BOSTON CONSULTING GROUP

Tencent Marketing Solution | TMI TENCENT MARKETING INSIGHT

China Luxury Digital Playbook

Joint report by BCG and Tencent

JUNE 2019

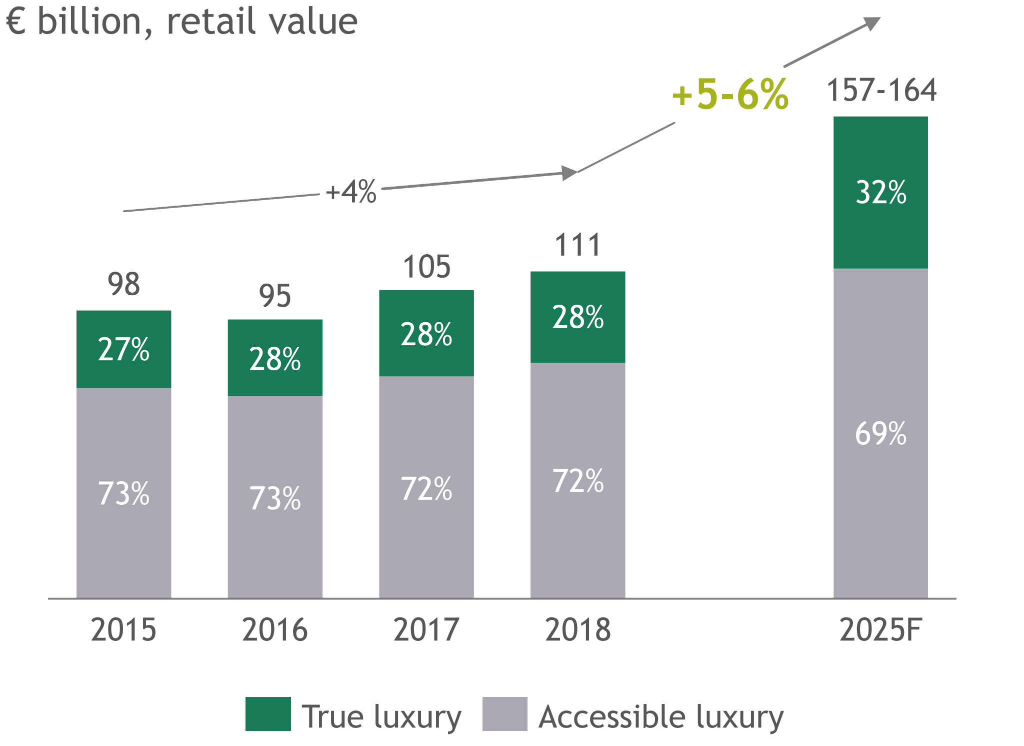
Tencent x BCG luxury consumer insight study

	Tencent data	Consumer survey
Data source	Tencent DMP	Tencent platform users' survey responses
Sample size	Chinese luxury consumers (customized BCG x Tencent tags)	~1500 consumers (luxury buyers in past 12 months)
Key outputs	Luxury consumer profile and digital behavior	Luxury touchpoints and purchase pathway; category differences

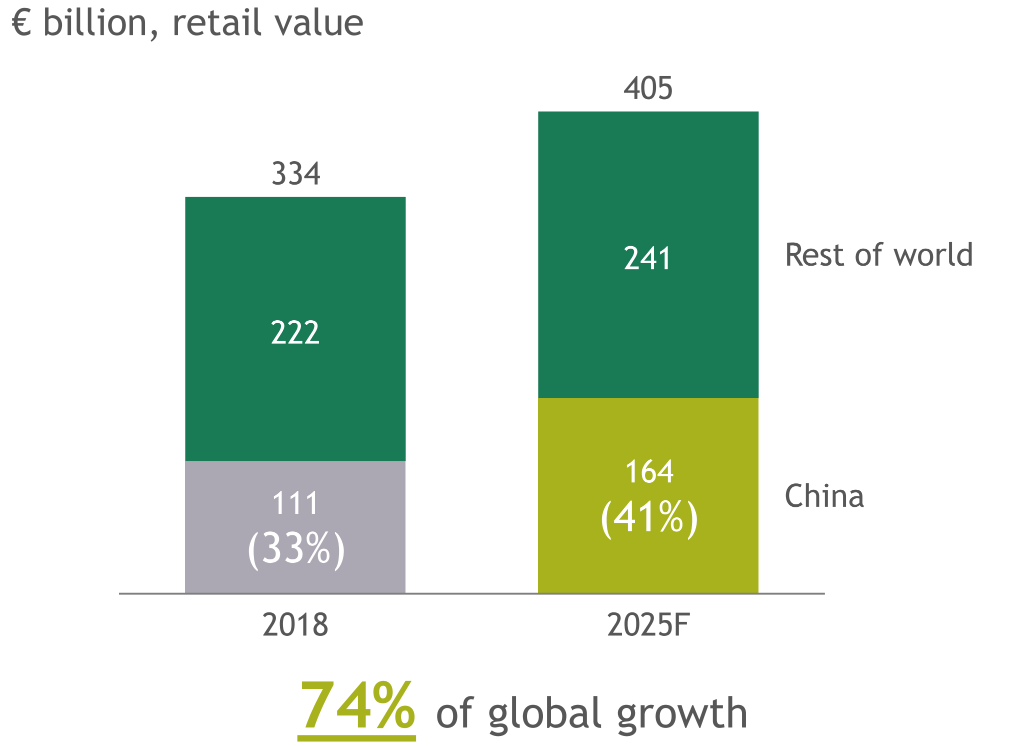
Contents

In 2018 China's luxury market exceeded €110 Bn, 33% of the global market, and is growing at 6%

