The Future of China’s Luxury E-commerce Marketing

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Abstract. In Internet era, e-commerce marketing of luxury products is increasingly significant. This paper illustrates the status quo of luxury’s e-commerce market, the characters and problems displayed in different e-commerce platforms’ marketing, regarding of Product, Price, Place, and Promotion. Besides, some challenges that these platforms might face in the future and corresponding measures are suggested in the last part of this research.

Status Quo of China Luxury’s E-commerce Marketing

Possible Increase in the Future Consumption

In 2016, China online shopping transactions reached 4.7 trillion yuan, a 23.90% raise over 2015.[1] Meanwhile, China’s luxury goods consuming power is also getting momentum. According to Bain & Company,[2] Chinese per capita consumption raised 8.44% to 17,110.74 yuan, and China took up 32% of global luxury consumption in 2017, while the mainland China’s market grew 20 % faster than foreign markets.[3] The retail value RSP (retail selling price)in all sectors of China luxury goods have steadily increased since 2012, and the growth rates have risen faster since 2015 as shown in Fig.1.

However, the online sales only counted 9% of the total sale of luxury goods in China, which is still a small portion of the market even though the online sales is growing fast. In the future, the online luxury purchasing is expected to increase, as the brand name vendors adjust their pricing policies to reduce the price gap between China and overseas’ luxury market, as well as government publish policies to stimulate domestic consumption, including stronger regulation of overseas purchases, lower import duties on luxury goods and so on.

Figure 1. China Luxury Goods Retail Value RSP.

Data sources:http://www.portal.euromonitor.com/portal/statisticsevolution/index

Stabilized Pattern of Market

With the increase of online luxury goods consumption in China since 2008, e-commerce marketing has become an essential way of luxury goods marketing. At present, the business pattern of China’s luxury e-commerce market is stable, which can be mainly reflected in two aspects:

Firstly, the numbers of e-commerce platforms and scale of luxury e-commerce industry are both enormous. China's luxury e-market sold 57.35 billion yuan in 2016, up by 43.0 % from 40.1 billion yuan in 2015, according to the China Electronic Commerce Research Center.\(^4\) The number of luxury e-commerce platforms has risen steadily since the establishment of Xiu in 2008, despite some platforms collapsed between 2014 and 2015 because of blind competition.

Secondly, the e-commerce platforms are clearly categorized. This research characterizes Chinese luxury e-commerce platforms into five categories: 1. Local comprehensive luxury e-commerce platform, specialized in the sale of luxury goods, such as SECOO; 2. Luxury e-commerce platform under traditional e-commerce platform, such as Tmall Global; 3. International integrated luxury e-commerce platforms, such as NET-A-PORTER; 4.E-commerce platforms supported by department stores, such as the Yintai; 5. Official websites of luxury brand, including LOUIS VUITTON. At the same time, some luxury brands such as HERMES, ROLEX, and Dior still use their official websites to display products and attract consumers and they still need to go to the offline boutique for purchasing. The major categories of e-commerce platforms of luxury goods are arranged as follows:

Table 1. China’s Major Luxury E-commerce Platforms.

<table>
<thead>
<tr>
<th>Category</th>
<th>Example</th>
<th>Established Time</th>
<th>Character</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local comprehensive luxury e-commerce platforms</td>
<td>Xiu</td>
<td>Mar. 2008</td>
<td>First to establish; unique supply chain</td>
</tr>
<tr>
<td></td>
<td>SECOO</td>
<td>Jul.2008</td>
<td>Provide auction, appraisal, consultant services, and Flex technology based on Flash</td>
</tr>
<tr>
<td></td>
<td>Ihaveu</td>
<td>Sep.2010</td>
<td>Suppliers are individuals and buy luxuries overseas</td>
</tr>
<tr>
<td>Luxury e-commerce platforms under traditional e-commerce platforms</td>
<td>Vip.Luxury</td>
<td>Dec.2008</td>
<td>Affiliate to Vip,  bargain in particular time</td>
</tr>
<tr>
<td></td>
<td>Tmall Global</td>
<td>Feb.2014</td>
<td>Affiliate to Ali,  entered companies are qualified</td>
</tr>
<tr>
<td></td>
<td>KAOLA</td>
<td>Jan.2015</td>
<td>Affiliate to NetEase,  owing various purchasing channels</td>
</tr>
<tr>
<td>International integrated luxury e-commerce platforms</td>
<td>NET-A-PORTER</td>
<td>2000</td>
<td>Major in women products</td>
</tr>
<tr>
<td>E-commerce platforms supported by department stores</td>
<td>FARFETCH</td>
<td>2008</td>
<td>Offer abundant brands</td>
</tr>
<tr>
<td></td>
<td>Jiapin</td>
<td>Sep.2009</td>
<td>2013 became Macy’s online selling platform</td>
</tr>
<tr>
<td></td>
<td>Yintai</td>
<td>Oct.2010</td>
<td>Yintai’s online selling platform</td>
</tr>
<tr>
<td>The official websites of luxury brands</td>
<td>Abbreviated</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^4\)Information on: http://b2b.toocle.com/detail–6423591.html

