



**Unit:**  
**Understanding Consumer Behaviour**

**Assignment title:**  
**Affluent Chinese consumers and the allure of the  
global luxury goods market**

**September 2018**

**Important notes**

- Please refer to the *Assignment Presentation Requirements* for advice on how to set out your assignment. These can be found on the NCC Education website. Click on 'Policies & Advice' on the main menu and then click on 'Student Support'.
- You must read the NCC Education documents *What is Academic Misconduct? Guidance for Candidates* and *Avoiding Plagiarism and Collusion: Guidance for Candidates* and ensure that you acknowledge all the sources that you use in your work. These documents are available on the NCC Education website. Click on 'Policies & Advice' on the main menu and then click on 'Student Support'.
- You **must** complete the *Statement and Confirmation of Own Work*. The form is available on the NCC Education website. Click on 'Policies & Advice' on the main menu and then click on 'Student Support'.
- Please make a note of the recommended word count. You could lose marks if you write 10% more or less than this.
- You must submit a paper copy and digital copy (on disk or similarly acceptable medium). Media containing viruses, or media that cannot be run directly, will result in a fail grade being awarded for this assessment.
- All electronic media will be checked for plagiarism.

## Case Study

### Affluent Chinese Consumers and the allure of the global luxury goods market

Luxury goods consumption has been declining globally in recent years, so luxury goods manufacturers are currently focusing on one of the biggest markets for high-end spending, China. With the Chinese economy slowing and consumption of luxury goods cooling, there is a fear that these goods are becoming less attractive with Chinese consumers. However, the number of Chinese millionaires is expected to overtake that of any other nation this year (2018). In another three years, China is expected to have the most affluent households in the world, suggesting that there are further opportunities for the development of business in this market.

It is estimated that 8 million households in China purchased luxury goods in 2017, a number larger than the total households in Malaysia or the Netherlands. Each of these Chinese households spent twice the amount on luxury goods than the equivalent income earning households in France and Italy; a total expenditure of \$7.5 billion annually (representing about a third of the global market for these goods).

Between 2008 and 2014, the number of households purchasing luxury items doubled, the result of growing personal incomes and greater access to luxury goods. In the last few years, customers have changed from being first time luxury goods buyers in this market to becoming more regular purchasers. This suggests that marketing should be spent on customer retention rather than acquisition in the future. Another change has been the nature of these luxury consumers; originally the highest income earners in China were earning between \$16,000 and \$45,000 annually, but now they are typically classed as those earning more than \$45,000 annually. In real terms, this group now represent half the shoppers in this category and account for 90% of Chinese expenditure on luxury products. Going forward, it is anticipated that these consumers will continue to purchase luxury goods, trading up either to more expensive brands or to more expensive products offered by their chosen brand providers.

Another clear trend is that consumers in the Chinese luxury market are becoming more impulsive and that word of mouth has become important in driving this change. 30% of all luxury purchases are now made following recommendations from friends or family members. Related to this is the fact that consumers will have two luxury brands that they consider as their top brands and actively gather information on these before making a purchase; these will be chosen on over 90% of the consumers' purchasing occasions. The wealthier the consumer, the more focused on these two brands they will be. This is a new phenomenon as prior to 2010, Chinese luxury consumers were more concerned with the quality of materials used in the products they purchased and/or craftsmanship of these, rather than brand recognition. However, styles deemed as having a timeless quality are still preferred over items considered as being innovative in this market.

Although the Chinese now have some of the most active/innovative digital services and platforms, e.g. WeChat and TMall, and are keen users of controlled social media, this has yet to translate into online purchase of luxury goods. Less than 10% of purchases of such products are made online. This is essentially due to the fact that these consumers are cautious purchasers, needing reassurance about the quality of what they are purchasing

and its authenticity. Another issue for these wealthier consumers is price sensitivity, with an awareness of price gaps between Mainland China (where prices can be as much as 20% higher than purchasing elsewhere) and overseas markets.

There is a real need for consumers in China to be reassured that the price being paid is both fair and competitive. Luxury product consumers tend to shop at official channels only, specifically department or brand owned stores and at city centre or airport duty-free outlets. Hong Kong is still the top destination for shopping overseas, followed by South Korea and Japan.

