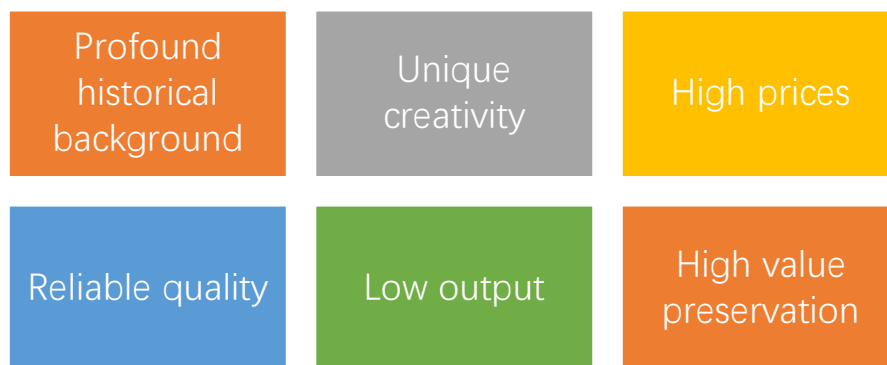


Figure 2: Product characteristics of luxury goods

Luxury goods can be loved mainly because luxury goods are different from ordinary consumer goods and have their own unique characteristics, which can be summed up as follows:

2.3.1 Profound historical background

As a luxury product, each luxury brand has a long history, some of them have more than a hundred years of founding time. They have world-renowned status, proud brand awareness and rich management experience. A luxury brand conveys not only the exquisite and luxurious appearance, but also the cultural concept of its own company through its products. Every detail of these luxury goods contains the history and essence of the brand. They try to do better from both internal meaning and external quality. This is the secret of the luxury brand standing for a hundred years.

2.3.2 Unique creativity

If luxury goods want to stand out from the crowd, it is necessary to form a unique style, which means not only needs high-end quality, but also to attract consumers with a unique style. Most luxury brands have unique logo and style, which is difficult to imitate. In addition, the style of these products varies with the outside world. Fashion trends, seasonal changes, they will always keep pace with the times, to meet the public's demand. This is a unique creative ability. With this ability, their products a strong sense of recognition. This kind of characteristic can keep attracting a group of loyal customers.

2.3.3 High prices

Since it is a luxury, it must have a price different from that of ordinary goods. Usually the price of luxury goods will be ten times higher than the average price of the same category of ordinary goods, or even a hundred times. This is one of the biggest characteristics of luxury goods. For example: Hermès' bag price is above 20,000 yuan, and usually does not carry on the discount and the promotion, but the ordinary luggage product also is about 600 yuan, and often has the discount activity. Therefore, luxury goods have the characteristics of "precious", "rare". Only by paying a high price can

you get the best product as the best return. As a result, expensive is always a symbol of luxury.

2.3.4 Reliable quality

To meet the demands of the market, luxury goods need to launch "extreme" products, which need not only high prices, but also awesome quality matched with the price. This includes not only have advanced technology and rich experience in processing and production, but also strive for perfection and meticulous attention when selecting raw materials. Only in this way can the customer have more desire to buy. Therefore, reliable quality is an essential feature to luxury goods.

2.3.5 Low output

Throughout the major luxury companies, most of its marketing strategy is to maintain limited coverage of the market. This means they don't provide sufficient goods for consumers to buy, on the contrary, the marketing channel will always remain in an unsaturated state. Sometimes when we buy luxury goods, we find that the style we want is out of stock because of the low output or it is a limited edition.

Unlike general goods, some luxury goods are not produced in large quantities, mainly because of some factors in production. For example, the raw material selection is following a high standard, the process production link is complex, the product molding cycle is long, and so on. More importantly, this is what luxury companies do to tie the customer. After all, in the current consumption concept, the rare thing is expensive. The high price will be a barrier for some people, but it will also attract people with higher spending power to meet the pride. Unlike general goods, some of them are not in large quantities.

2.3.6 High value preservation

In our daily life, when we used a commodity for a period of time, no matter the

protection of the commodity itself is good or bad, there is almost no possibility of re-trading. Even for the automobile, which can be reused. If the ordinary brand of cars come into the secondary market, the price is also very low.

But for some luxury goods, when used for a period of time, the value of goods can still be very high. When some limited edition or antique version of luxury goods re-traded, the price can be even higher than the original price. For example, in the market for second-hand vehicles, a second-hand Maserati can still sell for an average of US \$100000. The price is still nearly 80% of the price of the original car, but Ford, which is also used in the same situation, perhaps the price is half or less of the original car's price. Besides, like some vintage watches with a long history, they often sell for higher prices in the secondhand market or the auction market. So, because of the high value of luxury goods, we can see second-hand stores in various countries and regions. Although the prices have been lower than the original price, most of the goods in these second-hand stores can still be sold at a higher price than the price of a common commodity of the same kind.

CHAPTER 3. MARKET ANALYSIS

3.1 The declining physical store

Since 2015, the market structure of the luxury industry in China has changed, while consumer shopping behavior has changed, less and less people will purchase luxury goods in shopping malls.

According to Kaiyun Group's fourth-quarter 2016 earnings report, Gucci's revenue rose 21% and Yves main Laurent also achieved more than 20% growth for the sixth consecutive year. Salvatore Ferragamo also posted a 13% year-on-year increase in sales in the fourth quarter of fiscal year 2016 in mainland China. And in the first half of 2017, the Savigny Luxury index rose by more than 20%. However, while the market is warming up, luxury brands are still tightening their policy.

Number of luxury brands opening and closing in China in 2016					
Brand	Open	Closure	Brand	Open	Closure
Louis Vuitton	1	5	Versace	2	0
Burberry	3	4	Givenchy	1	0
Gucci	3	3	Armani	1	0
Dior	4	1	Hermes	1	0
Tiffany	1	1	Fendi	1	0

Cartier	2	1	Coach	2	0
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(Source: 100EC.cn)

Figure 3: Number of luxury brands opening and closing in China in 2016

3.2 Analysis of supply and demand of luxury goods



Figure 4: The growth rate of luxury goods Market in mainland China

The characteristic of Chinese consumers is that they are having more and more purchasing power to luxury goods, but it also exposes the defects of the existing Chinese luxury goods market. Foreign luxury brands are more favored by Chinese consumers than domestic brands, and the strong purchasing power of Chinese consumers ultimately flows to overseas luxury goods or imported luxury goods.

3.2.1 Supply analysis

In recent years in China, the domestic demand for luxury goods has been rising year by year, because of the existence of overseas purchase and e-commerce channel, the supply of luxury goods can also be met in time. In order to survive in the Chinese market, international famous luxury brands have carry out more channels in China. Because of the rapid development of urbanization in recent years, the demand for luxury goods is also rising.

At the same time, in order to cooperate with the trend of e-commerce marketing, luxury brands began to establish their own marketing platform on the network. Besides, the expansion of new luxury stores has also affected by the state's crackdown on corruption.

In recent years, the leaders of most physical stores have pointed out that since the increasingly mature Chinese market will inevitably lead to a decline in profit margins, the development strategy of the Chinese market should be adjusted to break the rules and carry out new sales methods.

3.2.2 Demand analysis

Some mature countries have the existence of luxury goods in all aspects of life. Luxury goods are defined as high quality goods with sufficient cultural connotation and cultural heritage. Luxury consumption includes fine crafts and custom tourism or high-level concerts. But the idea in China is different. Only the purchase of expensive goods is defined as luxury consumption, such as French Chanel perfume or wine such as Lafite, as well as accessories of famous brands, personal goods are the nature of these luxury goods. Many proofs show that the initial stage of consumption growth is the current stage of China's development. In the experience of market development and economic progress, the pursuit of quality of life and experience of a variety of patterns of life consumption will replace the current pursuit of personal goods

characteristics. At present, a very small number of rich people will also pursue high quality living expenses, which is only a small share of the market.

China is in the early stages of consumption growth and will continue to stay in this period for a long time. Therefore, luxury watch and expensive leather bags are still the most needed luxury goods in China at the moment. When the economy develops to a new level, the increasingly perfect luxury market and the continuous improvement of the market regulatory system, consumption growth will come in the medium term. According to the data analysis, the proportion of 1.4 billion people who have the financial means to buy luxury goods in China is 13%, the proportion of those who often buy such luxury goods is 20%. According to the data, the proportion of people with capital conditions to buy luxury goods will reach 30% by 2020, and there is no doubt that the Chinese market for luxury goods consumption in the future will have a good prospect.

The rise in demand for luxury goods can be attributed to the middle class with a high consumption power. The economic situation is getting better and better, and the number of people in the middle class is increasing, which shows that the consumption ability of people is gradually improving. The consumption power of the middle class in the global consumer market is as high as 38%. In addition, China's middle class currently has 80 million families, which contribute 22% of the total luxury consumption(Goldman Sachs). There are many young people among the consumers, which is the characteristic of luxury consumers in China, so the potential of the market is huge, and the future development still has a strong momentum. Although China has an anti-corruption and inflation market situation, but this still does not reduce the development of luxury consumption in China.

3.3 Consumer Analysis of luxury goods

3.3.1 The situation in Western countries

Hundreds of years ago, the luxury goods market in developed countries began to develop. So far, the market has developed very maturely, and consumers are also very rational and relaxed in the face of the luxury goods market. Luxury goods are consumed by middle-aged or elderly people who have accumulated a certain amount of wealth. They are high-income earners, spending only a fraction of their income on luxury goods. Therefore, they do not want to show their social status or show off by consuming luxury goods. On the contrary, they will pay more attention to the history and cultural connotation of luxury goods. In developed countries, luxury goods are consumed by middle-aged or elderly people who have accumulated a certain amount of wealth.

3.3.2 The young generation in China

In China, however, the main consumer force has become the wealth of the young generation, their age concentrated in their thirties. The way they acquire wealth is not through their own labor and accumulation, but by inheriting the wealth of their parents. In China, luxury consumption is not limited to first-tier cities, many second-tier cities consumption power should not be underestimated.

Consumers of the younger generation have gradually become the main force in luxury consumption. They prefer to buy luxury goods through new channels. They are greatly influenced by western consumption concepts and are accustomed to pursuing high quality goods and have the awareness of consuming ahead of time. It has brought lasting and stable consumption demand for China luxury goods. In terms of buying preferences, Chinese consumers are attracted to brand clothes that can be exposed and consumable luxury goods. Nowadays, there are many unreasonable phenomena of luxury consumption in Chinese market, such as early consumption, mass supply, younger age of consumption and so on.