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Characters of China Luxury’s E-commerce Marketing

Complete Products Category and Scarce Indigenous Products

Luxury goods are high-value non-necessities, including jewelry, costly clothing, luxury cars, personal aircraft and so on. Except some luxury e-commerce platforms like SECOO, most platforms don’t conclude expensive, huge size products or products which are difficult to verify their authenticity and value. The brands official websites sell their exclusive products, like boxes of LV, or the jewelry of domestic brands Zbird. And other luxury e-commerce platforms integrate products of numerous brands, including bags, clothing, accessories, cosmetics, household goods, luxury car accessories, food. For example, Xiu has 313 brands while SECOO has 113; luxury e-commerce platform under traditional e-commerce platforms have fewer:44 for KAOLA and 23 for Vip Luxury; international integrated luxury e-commerce platforms owns more brands than others :774 for NET-A-PORTER, 2015 for Farfetch.

Nevertheless, while platforms offer so many options for consumers, there are few Chinese brands. The online luxury market is still dominated by European brands, except some Chinese brands in jewelry, wine and luxurious traveling parts. This phenomenon is related to opportunities of development, concepts of luxury consumption, luxury design standards and so on. Whereas, with the emergence of more overseas Chinese luxury designers, such as JIMMIY CHOO, ALEXANDER WANG, it is believed that there will be more indigenous Chinese luxury brands in the future.

Widely Used Low Price Strategy, however, Crisis of Trust

In an attempt to satisfy Chinese’s growing demands for luxury goods and reduce the current price gap between Chinese and overseas markets, most of the luxury e-commerce platforms apply low price strategy to attract potential customers. In order to attract low or middle income consumers, most luxury goods’ prices in e-commerce platforms are below 50,000 yuan. For example, 80 percent of the luxury goods on ihaveu, Mei, Vip,Net-A-PORTER and Farfetchare under 10,000 yuan, with a small proportion higher than 15,000 yuan and more than 50,000 yuan. At the same time, all major e-commerce platforms use discount strategies, showing slogans in their home page such as "no freight", "huge reduction", with discount countdown and seasonal or holiday promotional activities.

However, although most platforms are equipped with the slogans "100 % certified products" and "Ten times compensation for each counterfeit", the current luxury electronics market is ripe with fake luxury goods. According to the China Consumer Association's 2017 report, five to nine samples of Coach, Michael Kors are counterfeits from JD, Taobao and three other platforms. Besides, many luxury brands, such as Hermes, Louis Vuitton and Chanel, don’t authorize any luxury e-commerce platforms to sell their products. In general, luxury e-commerce platforms are facing a crisis of trust.

Shorter Place Channel and Imperfect Logistics

The place channels are much shorter than those of traditional stores. The sales channels of luxury goods in the domestic market are too long and involve plenty of links: enterprises, general agents, regional agents, distributors, retailers and consumers. Nevertheless, luxury e-commerce have shortened distribution channels, only concludes overseas suppliers, platforms and consumers, thus shorting channels, strengthening price control, and reducing unnecessary costs.

However, while most of platforms allowed consumers to choose logistics companies, including Shunfeng Express, EMS, FedEx, DHL, and TNT, different types of luxury goods e-commerce platforms also confronted with different logistics problems. The service range of local comprehensive luxury e-commerce platforms such as SECOO, Mei is so wide that it is difficult to return consumers’ expenses or exchange their unsatisfying goods. The traditional e-commerce platform’s affiliated
platforms such as KAOLA, required more strict standards of logistics and shorter delivery time. Most official websites of luxury brands offer only offline pick-up service.

**Value Online-marketing, however, Insufficient Shopping Experience**

Online-Marketing, including digital marketing, is a new kind of Internet-based marketing which uses digital information and interactivity of online media. Bain notes that China's top 20 luxury brands’ expenses on digital marketing rose sharply in 2017 because of its convenience, low costing, rapid dissemination of information, as shown in Fig. 2.

![Figure 2. Percentages of Expenses Change in Digital Marketing (Data resource: Bain & Company).](image)

Most platforms attempt to expand markets in WEIBO or We-chat. Brand's official websites have far more WEIBO followers than other platforms, which suggests the greater public trust and dependence on them. Besides, luxury brand officials pay more attention on the promotion in Baidu and payed more advertising budget on WeChat than Local comprehensive luxury e-commerce platforms. On the contrary, department stores pay low attention to the online marketing.

However, consumers’ shopping experience is still insufficient. Because of wide business’ range or lack of offline stores, most integrated e-commerce platforms can only provide images, videos and shoppers’ reviews. Consumers can’t acquire same shopping experiences and offline services as from traditional consumption, such as the clothing and boutique service. Therefore, platforms still need to strengthen both online and offline integration sales.