Customer service is also a key factor. When buying at home, wealthy consumers are less satisfied with product choice, the in-store experience and the quality of customer service they receive compared to buying abroad. Consequently, although the number of luxury goods stores in mainland China has increased, the purchases made in these have grown at a much lower rate. This could also be the result of where they have been located and the proportion of the wealthiest Chinese consumers living there i.e. only 25% of the wealthiest consumers live in these cities. Locally, it is clear that these stores need to focus more effectively on their market segment, tailor the products available to suit the needs of these consumers and connect with them more effectively outside the store through improved marketing relationship-based activities.

Chinese luxury brand consumers are regular travellers and shopping now plays an important part in their global travel plans. They actively seek a consistent brand experience and expect a brand's core products to be available across all the continents they visit. They require a globally consistent price range and enjoy being recognised when they visit the stores holding their favourite brands. However, to make the experience more attractive to these travelling consumers, luxury brands could benefit from having unique store designs, so that these become part of the reason for travel i.e. attractive in terms of destination/relevance to the location visited. Investment in unique products to certain stores could also be seen as desirable and would be seen as luxury souvenirs for such visitors.

Data suggests that in the next decade, Chinese consumers will continue to increase their spending on luxury goods and will take a leading role in the growth of this market globally. The wealthiest of these customers will play a central role in terms of how this market develops in the future.

## **Sources**

<https://www.shine.cn/archive/nation/Hurun-Report-releases-Chinese-Luxury-Consumer-Survey-2015-and-Hurun-Best-of-the-Best-Awards-2015/shdaily.shtml>

<https://www.shine.cn/archive/nation/Hurun-Report-releases-Chinese-Luxury-Consumer-Survey-2015-and-Hurun-Best-of-the-Best-Awards-2015/shdaily.shtml>

<https://www.forbes.com/sites/steveolenski/2017/09/15/the-key-to-success-for-luxury-brands-in-china/#458dad9842a3>

<https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/chinese-luxury-consumers-more-global-more-demanding-still-spending>  
(All accessed March 2018)

## Introduction

Your role is that of a marketing consultant and you have been hired to advise a luxury goods company about the Chinese market. The advice will be focused on the tasks below. Your solutions to the tasks should be laid out in the style of a short business report, addressed to the senior management team of the company.

### Task 1 – 25 Marks

- (a) Explain how an understanding of affluent Chinese consumer behaviour might help the company in devising a marketing strategy for this market. (13 marks)
- (b) Assess the extent to which social groups, family and culture influence the buying behaviour of these consumers. (12 marks)

### Task 2 – 25 Marks

China is a new territory for your luxury goods company.

Discuss traditional and modern methods of research that might be used to identify and explore consumer motives for purchasing luxury goods in this market.

### Task 3 – 25 Marks

- (a) Assess the importance of consumer perception in the marketing of luxury goods in China. (10 marks)

- (b) Affluent Chinese consumers are said to typically choose two brands when purchasing in this market.

Examine ways in which brand loyalty might be further strengthened amongst these consumers. (15 marks)

### Task 4 – 10 Marks

Consumers in the Chinese luxury goods market are becoming more impulsive in their buying behaviour.

With reference to at least ONE (1) impulse buying theory, explain how the company could increase spontaneous purchases in this market.

## Task 5 – 10 Marks

Discuss how the buying process of luxury brands may differ for department stores who stock them as opposed to consumers making individual purchases.

### Presentation – 5 Marks

Ensure that you have complied with format requirements and have presented your assignment, as prescribed. This includes checking the references used, as well as your spelling, punctuation and grammar, before submitting your work.

### Guidance

Consult with your tutor if you are uncertain about any aspect of this assignment.

### Submission requirements

Answers should be presented in a clear and professional manner, ideally in a business report format.

The maximum word count for this assignment is **4000 words**.

### Candidate checklist

Please use the following checklist to ensure that your work is ready for submission.

- Have you read the NCC Education documents *What is Academic Misconduct? Guidance for Candidates* and *Avoiding Plagiarism and Collusion: Guidance for Candidates* and ensured that you have acknowledged all the sources that you have used in your work?
- Have you completed the *Statement and Confirmation of Own Work* form and attached it to your assignment? **You must do this.**
- Have you ensured that your work has not gone over or under the recommended word count by more than 10%?
- Have you ensured that your work does not contain viruses and can be run directly?