3.3.3 The consumer categories in China

China's luxury spending is concentrated in the middle class and the rich class. One type of them is a white-collar with a fixed income from work, while the other type is

a truly wealthy class that succeeds in business. They also have obvious differences in their attitudes towards luxury goods. The middle class often has the super psychology to the luxury goods, the purpose of buying the luxury goods is often not to pursue the history and its cultural connotation of the luxury goods itself, they often dump their all in order to buy a luxury goods, exhausting their savings. The rich class pays more attention to the consumption of luxury goods, pays more attention to the pursuit of individuation.

In more detail, Chinese luxury consumers are divided into four categories:

1. The first category is the buyers of middle-class families, who spend about a fifth of their personal income on luxury purchases.
2. The second category is consumers, represented by successful business people, who contribute about 20% of the total consumption of luxury goods.
3. White-collar workers who have a passion for luxury consumption. They enjoy the purchasing of luxury goods. They tend to be fashion enthusiasts, accounting for about 40% of their total income each year.
4. There are also high-income earners in second-to-third-tier cities, who spend about half of the total on luxury goods. In China, the pursuit of quality consumption in developed areas, but in less developed areas, people also generally stay in the acquisition of ordinary products.

3.3.4 Consumers are getting mature and rational

Consumers are becoming more and more mature and rational. The development of the market is constantly maturing, and the people's living standard has also improved with the development of the market. People have begun to reduce their consumption for vanity. Price is not the core factor that will dominate consumer behavior in the future, and the pursuit of performance-to-price ratio. The mode of comparison is the consumer trend of the future. Now it is gradually forming that purchasing luxury goods according to one's own preferences is the development characteristic of first-

tier cities. The core of development has begun to transform into a comprehensive strategy for brand awareness and quality, price and after-sale, etc. They are changing the mindset of pursuing only expensive brands.

Chinese consumers are happy to switched to buying luxury goods abroad, and Chinese consumers have bought far more goods abroad than they do at home. Shopping has gradually become an indispensable part of the outbound travel of Chinese consumers, among which leather goods, cosmetics, high grade clothing and so on are especially favored by Chinese consumers. Europe and Hong Kong have also become regions where Chinese consumers focus on luxury goods. Considering China's tax rate still high, more Chinese are expected to choose a cheaper way to purchase luxury goods. This behavior will directly impact on China's luxury consumption market.

CHAPTER 4. LUXURY GOODS PURCHASE OVERSEAS

4.1 Definition of overseas purchasing of luxury goods

Compared with other countries, luxury goods in China have some characteristics such as high price and some of the latest styles are not on the market in China. At this time, there were many agents who used their own channels to buy luxury goods for their customers abroad, delivered the goods to the customers through international logistics or manual transportation, from which they collected certain service charges for the purchase of goods on their behalf. But the overall cost is still much lower than the domestic price, which is called overseas buying.

Overseas luxury shopping is based on e-commerce platform, mainly based on the form of C2C .

Another form of C2C overseas purchasing is that some people collect information about popular commodities abroad and publish the information through some websites for consumers to choose from. After a consumer orders, the buyer buys directly and delivers it to the customer either by mail or by direct carrying. Because of the rapid development of the communications industry, many people use mobile phone software and third party social platforms to purchase overseas, the process has become easier.

4.2 The background of overseas purchase of luxury goods in China

In recent years, many people will feel that in developed countries such as Europe, the United States, Japan and other large shopping malls or duty-free airports and other places, the largest number of people are in the luxury stores. In many cases, more than half of these crowds are Chinese, and as a result, most stores in various countries have special Chinese-language shopping guides. Luxury goods have become a barometer of the economy. With the rapid development of the Chinese economy, the people's

money is getting more and more, and the desire to compare with each other has gradually become apparent after not satisfying the simple basic life. Luxury is the best indicator. In China, although the luxury market is only a short period of more than 20 years, but based on the huge population and rapid economic growth, China's luxury market is huge, and the development is extremely rapid. For many people, after all, wearing Hermès, Cartier and Chanel should be their dream, and that's the standard for people with money.

Even though the Chinese economy has greatly improved, most people still find it expensive in the face of the domestic pricing of luxury goods. After all, at a time when the Internet and the news media are so developed, the selling prices of luxury goods at home and abroad are very transparent, and huge price differentials do make buyers abandon direct purchases at home. Instead, the rational choice is to buy more expensive luxury goods abroad. In 2011-2016, the overseas consumption of luxury goods in China is much higher than that in China, and the consumption abroad is increasing year by year.

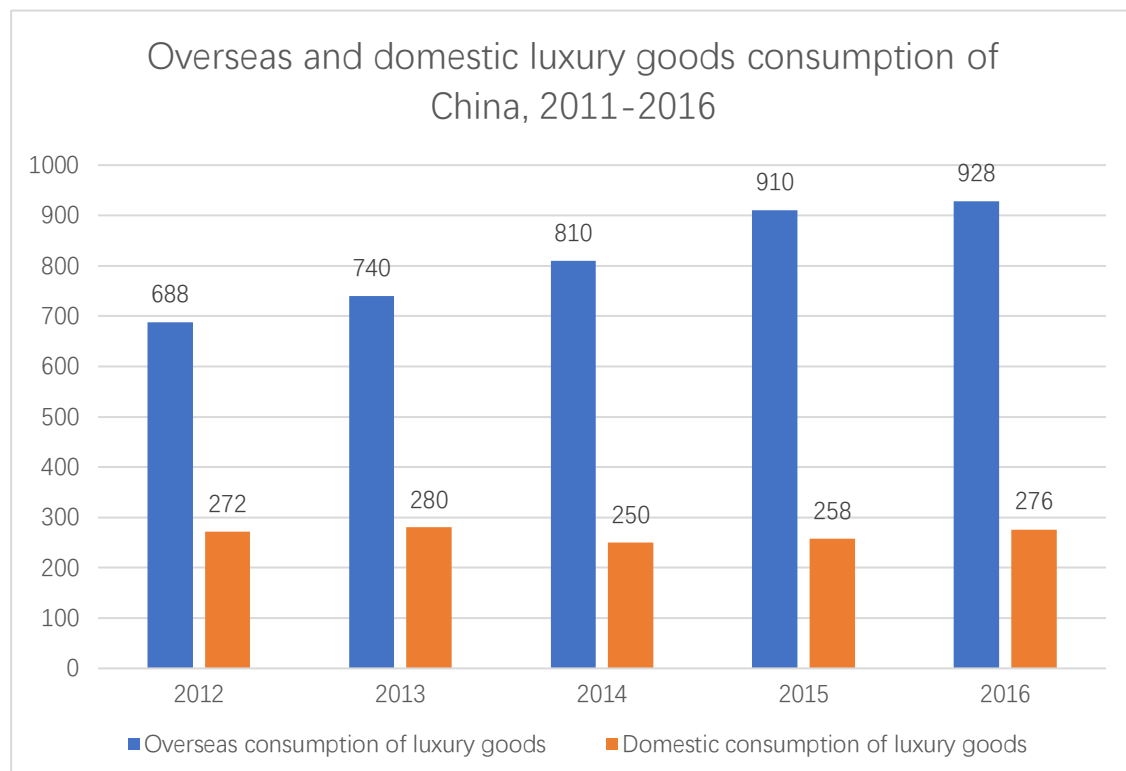
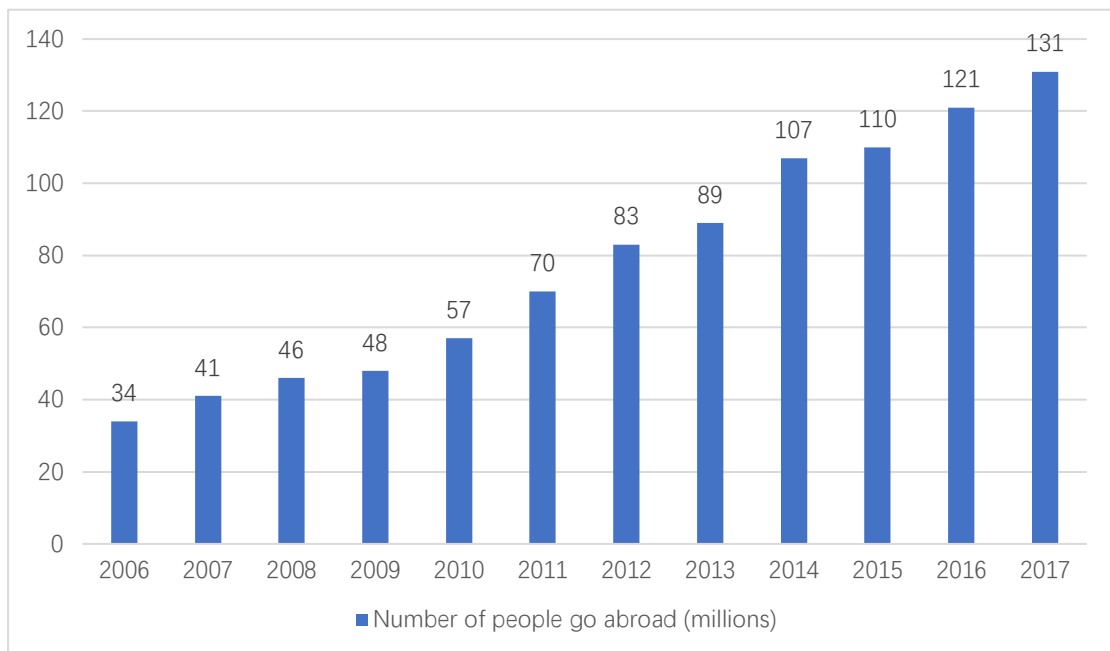


Figure 5: Overseas and domestic luxury goods consumption of China, 2011-2016

Nowadays, the living standard of Chinese is getting higher and higher. There are many people traveling abroad and visiting relatives. From 2006 to 2017, the number of people leaving China has increased nearly fourfold. So when there are friends or relatives leaving the country, they often hope that they can bring back a few luxury bags, in fact, this is because the domestic luxury goods prices are far higher than overseas. But the number of times relatives and friends leave the country is limited, and the cost of leaving the country is higher. So this style of luxury shopping overseas has gradually become a popular way of Chinese people.



(Source: Fortune Character Institute: 2016 China luxury goods report)

Figure 6: Number of people go abroad

In China, international famous luxury brands will face high tariffs and various intermediate channels of price increases, leading to the entry of luxury brands far higher than overseas pricing. This provides a wealth of market resources for overseas

purchases. According to Bain monitoring data, Chinese consumers bought 31% of the world's luxury goods in 2017, making them the world's largest contributor to luxury goods, and huge price differentials remain the most attractive factor for buyers. The global luxury sales market chart (figure 3.4) shows that although China is the country with the highest purchasing power of luxury goods in the world, it has sold only 7% at home, far lower than in the United States and Europe. In addition, due to the global economic downturn, especially in the aftermath of the financial crisis, the renminbi exchange rate has been rising, which provides greater benefits for Chinese consumers to buy luxury goods abroad, and also promotes the development of overseas shopping.

