

# The development of luxury brands market in asia marketing essay



**ASSIGN  
BUSTER**

Nowadays, it is not difficult for you to see Asian using luxury brand name handbags or wallets such as Louis Vuitton, Gucci or Chanel. It is a very popular phenomenon for Asian to own Western luxury brand goods.

Whenever you see people queuing up outside a luxury shop like Louis Vuitton, Gucci and Chanel in Hong Kong, they are not waiting to get any free gift, but waiting to shop in the store. It seems that they do not mind queuing up for a long time it is because they desire to own a piece of luxury goods from these brand names.

Also, I have been working as a buying clerk in a luxury men's wear brand Cerruti 1881. This brand was founded in Italy in 1881 and is now based in Paris and Milan. Although it is a European luxury brand, the major market share of the brand is in China, Hong Kong and Taiwan. From my personal working experience and the above mentioned phenomenon, which have inspired me to know more what are the reasons behind Chinese to buy Western luxury brands.

My reason for investigating this particular issue is to find out why are Chinese people so addict to buy Western luxury brands and how does the Chinese traditional values affect their purchases. Also, to know how the Western luxury brands marketing strategy to make them become popular in China is important as well. It is because China is a potential second biggest market of luxury goods in the world, however it is a new market to them, therefore if the Western luxury brands can have a better understanding of the Chinese market, they may increase the market share in China.

For the research methodology, this Personal Project is processing with both primary and secondary source materials. For the primary source material, online questionnaire have been set up. However, most of the respondents are Chinese from Hong Kong, but not the Chinese from the Mainland, as a result the questionnaire result can not reflect the actual phenomenon in China. Therefore, secondary source materials, including literature reviews of books, journals, e-journals, internet information and magazines are mainly used in this project.

There are totally three chapters in this Personal Project. The first chapter is about the development of luxury market in Asia, this chapter will talk about when and how did the modern European luxury brands were created, and how did the modern European luxury brands came from the West to East. Also, this chapter will study about the development of luxury brands market in Asia with the five-stage process model and the comparison of Chinese and Japanese luxury markets. The second chapter is about the Chinese luxury consumer, this chapter will introduce the four key segments of luxury consumers in China, their backgrounds and different attitudes toward buying luxury brands. Moreover, how does the Chinese traditional value such as the Confucianism and Guanxi affect their consumer behaviour, as well as the Chinese unique characteristics are being mentioned. In last chapter, it is about the marketing strategy of the luxury brands strategies in China, which including how does the luxury brands increase the brand awareness and boost sales by promotion, celebrity endorsement and brand extension. The problem of counterfeiting in China and how does this problem affect the luxury brands in China.

## Chapter 1

### The Development of Luxury brands market in Asia

The twentieth century was the started point of the modern luxury goods sector and many well-known highly valuable luxury brands were launched in this period like Louis Vuitton, Burberry, Prada, Cartier and Chanel. It was because there was a high demand for luxury goods due to the good social and economic conditions . Luxury brands have been traditionally defined as product quality, heritage and prestige. All their products were handmade and took at least several weeks or some months to make, which was a part of the luxury and prestige experience. Such traditional luxury brands have not only run for more than a century, but still have maintained their brand value and heritage while adapting to the ever changing fashion business industry. These brands have made both their products and services more diversified (Okonkwo, 2007). (132)

The European luxury brands emerged in Japan in the 1970s. At that time, Japan has a rapid economic growth. Thus, people got a higher purchasing power than before. The European luxury agents noticed that there were so many Japanese tourists spent a lot in their stores when they travelled in European countries. They were so eager to purchase the latest and trendy luxury goods to show off to their friends, as they try to enhance their social status and visibility through an association with famous brand names, for this reason, the Europe's luxury companies established stores in Japan in order to respond to the Japanese demand. Gucci first established its store in Tokyo in 1972, while Louis Vuitton launched in Japan in 1978. Since then, the

Japanese not only made more purchase of luxury goods at their country, but spend more during traveling as well. According to JP Morgan, it estimated that tourist account for 80 percent sales at the Louis Vuitton's Champs Elysees store (Chadha and Husband, 2006). The European luxury brands got a successful result in Japan and this affected the whole Asian countries in later, like Hong Kong, Singapore, Taiwan, China, South Korea and other countries where have rapid economic growth. (183)

In addition, there was a major change to the European luxury industry in the 1990s, which is the ' democratization of luxury', means the luxury brand product is not exclusively sold to specific person like in the past, but open to public market for more ordinary people who can afford to buy it, in order to gain more popularity and profits (Chadha and Husband, 2006). They changed from family-business to a global retail corporation because Haute couture was no longer the main stream since 1970's and took place by the profitable ready-to-wear and accessories. They realized that ready-to-wear and accessories have become a good mean to expand to a new market and earn more profit. To cite an example, Yves Saint Laurent used licensing to enter to new market and to set up its ready-to-wear and accessories stores all over the world. Therefore, the luxury brands provided more affordable ready-to-wear and accessories in order to attract younger target customers and more mainstream consumers. Meanwhile, there was an economic boom in Asia, people earned money more and easier than before, thus they were more willing to spend money on luxury goods. Therefore, the luxury brands applied what they did in Japan, to set up stores in other regions where also have rapid economic growth such as Singapore, Hong Kong and China. (215)