**Future of China Luxury’s E-commerce Marketing**

**Warranting Products Quality and Establishing High-end Image**

At present, there are many counterfeits in the luxury e-commerce market, mainly because platforms are operated in a hybrid pattern, including direct cross-border mail, tax returns and brands authorize, and most of the offline luxury goods counters do not provide inspection services. Therefore, the luxury goods e-commerce platforms need to pay more attention to products’ supplying, quality and raising the brand entry threshold. It is also necessary for platforms to cooperate with Chinese indigenous brands such as Maotai and Hetian Jade to promote domestic luxury markets.

Some luxury brands tend to believe that selling on e-commerce platforms will ruin the perfect image of their brands, so they do not authorize comprehensive e-commerce platforms to sell their products. And their official websites just recommended offline boutiques. However, e-commerce is a better way to boost luxury sales. Therefore, on the one hand, luxury e-commerce platforms should obtain brands’ authorization in order to gain consumers’ trust. On the other hand, they also need to expand customer groups without destroying the high image of their brands.
Correcting Market Positioning and Applying Differentiated Marketing

Now most luxury e-commerce platforms use low price strategy, which might weaken the experience for original targeted high-income luxury consumers. Luxury consumers can be divided into three categories: high-end consumers who do not care about the price, pragmatic middle-income consumers and newly emerging and fashion-favor consumers. In order to expand sales without losing any customers, luxury e-commerce platforms should make a combination of price strategies and consumption demand of different customers based on the income levels. There are two ways: firstly, differentiate products into different columns based on prices, and price discounts and promotions should focus more on luxury products for middle-class and emerging consumers, rather than products for high-end consumers. Secondly, correcting market positioning: providing best service just for the high-income groups and promoting the concept of "light luxury" just for low and middle-income consumers and ensure that the prices are acceptable to them. At the same time, because the demanding of luxury goods is affected by the increasing of price, luxury platforms need to make a balance between sales and high-end image of luxury goods, and price differences between online and offline should be minimized, otherwise platforms will lose consumers’ trust.

Completing Logistics Services and Stabilizing Product Supply

Today, consumers do not completely trust logistics companies because they could only get little compensation when their luxury goods were lost; and only a few consumers are willing to pay a high guaranteed price (1 %-3 %) to ensure the safety of their products in logistics. Expressing companies are reluctant to deliver expensive luxury goods because of high risk. The slow speed and little compensation for damage both are the reasons why logistics companies rejected to take the luxury’s delivery. To solve such problems, luxury e-commerce needs to create superiority for luxury consumers. They need to cooperate actively with domestic and international express companies and establish independent express channels for luxuries, or luxury e-commerce platforms could run their own logistics, such as Tmall.

The supplying of luxury goods in the most e-commerce platforms is unstable, except for some brand-authorized ones. Some large sites have achieved better, such as Xiu, which is supplied by 600 European department stores and specialty stores; and Tmall Global, authorized by brands like Burberry and so on. However, most of the platforms have unstable supply sources and are often under supplied. Large luxury goods e-commerce platforms are subject to foreign and domestic suppliers. However, small and medium ones have difficulty in supplying, and the risk of smuggling overseas is still large. iMedia Research consultants believe that the consumer personalized demand is increasing. In addition to the quality of goods, cross-border e-commerce platforms need to cover more commodities and brands to meet consumers’ demands. And in order to get ahead of the market, the luxury goods e-commerce platforms need to continue to strengthen the construction of upstream supply chain, strive for brand authorization and expand cooperation with international brands.

Valuing Consumers’ Shopping Experience and Creating a Good Reputation

E-commerce platforms have certain advantages over traditional stores, as it is able to analyze the tendency of buyers through database, inferring consumers’ preference and providing accurate services; but for luxury consumers, after-sale services and shopping experience are still insufficient.

The future customers for luxury e-commerce platforms will mostly be millennial, so offering good after-sale services and bring consumers new shopping experience is increasingly important. Firstly, luxury platforms need to control products’ quality in order to build up a good reputation. Since present consumers are unsatisfied with the products’ quality, after-sales services, logistics, platforms can protrude their own advantages those are different from others for these aspects. Secondly, using big data to understand customers’ preferences, collecting customers’ size information, promoting products that customers may like and providing clothing matching advice are very practical. Thirdly, besides the brand official websites, other types of luxury goods e-commerce platforms could imitate the SECOO’s pattern to set offline stores in order to display high-end products for consumers, support

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customers to pick up goods offline so that the customers’ experience can be further enhanced. Fourthly, as for young people who prefer fashion products, platforms can provide more fashion information, such as fashion launches, designers' latest designs.

**Conclusion**

The combination of luxury goods and e-commerce has broadened the range of e-commerce business and brought great vitality to the luxury industry. Luxury goods companies not only can increase sales of luxury goods, but also can bring a huge spillover effect on luxury goods and encourage consumers to make more purchase in offline stores. The features of luxury e-commerce marketing are obvious: numerous products, clearly low price strategies. The distribution channel of luxury goods is also shortened, and online-marketing has become an important way of marketing. In the future, luxury businesses need to increase cooperation with local brands, gain more consumers’ truth, improve logistics services and enrich consumer’s shopping experiences.

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[5] Information on luxury e-commerce platforms homepages

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