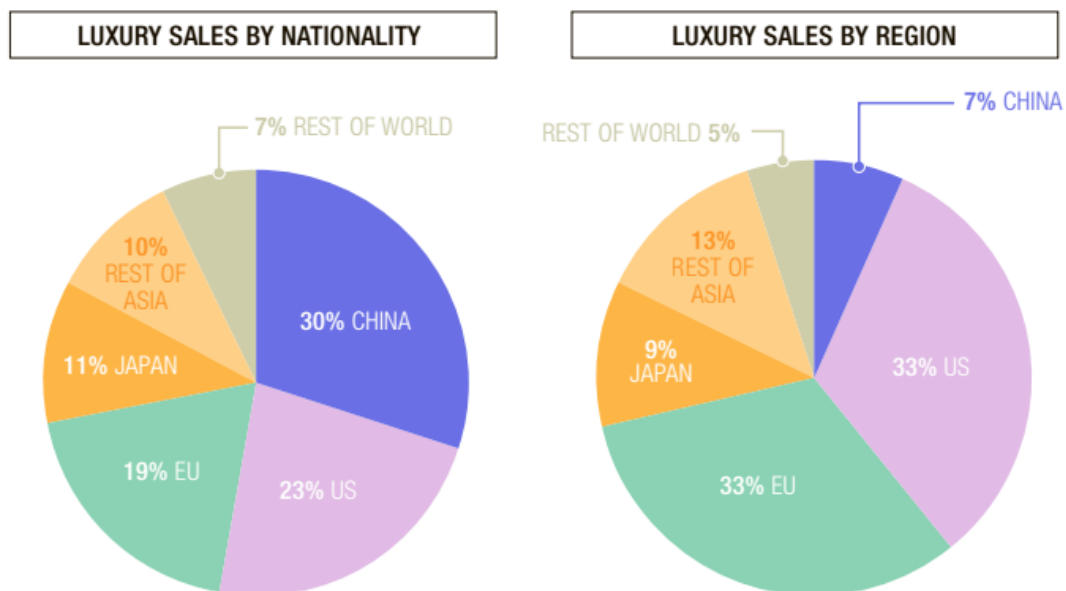


Figure 7: Luxury sales by nationality and by region

4.3 Advantages of luxury goods purchased overseas

With Chinese consumers are becoming more and more mature, the reason why they choose to purchase overseas when they buy luxury goods is clear: it can bring great benefits to consumers. The reason contains the following aspects:

4.3.1 Price advantage

First of all, price is the most attractive place to buy luxury goods. Everyone wants to

buy an attractive product, but if customers cannot afford its price, then the result is only to give up. Therefore, compared with other luxury purchase models, the biggest advantage of overseas purchasing is the advantage of price. For luxury goods, luxury companies have a strong right to price goods, and under the influence of objective factors, the price of luxury goods in China is indeed much higher than that outside China, there will be a big price difference. Therefore, through overseas purchasing, Chinese consumers can buy the desired goods at a price lower than the domestic price without leaving the country.

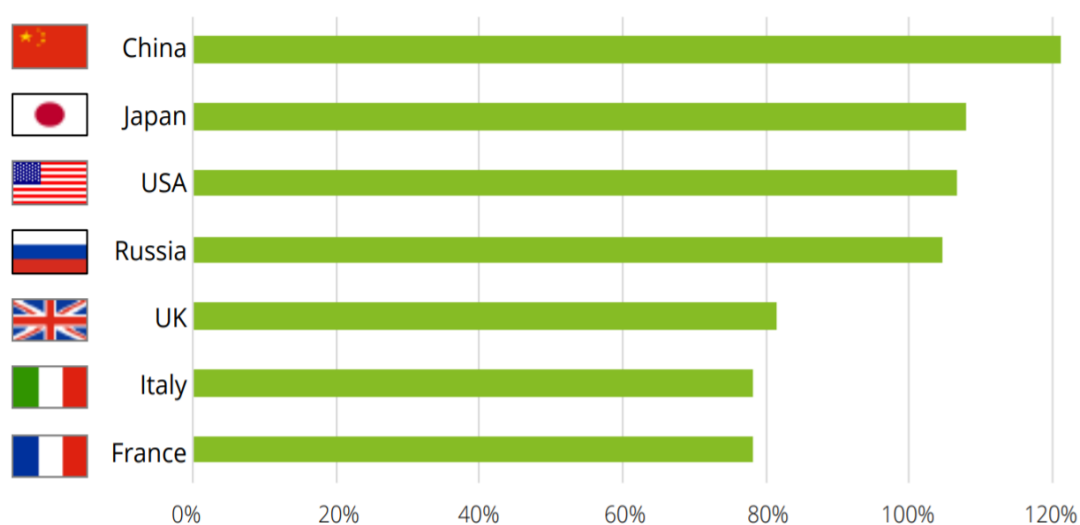


Figure 8: The price difference between China and other countries

4.3.2 Quality assurance

For luxury goods, counterfeiting is the biggest enemy that affects its sales. Every country in the world is full of various kinds of luxury goods imitation, especially in the mainland China, the technology of imitation is even higher enough to make the counterfeit product look like a authentic one. Luxury stores are expensive, and many people buy them at domestic discount stores or luxury boutiques, where luxury items are sometimes mixed with higher-quality copies. This is an important factor affecting the luxury goods market. And luxury goods overseas purchase, generally adopt two ways, one by relatives and friends or foreign individual buyers directly from overseas

stores, the other is through the website to purchase. Personal purchasing is often purchased from overseas luxury stores, and e-commerce platform has a greater degree of honesty and after-sales protection, so the purchase of goods also has a higher loyalty.

4.3.3 Diversity of goods

In fact, for many consumers, they choose to buy overseas because a lot of favorite products are not listed in China, so overseas purchase is very important.

Overseas purchases can highly centralize information about goods. Product seen in luxury stores often have limitations due to seasonal and geographical constraints, while overseas purchases are made via the Internet, which can integrate most of the luxury goods resources. It is presented to consumers in the form of pictures or videos, so that the types of goods obtained for consumers are enriched.

4.3.4 Wide coverage

The premise of buying luxury goods is to be able to access luxury goods, whether visually or directly. Although physical shops are the main marketing channel for luxury goods companies, the physical shops of luxury goods are often set up in areas with better economic development and excellent location. Especially in the mainland of China, many luxury goods companies will set up direct stores in first and second tier cities, and the geographical location of these stores are also in the core of the city. At the same time, limited by the cost of opening stores and considering the comprehensive benefit output, luxury stores cannot be set up unlimitedly. It can be seen that most of the physical shops of these top luxury brands are concentrated in Shanghai, Beijing, Shenzhen and other first and second tier cities, and the number of stores is limited. This limits some people's access to luxury goods. And overseas shopping is information sharing over the Internet, with the global network coverage is getting higher and higher, whether you're in a busy city or in a small town, as long as you want to buy luxury goods, you can buy them quickly and easily through the Internet and overseas purchasing.

4.4 Consumers for overseas purchase of luxury goods in China.

As a new way of shopping experience, overseas purchasing is very dependent on the Internet and e-commerce, so the initial audience of overseas purchasing is some white-collar workers with certain economic ability. Most of these people have higher taste of life and the desire to buy luxury goods, but their economic ability is not enough to spend in physical shop, so overseas purchasing has become the best choice for these people to buy luxury goods. However, in recent years, due to the continuous expansion of the overseas purchase market, the people who buy luxury goods are becoming more and more diverse and younger. Some students and housewives have also become one of the consumers. They have plenty of time and financial ability, especially for a large group of students. With the development of society, this group of young people are increasingly advocating the concept of "enjoy life". High-end cosmetics and clothing became the commodities they chased. They were familiar with the Internet and quickly accepted overseas purchasing.

4.5 Analysis on 4P Marketing Strategy of overseas purchase and physical shop

Overseas purchase and physical shop are the two most concerned shopping channels in the luxury goods market in China. 4P marketing theory is used to analyze and compare the two marketing models from four aspects: product, price, place and promotion.

4.5.1 Product strategy

Physical shop: lack of popular goods, slow updated

Overseas purchase: variety of goods, more information

The marketing model of physical shop in China's mainland market has been improved, and the number of direct stores established by various luxury goods companies has also reached a certain scale. However, because the vast majority of luxury brands are foreign companies, many of their products are also sold in the country of origin or elsewhere, and many popular products are not on the market in China. Some of the top luxury goods issue limited edition products, which are typically sold in Europe and the US, leaving Chinese consumers with the ability and desire to buy them to buy abroad. In addition, because most of the assembly lines for luxury goods are overseas, physical shop products are not being updated fast enough.

However, by buying luxury goods overseas, customers can keep pace with foreign countries. Most overseas websites will publish information on products. They will integrate the styles and types of products sold in various countries and regions for consumers to choose from. They can also ask if there is sufficient supply, price space, and so on, through the channel of the purchasing agent, and clearly know when to arrive and how to deliver. Compared with physical shopkeepers, overseas purchasing agents need to have strong commodity description ability. After all, Internet-based marketing model cannot intuitively contact goods. It relies more on text expression, and the communication with customers to promote products. This requires buyer to have a very deep understanding of luxury brand, style and so on. They have to show really good product and display them in all directions, thus they can grasp the needs of customers, seize business opportunities.

4.5.2 Price strategy

Physical shop: high price, less discount

Overseas purchase: low price, sometimes has discount

In China's luxury goods market, brands are selling at much higher prices than abroad, which has been a source of dissatisfaction for Chinese consumers. Most of the major luxury goods need to be imported from abroad, which means that they need to go through transportation costs, customs duties, consumption tax, and so on. In order to enter the Chinese market, the prices have already been in a higher starting point. At the same time, in order to ensure the high standard shopping experience and the luxury brand appearance, the physical shops have to keep the superior geographical location, the magnificent decoration and the high-quality store of shop assistant, which has virtually increased the cost of the luxury goods company. This makes the prices of physical shop more expensive, leaving almost no room for a premium.

Many people choose to buy overseas, mainly because of its price advantage. As far as luxury goods are concerned, the prices of foreign special counters are lower than the prices of the same domestic products. Some are actually equivalent to a 50% discount. Besides, foreign counters often offer discounts on major festivals and brand anniversaries. Another reason is that the RMB is revalued, which gives the RMB more purchasing power overseas. The price advantage calculated by exchange rate is even more obvious.