Nowadays, Asia is the biggest luxury goods market in the world. According to author's statistics analysis, the Asian luxury goods market is valued US\$80 billion, composed of 37% of the global market. In fact, the actual value of Asian spending is higher because many Asian purchase luxury goods when shopping abroad, especially Japanese and Chinese, by adding 15-20% to the continent's share estimated that Asians consume half of the world's luxury brands (Chadha and Husband, 2006). However, Asia including many different countries and regions, such as Singapore, China, Hong Kong, Taiwan, Japan and South Korea , the economic development of these countries are in different stages , so they are not in same the stages under the five-stage process model. (115)

In Asian countries, the spread of luxury culture is usually applied to this model. China is going from stage one to stage three, which means that the Chinese's desire on luxury goods was subjugated in the past. It is because most of the people were living in poverty in China, and they did not have enough income to maintain a basic standard living, not even though about to buy luxury products. In stage two, start of money, they started to have more money due to the economic growth, people can enjoy a better living standard, electronics products like television and refrigerator became the new luxury goods. Only some elite consumers are affordable to spend on luxury products, like Louis Vuitton or Gucci bags. (123)

(add fig.)

With substantially economic growth, China has reached the stage three now, which is the show off stage in the luxury model. According to the National

Bureau of Statistics (NBS), China's gross domestic product(GDP) in 2009 grew by 8.7 percent year-on-year to reach 33.53 trillion yuan, which is valued to \$4.91 trillion in USD(Global Times, 'China's GDP growth expands 8.7% in 2009'Online, 20/04/10). (52)

In addition, referring to social blue book and the GDP per capita in China is estimated to reach \$4000 USD in 2010(Global Times, 'China's GDP per capita to reach \$4,000 next year' Online, 20/04/10), which indicated that certain key segments in the society have become more wealthy, and they are mainly living in the urban cities. They are affordable to buy expensive apartments, cars, luxury brand name clothing and accessories, even their dogs are using luxury brand clothing. They do not understand the added value meaning behind of the luxury brand when they buy the products, the major reason of them to buy the luxury products is to let others know they are rich and show off their wealth status among their peer groups, by doing this can increase their self-identity and self-esteem. This can be proven by Thorstein Veblen's rule: 'No point merely possessing wealth, you have to make sure it is "always in evidence" to gain the esteem of other' (Chadha and Husband, 2006, p. 44). (127)

On the other hand, the reason for the Japanese to buy luxury brand products is different from the Chinese, as Japan has reached the stage five, which is the way of life. Japanese consumers are the world's biggest spenders in the luxury goods market, the Japan's luxury market is the second large in the world only after the US, which worth between USD 15 billion and USD 20 billion(Mckinsey, 'Luxury goods in Japan: Momentary sigh or long sayonara?' Online, 30/03/10). Owning luxury goods have become a part of the Japanese  
<https://assignbuster.com/the-development-of-luxury-brands-market-in-asia-marketing-essay/>

lifestyle because they have developed their buying habits on luxury goods long time ago since the 1980's. They have many experiences in buying luxury goods, with high brand awareness and have a high standard toward the product's quality, they also have developed their personal taste on fashion due to greater individuality than the past. According to Seeking Alpha's data, almost half of the Japanese women who aged over 20 have a Louis Vuitton handbag, while 94% of women who live in Tokyo have at least one Louis Vuitton handbag in their 20's (Okonkwo, 2007). Nowadays, having luxury goods do not stereotype that you are belonging to the upper class, it is more like a middle class practice. Thus, Japanese women are no longer purchase luxury goods only based on the reason to show off their wealth status like what they did in the past, they are more sophisticated and confident about themselves, they prefer a mix and match style, like wearing Zara clothing while using luxury Louis Vuitton handbag. (237)

Although Japan's luxury market is the second large in the world, there was a luxury goods recession happened on it, the market was declined for 2% and 7% in 2007 and 2008 respectively. The weak currency of Japanese yen enhanced the consumers to buy some cheaper products such as fragrances and shoes, which made the total sales decreased. In 2008, the consumption continued to decreased despite the yen currency has recovered which shown a real recession (Bain & Company, ' Worldwide luxury goods market growth projected to slow substantially by end of year and head into recession in 2009', Online 20/4/10). Contrary to Japan, China has become the third largest luxury goods market in the world in 2006, the luxury market in China is forecasted to have an annual growth rate of 20 percent until 2008 and



then 10 percent each year until 2015, will be more than USD 11.5 billion and China will become the second biggest consumer of luxury goods by 2015 (KPMG, 'Luxury brands in China: Consumer Markets' Online, 20/02/10). As China is a very large potential market for the luxury industry in the coming future, there is need to investigate about the Chinese traditional value and uniqueness of Chinese, also the buying habit of the key segment consumers. (177)