Driven by this price advantage, the purchasing agent purchases goods at a more favorable price through its own geographical advantages, unique purchasing channels, and hoarding a certain amount of inventory at one time, to ensure that domestic consumers can buy the desired good at a preferential prices. Through the promotion of the quality of goods purchasing agent will obtain more customers to achieve mutual benefit between the buyer and seller.

4.5.3 Place strategy

Physical shop: direct and rapid

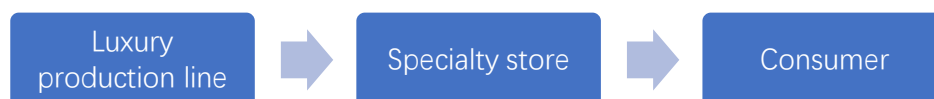
Overseas purchase: slow delivery, indirect, affected by customs supervision and taxation, uncertain factors in transit

The channel of luxury physical shop is usually from luxury production line to direct store and then to consumer. This channel is relatively single, directly responsible by luxury companies, consumers directly buy luxury products, it is intuitive and rapid.

The overseas purchasing channel is usually from the luxury goods production line to the foreign commodity counter or store, and then delivered to the consumer by the agent or individual through the logistics channel. Compared with the direct operation of stores, this channel has a relatively long process. In fact, the dealers here are similar to a retailer. The most important aspect of this marketing channel is how to smoothly reach the consumers. In general, it is international express delivery and the way individuals carry it.

Compared with the marketing channels of physical stores, the mode of overseas purchase is affected by customs supervision and taxation because it cannot directly face consumers and needs international express delivery. And there are many uncertain factors in transit.

Marketing channels of physical stores:



Marketing channels of overseas purchase

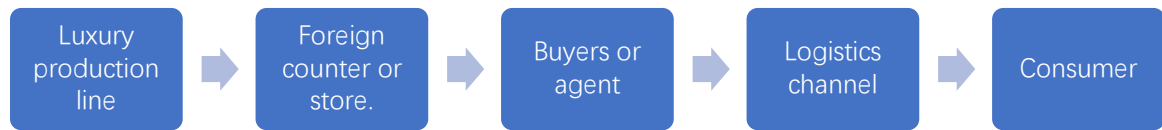


Figure 9: Channels of physical stores and overseas purchase

4.5.4 Promotion strategy

Physical shop: few promotions

Overseas purchase: a variety of promotion, additional discount for Chinese

When it comes to the marketing of goods, we have to mention sales promotion. After all, this is an important means of increasing sales, but for special goods such as luxury goods, there is basically no sales promotion in physical shop. Because of the quality of luxury goods and the high cost of stores, the environment where direct stores exist is not suitable for promotion. However, in recent years, due to the complexity of the luxury goods market, some luxury goods companies start to have promotion on some individual models of goods, using a method such as discount or member points, but the real decline in overall prices is not obvious.

Goods purchased overseas are often affected by the form of product promotion in the region where the goods are located. In the European and American luxury market, luxury goods in Christmas, shop celebration and discount season, there will be a certain proportion of discounts. In particular, in recent years, in response to the massive purchases made by Chinese consumers, many luxury goods stores have also given Chinese consumers additional discount coupons, in addition to the invisible

discount of the RMB exchange rate. So there are a variety of ways to promote goods purchased overseas.

Compared with physical shop, because the purpose of sales is not the same, there is a certain difference in the meaning of sales promotion. In order to enhance brand influence and display the characteristics of goods, it is a business model for luxury goods companies to set out from the overall situation. In the overseas purchase scenario, the shops are aiming at increasing sales, increasing the purchasing power of goods, so the ways of promotion will increase, and the price of goods will be more competitive.

Through the 4P Promotion theory, we can see that the overseas purchase price of luxury goods is lower than the price of physical shop in China, while the products of physical shop are often sold through luxury goods companies in a unified fashion, but overseas purchases break this limitation. It is possible to integrate goods from all regions of the world to provide consumers with choices. Because of the influence of the overseas shopping environment, luxury goods often have discounts, gifts and other promotional methods, and overseas purchases can gather the promotion methods of various countries, so that it has more obvious advantages than physical shop. On the other hand, the overseas purchase is realized through the transfer of goods between the two places, so there will be certain fluctuations under the influence of tax policies, and some unknown factors will be added to the process of transportation. As for these factors, physical shop does not have this problem. It is simpler and more convenient. However, Faced with the huge advantage of overseas purchases, physical stores have a huge impact and have to change their strategy.

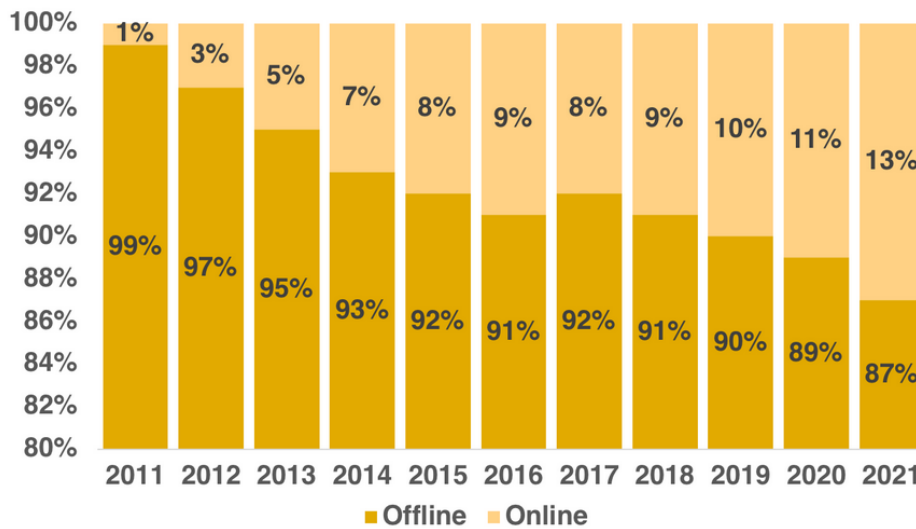
CHAPTER 5. THE E-COMMERCE CHANNEL OF LUXURY MARKET

5.1 The development of e-commerce luxury goods Market

While many luxury brands have cut back on opening physical stores in China, they are moving swiftly to use digital channels for expansion. Over the past year, an increasing number of luxury brands have embraced the e-commerce marketplace and launched stores with the country's top two players, Alibaba and JD. Moreover, big names like Louis Vuitton and Gucci even opened their own Chinese e-commerce stores to ensure their offerings meet the expectations of Chinese consumers. During a Singles' Day event for Alibaba's consumer site, Tmall, luxury brands like Burberry, Tag Heuer and Rimowa promoted special offers for Chinese customers on the shopping holiday.

Online sales are picking up due to relaxed government regulations on importing goods purchased online for personal use, and we can see luxury brands are bringing prices in China more in line with those elsewhere instead of charging more in China, as had been before. Web sales will account for 13% of total luxury sales in China in 2021, up from 8% in 2017.

Percentage (Prediction) of Different Sales Channels in China Luxury Consumption (2011-2021)



Source: Secoo/Deloitte CHINA LUXURY E-COMMERCE WHITE BOOK, Euromonitor, WALKTHECHAT

Figure 10: Percentage(Prediction) of different sales channels in China luxury consumption

5.2 Products on luxury e-commerce platform

In general, only 30% of luxury goods launched each quarter are consumed, and another 70% are accumulated in the form of tailings and inventories. The most common way luxury brands deal with these stocks and tailings is through outlet retail or directly online.

Apparels: Apparel luxury goods belong to fast moving consumer goods, seasonal is very strong, need more detailed size distinction. Clothing luxury goods mostly do not have the value of value, depreciation speed is faster. This kind of luxury goods production is small, and only for the normal size production, mainly for the high-end consumer demand for the normal size of consumers, the majority of consumer groups are women. Compared with non-brand products, the search share of luxury apparels is 3% of total search, but its year over year growth rate is 64%.

Footwear: Footwear luxury goods also belong to fast moving consumer goods,

seasonal, requiring a very detailed number distinction. Footwear luxury goods mostly do not have the value of value, after the purchase does not have the function of preservation of value. Footwear luxury goods production is small, mainly for consumers with high-end requirements. The unit price of such goods is lower in luxury goods. Compared with non-brand products, the search share of luxury apparels is 6% of total search, but its year over year growth rate is 26%.

Luggage and bags: There is no obvious seasonality in the sales of luxury goods of luggage and bags, and there is no need to distinguish size and other specifications in detail. Luggage luxury goods have a certain ability to preserve their value, and they will not depreciate quickly in the long run. They have no seasonal or numerical differences, so the volume of goods is much higher than the two categories of luxury goods. Compared with non-brand products, the search share of luxury apparels is 56% of total search, its year over year growth rate is 45%.

Accessories: Sales of accessories luxury goods are largely seasonal, and there is little need to distinguish between numbers. Most of these luxury goods do not have the ability to preserve their value and depreciate quickly. Accessories luxury goods as a brand generally will not be the main commodity, most of the luxury brands as clothing, shoes, bags and other luxury brands of additional commodity identity, the number of goods is generally large. Compared with non-brand products, the search share of luxury apparels is 21% of total search, its year over year growth rate is 10%.

Jewelry: Jewelry luxury goods have no obvious seasonal, and have a strong ability to preserve their value. Because of the scarcity of raw materials and the complexity of the process, the production capacity of luxury goods is relatively small, but the price of a single commodity is very high. Compared with non-brand products, the search share of luxury apparels is 21% of total search, its year over year growth rate is 8%.

Watch: Watch luxury goods consumption is not seasonal, do not need to distinguish between numbers. Such luxury goods have a strong ability to preserve their value, and some products have room for added value. This luxury goods price is extremely

high, the commodity unit price often occupies the luxury goods category first. Compared with non-brand products, the search share of luxury apparels is 59% of total search, but its year over year growth rate is 11%.

China is in the early stages of consumption growth and will continue to stay in this period for a long time. Therefore, luxury watch and expensive leather bags are still the most needed luxury goods in China in this period.

	Brand		Non-Brand	
	Search Share%	YOY GR%	Search Share%	YOY GR%
Apparel	3%	64%	97%	14%
Accessories	21%	10%	79%	19%
Shoes	6%	26%	94%	19%
Bags	56%	45%	44%	12%
Watch	59%	11%	41%	-2%
Jewelry	21%	8%	79%	15%

(Source: Luxury Industry Search Report, Baidu, 2017)

Figure 11: Different categories of luxury goods search share

According to the various luxury goods search records, we can see that luxury goods bags and watch already have a high popularity in the Chinese market compared to non-brand products, and the annual growth rate is very high. Luxury apparel, accessories footwear and jewelry, although search share is not high, but the annual growth rate is far higher than non-brand. This suggests a growing willingness of consumers to learn about luxury goods from online sources and purchase.

5.3 Five ways that luxury brands approach e-commerce

Luxury online shopping refers to the behavior of consumers buying luxury goods from online operators through the Internet. During transactions, as long as sellers receive orders from customers through the Internet, the shopping process is considered to be luxury online shopping, whether the shopping process is paid for online or offline.

Now thirty-five percent of Chinese customers are already accustomed to purchasing luxury goods online. (Tencent, Secoo, and Deloitte White Paper). Even when purchasing at traditional physical retail stores, Chinese shoppers will typically have explored their purchasing options online. E-commerce seems to be a defining facet of luxury brands' strategies in China, but how they go digital is different from company to company. There are five diverging ways luxury brands approach online in China. (Jing Daily)

5.3.1 The changeless strategy

While Chinese customers are known to be the most digitally driven of global luxury shoppers, there are brands who are still suspicious of selling online, such as Celine, Chanel, and Patek Philippe.

They think that truly prestigious luxury goods take time to craft, and in return, require time for customers to understand and appreciate them. One-click purchasing cannot represent the nobility of high-end luxury brands. For some brands, instead of engaging in e-commerce, they will focus on providing "e-service" to allow customers to make appointments and reserve items online.

5.3.2 The "brand.com" Strategy

In 2017, Gucci, Louis Vuitton, and Prada all launched their own online stores in China, integrating local payment methods Alipay and WeChat pay.

By creating an official buying channel, brands have total control over consumers'

digital experience, keeping it consistent with their brand image. They can also create an exclusive space to interact with consumers and in return, gain first-hand user behavior data from the site.

On the other hand, if such stores aren't done right, they could damage the brand. Accustomed to incredibly efficient online shopping experiences, Chinese consumers have complained that their experiences on a brand's site were not ideal, and that discouraged them from further engaging digitally.

Delivering an excellent digital experience requires serious investments of time and money—constantly monitoring customer experience and feedback, and ensuring digital efforts are in sync with other departments. The risk is that online shoppers are less interested in a perfectly curated experience than a lower price they can find elsewhere.

5.3.3 Launch on a luxury e-commerce

One way to create an exclusive, high-end digital experience without building a site from scratch is to launch on a luxury e-tailer site, like Secoo or Vip.com.

Brands pursuing this strategy include Tod's on Secoo, Marc Jacobs on Vip.com, Loewe on Luxury Pavilion, and Saint Laurent on Toplife.

Brands can sell directly to wealthy clientele, making it easier to accomplish a higher transaction rate. However, they also need to choose the platform wisely, testing the digital experience from start to finish and carefully selecting inventory that fit the platform. For example, Vip.com is known to offer deep discounts, while Secoo prides itself on providing a “five sense luxury experience” with the offering of offline experience centers.

5.3.4 Launch on major e-commerce platforms

The most popular approach of late is to launch on major e-commerce platforms such as Tmall, and JD.com. Examples include Tag Heuer, Coach, Burberry, and La Mer on Tmall, and Chopard, Zenith, Armani, and Swarovski on JD.com.

This strategy can gain brands more exposure without requiring a large investment of resources. But these platforms are also considered mass-market and are filled with counterfeit items, diminishing luxury brands' exclusivity by association. In addition, the majority of consumers on these platforms are price-sensitive, requiring brands to deploy a discount strategy to capture their attention.

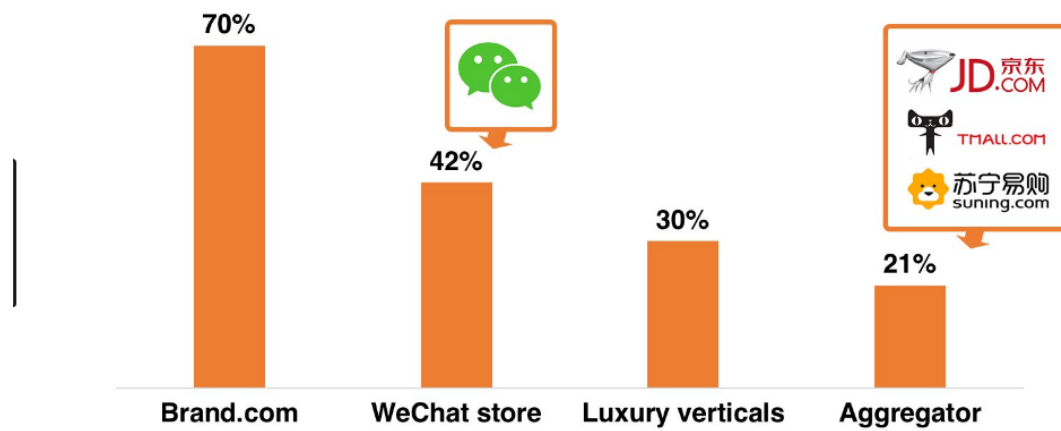
5.3.5 WeChat channel

Walking the thin line between exclusivity and availability, many brands carefully craft an e-commerce strategy not on an e-commerce website, but through WeChat. Pop-up sales, limited edition items, and Valentine's Day-only exclusives are some of the marketing techniques frequently deployed by luxury brands.

Dior, Longchamp, Stella McCartney, Cartier, Givenchy, Chloe, and Valentino are all active in this space. Many of the brands we listed in other categories have at least some presence on WeChat too.

WeChat can be felt more social and intimate, more like a real retail environment. In fact, WeChat has already been put to use in retail stores by sales associates. Many brands have devoted energy to developing an integrated online and offline strategy through WeChat. But because the primary function of WeChat is still social, it may not be a sustainable revenue stream. Brands shouldn't treat WeChat as a final solution to profit-making, but a channel to build traffic and provide better services.

“Which online channel do you use to purchase luxury goods?” (percentage of mentions)



Source: Bain China Luxury Report 2017, WALKTHECHAT

Figure 12: online channel to purchase luxury goods

5.4 Advantage of luxury e-commerce platform

E-commerce channels have four advantages over physical store channels in luxury goods market: cost control, information dissemination, shopping process and marketing.

5.4.1 Lower operating costs

Opening a physical store costs a lot of storage and store costs, and the process is long and costly. The biggest advantage of e-commerce platform is to reduce operating costs. In the Internet environment, the construction environment and business scale of the network trading platform are no longer restricted, and the space for development has become flexible and diverse. The increasingly mature Internet technology provides a virtual global trade environment for the network platform enterprises and gives them a new mode of operation. The potential expenses such as rent, management cost, shop assistant cost, commodity inventory and complicated delivery link are eliminated, the cost is reduced, the level and quality of business

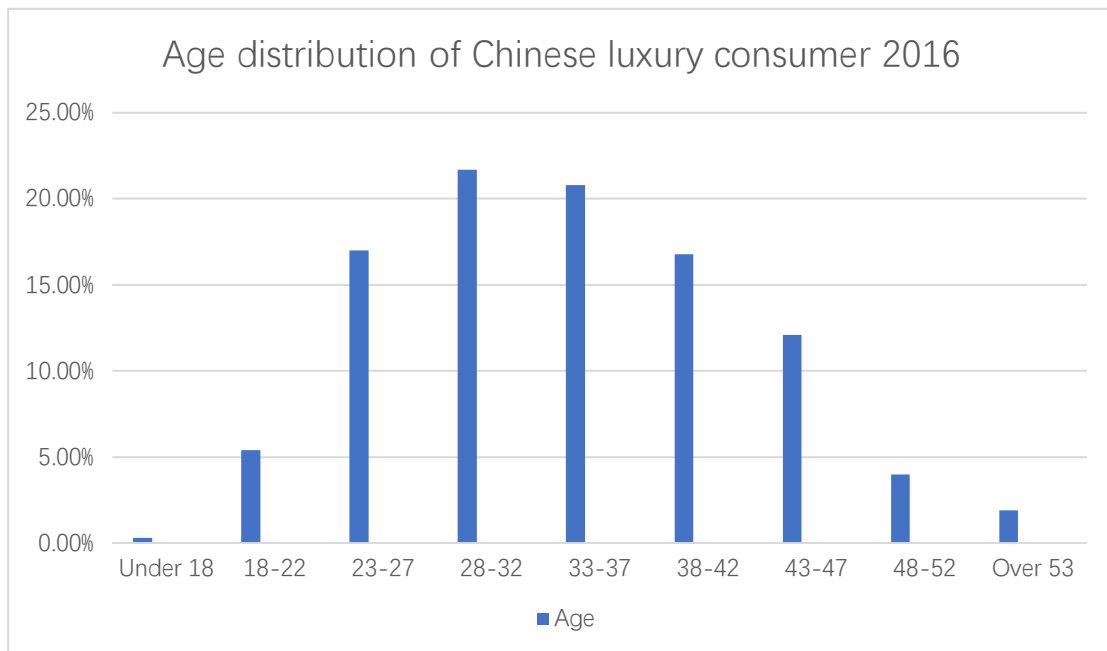
activities are improved, and the transaction rate of products is raised to a great extent. There are no store rental costs and can meet market demand, saving potential costs.

5.4.2 Meet the shopping experience needs of the new generation of consumers

Luxury goods consumers in traditional stores pay attention to the store's noble consumption experience, which has always been the selling point of luxury goods stores. According to the figure, young people between the ages of 23 and 37 have become an important part of luxury goods. This group has a more subjective attitude towards luxury brands, and if they can buy the same brand of the same product at a lower price, they are less demanding of the way goods are acquired than the "older" generation of consumers who pursue the shopping experience.

Shopping online avoids crowds. It saves time and saves you the need of going out or shopping abroad, and also avoids the embarrassment of not going into a luxury store because of shyness. Internet consumers have an easy and free way of shopping on the Internet, allowing them to spend in a self-help shopping environment. As long as they open a search engine, they can search any website or browse the luxury goods they like.

Compared with the in-store experience, young consumers pay more attention to whether the quality of the product is good or not, and whether the product sold is genuine or not. They are willing to accept high value for money products when they are able to ensure that the products are genuine. This is why luxury brands are now abandoning the in-store experience as an important shopping environment, but appear on the e-commerce platform.



(Source: China Electronic Commerce Research Center)

Figure 13: Age distribution of Chinese luxury consumer

5.4.3 No geographical limit to the purchase

Similarly to the overseas purchase, consumers can obtain the latest luxury reference information through the network, buy related products, or through E-mail, mobile phones and other channels to receive discount information, so as to follow up on the discount situation. At any time, any convenient place, they can log on to the shopping website to learn about the products they are interested in and to purchase them.

Online shopping is not limited by any geographical area or time. It can search for customers as widely as possible, facilitate the collection and management of customer information. After receiving customer orders, the server can automatically collect customer information into the database, can analyze the orders and opinions received, find a breakthrough, guide the introduction of new goods, sales and consumption, that is, to provide interactive sales channels. The brands can get market feedback, improve its own work, reduce circulation links, increase the relationship between customers and suppliers, extend both sides to obtain the latest data, strengthen cooperation and

improve service quality.

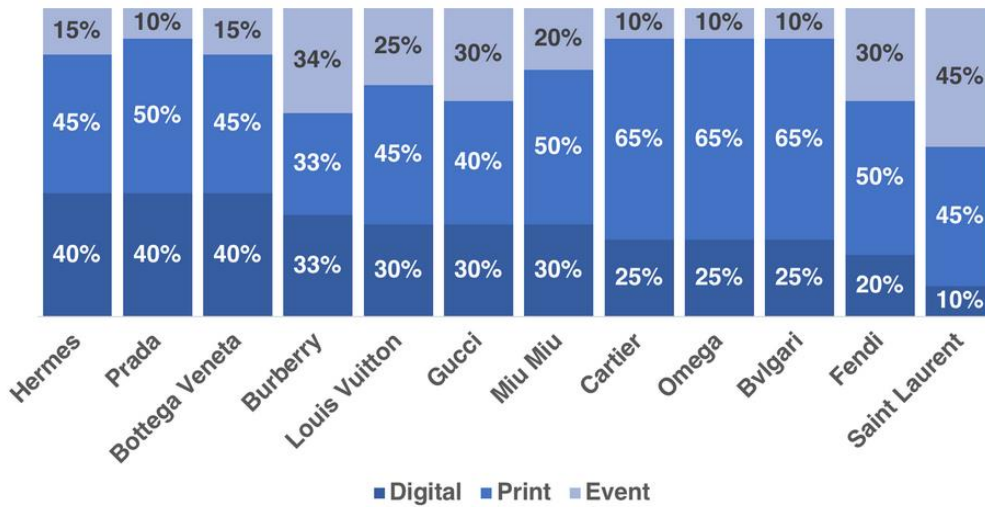
5.4.4 Better marketing.

Both online and offline social sharing were crucial for growth in the luxury market. Most people search on the Internet for information before purchasing luxury goods. This makes online marketing a more important marketing tool. Between April 2014 and March 2016, fashion brands increased their activity on WeChat by 114%, while watch and jewelry brands grew by 63%. WeChat accounts for 92% of the 107 luxury brands in the country. The same thing happened to Weibo. (Source: People.cn) 42% of consumers use WeChat store to purchase luxury goods. (Source: Bain China luxury report 2017)

Besides the marketing on social media, data and information obtained online can also make marketing more effective. In the luxury goods e-commerce platform environment, before the purchase behavior occurs, the network user needs to submit the personal data to register as the target shopping website member. During this period, the seller can understand the user's preferences based on the personal information submitted by the customer, provide customized product information, and release the new product information to registered users at the first time. It can also be a way to lock in high-value potential users who meet luxury requirements behind their mouths. Consumers can strengthen the pertinence of information according to individual needs, through the network to buy limited edition and custom-made funds not available in physical stores, and improve the rate of repurchase.

The network can provide a large number of customer information, such as browsing habits, purchasing behavior and so on. This information can not only reflect the products customers are looking for, but also better provide the products and services that customers need by analyzing the user browsing data. Based on these aspects, marketing can be carried out in a variety of ways, such as: Internet advertising marketing, e-mail marketing, search engine marketing, blog and WeChat marketing, business platform marketing, etc.

2016 marketing investment by channel, percent

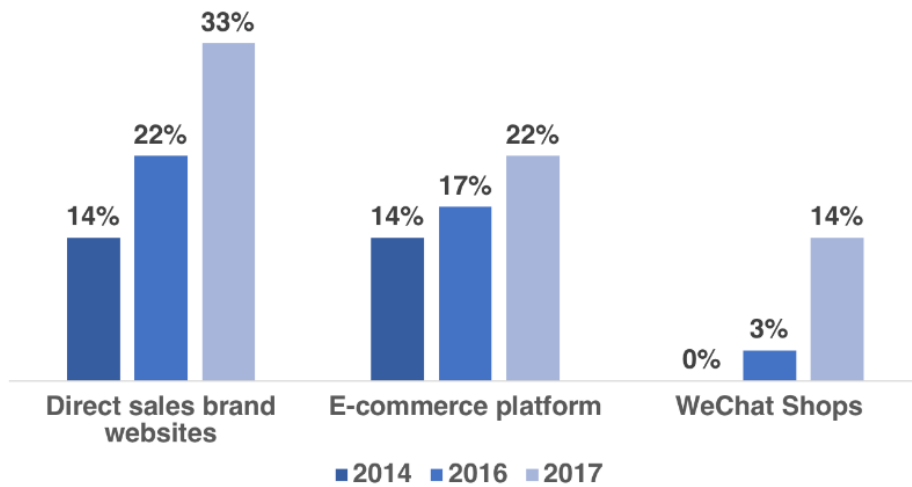


Source: McKinsey, The age of digital Darwinism, Euromonitor; Forrester, WALKTHECHAT

Figure 14: Marketing investment by channel 2016

To sum up, because of these advantages of luxury e-commerce platform compared with physical stores, luxury online trading channels are becoming more and more popular with businesses and consumers. Consumers can know all kinds of information about the goods through quick and convenient channels, and get the desired goods through simple and efficient shopping process and far lower than the price of the physical store, which greatly saves the various costs of shopping. For businesses, they can promote brands and products through efficient and highly targeted marketing methods, and can save most of the store, supply and other costs, so as to improve the profit margin, buyers and sellers can achieve mutually beneficial results.

Online Channel Usage of Luxury Watch & Jewelry



Source: Secoo/Deloitte CHINA LUXURY E-COMMERCE WHITE BOOK, L2, WALKTHECHAT

Figure 15: online channel usage of luxury watch & jewelry

5.5 Disadvantage of luxury e-commerce platform

5.5.1 Brand identity decrease

Unlike ordinary brands, luxury brands have a unique identity, which is one of their main strengths in attracting the right audience (the wealthy) to buy goods. On the other hand, the presence of an online brand can degrade a brand's noble because it is open to all. As a result, online sales of luxury brands can be a disadvantage effect.

5.5.2 Less pricing

When customers think of shopping online, they expect a more competitive price than traditional stores. Luxury brands, however, need to maintain their identity. As a result, through luxury brands selling online, bargaining power will gradually decrease.

Summary: In China, the e-commerce of luxury goods has become a new trend, and its market share is getting higher and higher. Despite some shortcomings, luxury e-commerce in the Chinese market has many unique advantages for luxury brands, e-commerce is not a simple add-on services, it has gradually become the most important sales channel besides the physical stores. It solves many problems that cannot be solved by traditional means and makes up for many shortcomings unique to the Chinese market.

CHAPTER 6. CASE STUDY

6.1 Case study I -- Burberry

6.1.1 Brand background

In 1856, Thomas Burberry established the first outdoor clothing store in the southern British city of Basingstoke, marking the establishment of Burberry. Burberry brand has been deeply sought after by the British royalty and aristocracy, up to now, Burberry company has a history of 160 years. Burberry is a luxury brand with a traditional British style. Its multi-level product line meets the needs of consumers of different ages and genders. The company is renowned worldwide for its retail, wholesale and licensing methods. Burberry, which used to produce raincoats, umbrellas and scarves for decades, has become a timeless brand with its emphasis on traditional British nobility and design that has won millions of hearts and minds.

Since entering the 21st century, Burberry has accelerated the process of brand globalization. Today, Burberry is one of the top 10 luxury goods groups in the world, with a wide range of product styles and types. In addition to brands and products, it is more important to have a good business strategy.

6.1.2 The situation of Burberry China region.

In China, unlike Chanel and Hermès, the image that Burberry gives is more like a high-end brand between light luxury goods and first tier luxury goods, giving the impression of traditional and conservative. The classic products are plaid trench coats and plaid towels.

Marco Gobbetti, CEO of Burberry, also acknowledges that Burberry is still positioned as a mid-priced luxury brand, with entry-level products priced slightly below the entry-level price of high-end luxury goods.

Burberry relies heavily on the Chinese market. According to Bloomberg, Chinese

consumers account for 30-40% of the group's sales, more than any other luxury goods company. Mainland Chinese consumers account for 50% of Burberry purchases by Chinese consumers, but most of them come from overseas, according to Burberry 2015 results.



Figure 16: Burberry physical store

6.1.3 Marketing channel

Burberry is a diversified marketing channel, through various channels to expand its own brand market share, in China, divided into three marketing channels: the establishment of direct stores, indirect distribution and digital marketing model.

6.1.3.1 Direct stores.

Burberry set up a large number of stores in China's mainland market, these stores are basically the same style, the purpose is to display the brand characteristics of Burberry, in order to better display the history, culture and product characteristics of the company to Chinese consumers.

5.2.2 indirect distribution model.

Burberry's market in China has also generally adopted an indirect distribution model,

as this model is bridged through middlemen. For ease of management, companies tend to adopt this model of products such as accessories, watches and beauty products such as non-core products, while core products such as clothing bags and so on are sold in direct stores.

5.2.3 Digital marketing.

Burberry is definitely ahead of many luxury competitors in areas such as digital marketing and e-commerce. According to the Fortune quality Research Institute's Global Digital report on luxury Brands, Burberry ranks third in the Digitized Communications Composite Index and is close to the first two companies. While many luxury goods companies remain noble and do not want to adopt online marketing, Burberry promotes its products through the Internet, provides product information through its official website, and sells its products online. Especially for the Chinese market, April 23, 2014, Burberry officially entered the Tmall e-commerce platform, but also marks Burberry's official access to the online and offline markets in China.

6.1.4 The store closing and the digital transformation

Chinese consumers are becoming more mature and rational. Like other luxury brands, Burberry prices vary widely between China and overseas. Overseas purchase has the advantage of price. For example, the new women's bag, the Belt, costs 17900 yuan in China, but only 1390 pounds, or 11800 yuan, in the United Kingdom. By purchasing overseas, consumers have access to the most complete range of Burberry products. Faced with many basic and common products, many Chinese customers think first of all about buying overseas rather than going to bricks-and-mortar stores. This has led to a drop in sales at Burberry's physical stores in China.

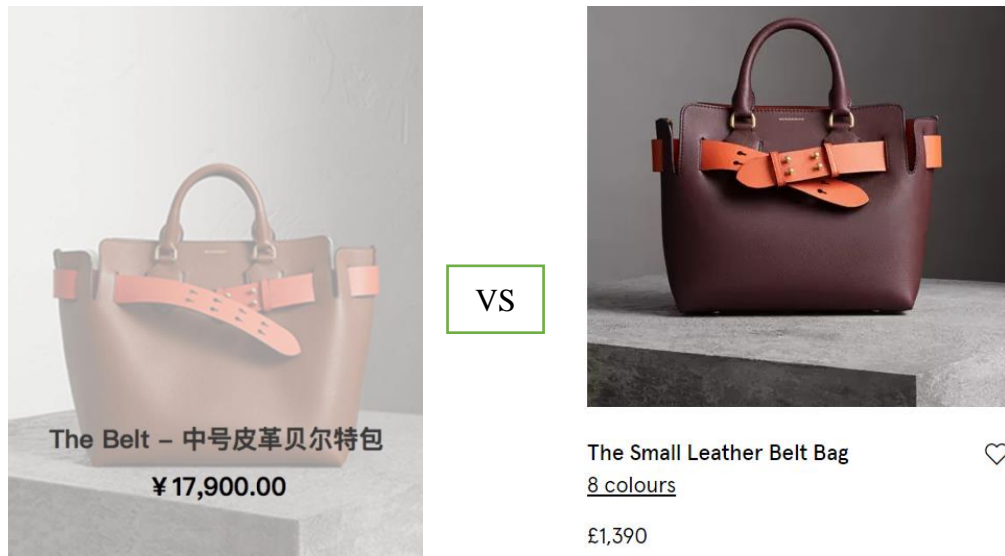


Figure 17: Burberry price comparison between China and the U.K.

Overseas purchases have had an impact on brick-and-mortar sales, but Burberry is actively looking for a turnaround. Burberry closed 10 stores in China in 2015 and 4 in 2016. Closing stores is part of Burberry's broader strategy. "In particular, small stores in non-strategic locations can be closed to ensure that they have the right brand positioning in all markets through more precise cost inputs". Marco Gobbetti said.

Burberry is an example in digital transformation with a total adaptation to the Chinese market. The company began to know Chinese customers, to discover their habit and culture rather than to impose its traditional rules.

Burberry entered Tmall, China's largest e-commerce platform, on April 23, 2014.

We found that Burberry Tmall's flagship store covers all categories of the brand (men's wear, women's wear, children's wear, make-up, gift hats), and basically covers most of the styles on the official website. With the help of Tmall platform ready-made customer service system, customers can do more direct communication with customer service and can quickly check whether the local stores have physical inventory; prices and the same as the official website to take the online and offline price strategy. Page design has been adhering to the brand has been the style, but also based on the

Burberry website to do some optimization to better suit the Chinese browsing habits.

The company has also evolved its strategy on social networks by investing in local social networks.

For the Chinese New Year, Burberry has attracted its customers by its WeChat campaign, the social network the most used in China. In 2016, the brand launched a game. By touching or shaking their phone, customers unpacked their gifts. Once done, they could send personalized discount package to their contact. The brand organized a contest to win a limited edition envelope and gifts such as scarves or leather goods.

When it comes to the ordering itself, Chinese consumers have different expectations than online shoppers in the West: They expect the delivery to arrive in under two days and returns to be free. To satisfy this, Burberry's online site promises delivery within one to five days, as well as the option for in-store pickup. During the period studied, Burberry actually delivered their products within two days.

According to the earnings report, Burberry's first-quarter comparable sales rose 4% in the first quarter of 2017 after signing Wu Yifan, a Chinese star, surpassing the original 2.5% estimate. Now, Burberry has become one of the most digitally innovative brands in China and the most popular brand on social media. This puts Burberry on a more certain path to develop the e-commerce channel.

6.2 Case study II --Louis Vuitton

6.2.1 Brand background

Louis Vuitton was founded in 1854 in Paris, France, from royal emperors to top craftsmanship, Louis Vuitton continued to travel, tradition and innovation enthusiasm and heritage.

Louis Vuitton's classic designs conform to important developments in the history of travel. Louis Vuitton's Monogram canvas first appeared in 1896, announcing the stylish look of the brand, and its unique creativity became a classic symbol; with the popularity of cruise travel, Steamer's travel bag was introduced in 1901. Marked the official arrival of the era of soft bags for travel; the Keepall bag of 1924 changed the weight and packaging of travel to make short improvisational trips easier and more elegant; in 1997, with the addition of artistic director Marc Jacobs, Louis Vuitton extends its exquisite craftsmanship and exclusive luxury to fashion, footwear, watches, accessories and jewelry, adding fashion to the French tradition. Their main product line: women's wear, men's wear, bags, accessories, shoes and boots, jewelry, watches.

In addition to the pursuit of innovation, the enthusiasm for travel, material persistence, attention to detail, the pursuit of exquisite craftsmanship is Louis Vuitton has never given up the commitment. It focus on tradition and innovation, dedicated to providing guests with the perfect luxury experience.

6.2.2 The store closing situation of Louis Vuitton China region

Especially in the Chinese market, LV has been closing some of its stores in second and third-tier cities since 2016. According to fashion headlines, the number of stores in China has closed by nearly 18%, mainly concentrated in second-and third-tier cities. Eight shops in Guangzhou, Harbin, Urumqi, Shanghai, Taiyuan, Tianjin, Suzhou and Nanning have been closed one after another, but facts have proved that

as Chinese consumers' living standards improve, The luxury consumption potential of the high-end consumers in the second and third tier cities is being stimulated, at this time the opening of e-commerce will be able to make up for the gap in market demand.

Huge price differentials at home and abroad turn Louis Vuitton stores into "showrooms"

On Louis Vuitton's official website in China, various leather goods, handbags, scarves, perfumes, ready-to-wear, shoes, all kinds of fashion styles with Louis Vuitton's home in Paris, France official website synchronization. But a closer look shows that the only difference is the price. Take, for example, a large handbag, which sells for 28500 yuan each in China and 3000 euros in Paris. At the latest exchange rate of 1 euro to 7.50 yuan, the handbag sells for 22500 yuan in Paris. The difference is as high as 6000 yuan. . . The same pale pink scarves are sold in France for euro 400, or 3000 yuan, but in China they soar to 6700 yuan.

LV retail prices at home and abroad huge differences, so that Chinese consumers have to choose to buy overseas or overseas on behalf of the way, and set up in the first-line business circle in big cities Louis Vuitton stores are more playing a role in brand display.

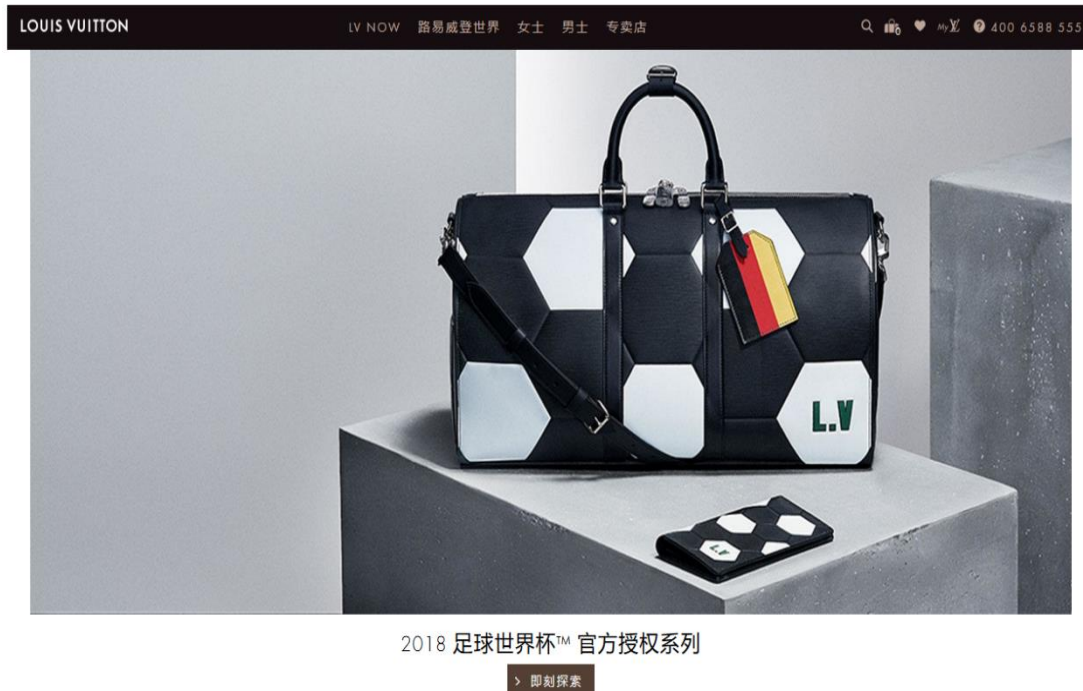


Figure 18: Louis Vuitton online store

6.2.3 The digital transformation

Both Louis Vuitton and Burberry have closed a number of bricks-and-mortar stores. But unlike Burberry, as a pioneer, Louis Vuitton is a more conservative company. But it has been steady to embrace it over the past several years. In July 2017, the expansion into China marks the eleventh market for Louis Vuitton's e-commerce. The company first launched e-commerce in France, and also offers online sales in the U.K., Germany, Spain, Italy, the U. S., Canada, Brazil, Japan and Australia.

6.2.4 Louis Vuitton enter e-commerce channel

In order for ecommerce to make the transition to digital better, LVMH had set up a special investment company to study the impact of digitization on luxury goods, and in September 2015 hired Ian Rogers, a former senior director of Apple Music, as the group's newly created chief digital officer. The group's ecommerce site, 24Sevres.com, launched last month, is LVMH's biggest e-commerce investment in recent years, a sign of the importance the group attaches to ecommerce. C é line,

LVMH's most Internet-resistant luxury brand, also said it would launch an online shopping platform by the end of the year, following the launch of 24Sevres.com, a multi-brand ecommerce company.

Before setting up the online store in China, Louis Vuitton offered some online services. It displayed some products and allowed customers to place orders via phone calls.

Louis Vuitton's online shopping service on its official website in China covers all of the quarter's range of products, including handbags, footwear, ready-to-wear, jewelery and perfumes, as well as LV x Koons, a joint venture between the brand and Jeff Koons, a pop artist. However, at present, only 12 cities such as Beijing, Shanghai, and Guangzhou offer online shopping services. Not all goods can be mailed, some need to be picked up by shops, and the price is no different from that of physical stores. Payment terms support Alipay but not WeChat Pay.

As consumers' spending habits shift online, luxury brands will pay more attention to and accelerate their presence in the e-commerce market, but remain cautious about choosing ecommerce platforms such as Tmall and JingDong. But Louis Vuitton chooses from the official website to explore the market.

It is hard to say whether LV will break the current competitive pattern of luxury e-commerce in China, but one thing is certain: if luxury brands neglect digitization and run counter to the needs of consumers, they may face the risk of being eliminated by the industry. This is in no way to be taken lightly by LVMH, which has a market value of more than 100 billion euros.

According to Deloitte's data, online retail sales account for 13.5% of total retail sales in China, far higher than the global average of 8.6%. LV sees the peculiarities of the Chinese market, and people's consumption habits have shifted online if the process of digitization is not accelerated. He was also in danger of being eliminated.

6.2.5 Meeting the trend but keep caution

Louis Vuitton is the latest to join the small club of brands who offer online shopping, which has been handled with extreme caution thus far by luxury brands. Although consumers are increasingly getting digital, luxury brands are still suspicious about selling online. It's impossible to provide the same service and experience as in brick-and-mortar stores. But being too transparent might not benefit a brand's image.

Like the iPhone, while many people buy Apple online, Apple devotes a lot of money and effort to maintaining a culture and image of the Apple brand in its off-line flagship stores. And let more users close to the perception of brand culture, luxury goods store reason is the same.

For Louis Vuitton, for a long time in the future, luxury online channels and offline channels must be synergistic relationship. Closing offline physical stores, but maintain a basic number to meet the demand of consumers for offline trials and experiences. And considering the digital trend, then opening online channels, giving consumers the option of placing orders and buying online more easily and quickly. This will be a state of affairs in the long run.

Conclusions

In this thesis, due to the particularity of the Chinese market, we first analyze the relationship between supply and demand of the market and the characteristics of the consumers. With the information and inspiration obtained through questionnaires, we arrived at the result that there are two aspects which have impact on the physical store: overseas purchase and e-commerce purchase.

In China, China's luxury spending is concentrated in the middle class and the rich class. Consumers of the younger generation have gradually become the main force in luxury consumption. Meanwhile, consumers are becoming more and more mature and rational. Consumers are happy to switched to buying luxury goods abroad, or other possible ways to buy luxury goods.

Compared with bricks-and-mortar stores, the biggest advantage of overseas purchasing is the price advantage, which is well adapted to the needs of some consumers. In terms of the speed with which products are updated, overseas channel ensures that the latest product information is available at the first time, and the choice of products is not limited to domestic products on the market. As a result of these advantages, overseas purchase of luxury goods has had a significant impact, making physical stores more like a display counter, leading to a decline in sales and the closure of many stores. Overseas purchase has had a huge impact on physical store sales, thus many luxury goods companies reducing the number of bricks-and-mortar stores and turning to e-commerce channels.

Even conservative companies, such as Louis Vuitton, are starting to digitize. With the increasing popularity of the Internet, more and more people get luxury information and buy goods from the Internet, e-commerce market has great potential, which has become a trend. At the same time, e-commerce channels reduce the cost of running

bricks-and-mortar stores, better adapt to the needs of new consumers, reduce geographical constraints, access more data through the Internet, and make products more exposed through social media. As a result, luxury goods companies can not only close physical stores to reduce costs, but also through e-commerce channels to increase turnover. This is also an important reason for luxury brands to close bricks-and-mortar stores.

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Appendix:

Questionnaire: Consumer behavior for luxury goods consumers in nonphysical stores

Hello! I would like to invite you to participate in a questionnaire. This questionnaire will take you about 5 minutes. Your participation is entirely voluntary. The information you give back is kept strictly confidential, and the end result is only for graduation thesis. Thank you very much!

1. Sex

A. Male B. Female

2. Age

A. 18-24 years B. 25-30 years C. 31-40 years D. 41-50 years E. 51 years and over

3. Monthly income range

A. 2000 yuan and below B. 2001-4000 yuan C. 4001-6000 yuan D. 6001-8000 yuan
E. 8001-10000 yuan F. 10001 yuan and above

4. Living in the city of

A. Beijing, Shanghai, Guangzhou, Shenzhen B. The following cities (Tianjin, Hangzhou, Qingdao, Dalian, Suzhou, Wuxi, Nanjing, Ningbo) C. Other non-provincial capitals

5. What is your current account balance?

A. Under 50,000yuan B. 50,000-100,000 yuan C. 100,000-300000 yuan D. 300,000-500000 E. Over 500,000 yuan

6. Have you ever bought luxury goods in the last year? (expensive and not essential for life).

A. Yes B. No C. I can't remember

7. How many times did you go to a physical store to buy luxury goods?

A. 0 B. 1-3 C. 3-10 D. Over 10

8. Through what channel do you prefer to buy luxury goods?

A. Physical stores B. Overseas C. Online D. Other channels

9. In your overseas shopping experience, which of the following types of luxury goods account for the largest proportion?

A. Accessories B. Cosmetics C. Watches D. Jewelry E. Apparel F. Bags

10. In your online shopping experience, which of the following types of luxury goods account for the largest proportion?

A. Accessories B. Cosmetics C. Watches D. Jewelry E. Apparel F. Bags

11. If you've ever been or are going to shop overseas, which of the following types you used most?

A. Directly purchase overseas B. Daigou C. Airport tax free shops

D. _____

12. If you've ever been or are going to shop online, which of the following platform you used most?

A. Comprehensive B2C Mall (JingDong Mall, T-Mall Dangdang Mall, etc.)

B. Taobao C. Wechat D. _____

13. If you've ever been or are going to shop overseas, your biggest concern is:

A. It is difficult to distinguish the authenticity from counterfeit goods B. The after-sales service is not perfect C. Price advantages D. _____

14. If you've ever been or are going to shop online, your biggest concern is: A. It is difficult to distinguish the authenticity from counterfeit goods B. The after-sales

service is not perfect C. price advantages D. _____

This questionnaire survey ends here, thank you very much for your support! Please click on the bottom right corner of the submission, we will put your comments together and analysis as an important statistical basis. Have a good time!

Questionnaire: Consumer behavior for luxury goods consumers in nonphysical stores

This Questionnaire is to learn about the consumer behavior for luxury goods consumers in nonphysical stores. There were 192 responses to the questionnaire.

This questionnaire is divided into two parts. The first part: question 1-5 is a survey of the basic information of the respondents.

① 51.56% of the respondents were men, for a total of 99. 48.43% of the respondents were women, for a total of 93.

② 17.19% of the respondents were 18-24 years old, for a total of 33. 32.29% of the respondents were 25-30 years old, for a total of 62. 22.92% of the respondents were 31-40 years old, for a total of 44. 27.60% of the respondents were 41-50 years old, for a total of 53. No respondents are over 51 years old.

③ 5.21% of the respondents' income were below 2000yuan, for a total of 10. 8.85% of the respondents' income were 2001-4000 yuan, for a total of 17. 35.421% of the respondents' income were 4001-6000 yuan, for a total of 68. 28.65% of the respondents' income were 6001-8000 yuan, for a total of 55. 21.88% of the respondents' income were over 8000yuan, for a total of 42.

④ 47.92% of the respondents live in the big four cities(Beijing, Shanghai, Guangzhou, Shenzhen), for a total of 92. 15.63% of the respondents live in the second tier cities(Tianjin, Hangzhou, Qingdao, Dalian, Suzhou, Wuxi, Nanjing, Ningbo), for a total of 30. 36.46% of the respondents live in the third tier and other cities, for a total of 70.

⑤ 18.75% of the respondents have an account balance under 50,000yuan, for a total of 36. 25% of the respondents have an account balance of 50,000-100,000 yuan, for a total of 48. 28.65% of the respondents have an account balance of 100,000-300000 yuan, for a total of 55. 27.60% of the respondents have an account balance over

300,000yuan, for a total of 53.

The second part of the questionnaire is a survey of luxury purchasing behavior preferences to understand the habits and attitudes of the respondents towards luxury purchases.

⑥ 69.27% of the respondents have bought luxury goods in the last year, for a total of 133. 30.73% of the respondents have not bought luxury goods in the last year, for a total of 59.

⑦ 47.92% of the respondents never went to the physical store to buy luxury goods, for a total of 92. 30.73% of the respondents went to the physical store to buy luxury goods for 1-3 times, for a total of 59. 14.06% of the respondents went to the physical store to buy luxury goods for 3-10 times, for a total of 27. 7.29% of the respondents went to the physical store to buy luxury goods for over 10 times, for a total of 14.

⑧ 21 respondents prefer to buy luxury goods through physical stores, which is 10.42%. 102 respondents prefer to buy luxury goods through overseas purchase, which is 53.13%. 69 respondents prefer to buy luxury goods through online channel, which is 35.94%.

⑨ For the largest proportion of overseas shopping, 23 respondents buy accessories, which is 15.1%. 52 respondents buy cosmetics, which is 27.1%. 27 respondents buy watches, which is 14.1%. 20 respondents buy jewelry, which is 10.41%. 27 respondents buy apparel, which is 14.1%. 43 respondents buy bags, which is 22.4%.

⑩ For the largest proportion of online shopping, 22 respondents buy accessories, which is 11.54%. 35 respondents buy cosmetics, which is 18.23%. 30 respondents buy watches, which is 15.63%. 22 respondents buy jewelry, which is 11.46%. 27 respondents buy apparels, which is 14.06%. 33 respondents buy bags, which is 17.19%.

⑪ For the overseas purchase channel, 37 respondents have a experience of directly purchase overseas, which is 19.2%. 109 respondents prefer to purchase via daigou(let

others buy for them aboard), which is 56.77%. 47 respondents also buy through airport tax free shops, which is 24.48%. There are also some respondents who ship directly.

⑫ For the online purchase channel, 103 respondents prefer to buy on B2C mall, which is 53.64%. 45 respondents prefer to buy in other channels like Taobao and Wechat, which is 23.44%.

⑬ 47 respondents concern about it is difficult to distinguish the authenticity from counterfeit goods, which is 24.48%. 152 respondents concern about the after sales service, which is 79.17%. 20 respondents concern about the price advantages, which is 10.42%. There are other reasons like the overseas purchase channel is affected by customs and the taxation.

⑭ 133 respondents concern about it is difficult to distinguish the authenticity from counterfeit goods when shopping online, which is 69.27%. 44 respondents concern about the after sales service, which is 22.91%. 48 respondents concern about the price advantages, which is 25%. There are other reasons like the item is different from the picture on the internet.