Chinese personal luxury market maintains 5-6% growth CAGR



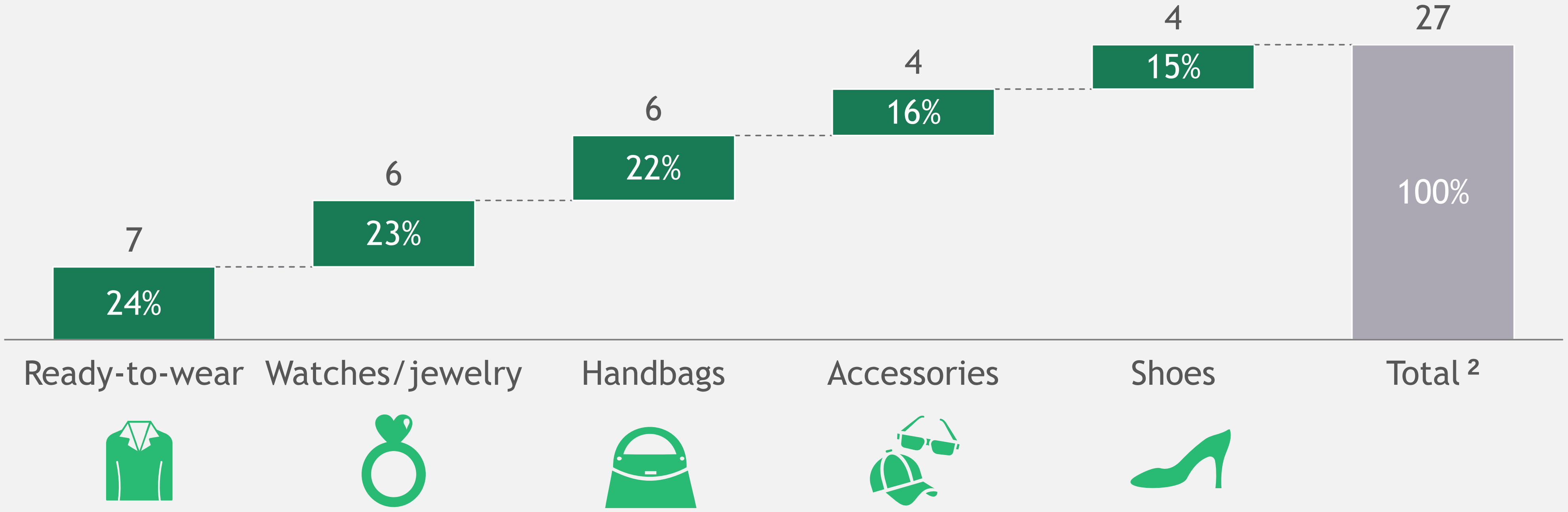
China will contribute 41% of global luxury consumption by 2025



Note: Chinese includes purchases abroad; personal includes leather accessories, apparel, watches and jewelry, fragrances and cosmetics
Source: BCG Luxury Market Model

Among true-luxury goods, ready-to-wear, watches/jewelry and handbags each contribute €6-7 Bn in retail sales

2018 China's true-luxury market size – by category (€ billion)



Purchase penetration among luxury consumers[1] (%)	Ready-to-wear	Watches/jewelry	Handbags	Accessories	Shoes
	61	44	42	54	50

1. Percentage of those who have purchased the category in the past 12 months; 2. true luxury only, excluding perfumes and cosmetics
Source: BCG X Tencent Luxury Study, 2019

Backup: this report focuses on the true luxury categories listed below, and excludes accessible luxury, fragrances and cosmetics

Personal luxury goods		
Category	Sub-category	Threshold price
1. Handbags	1. Handbags	>1,000 € / each
2. Shoes	2. Shoes	>350 € / each
3. Accessories	3. Sunglasses	>180 € / each
	4. Scarves/small leather goods	>180 € / each
4. Ready to wear	5. Outerwear/ coats	>1,400 € / each
	6. Dresses	>1,200 € / each
	7. Suits	>1,600 € / each
	8. Sweaters / knitwear	>400 € / each
	9. Shirts / Topwear	>200 € / each
	10. Jeans / pants / skirts	>250 € / each
5. Watches	11. Watches	>2,000 € / each
6. Jewelry	12. Jewelry	>1,200 € / each

Summary of insights

1. Luxury consumers continue to be young, 48% of them are aged below 30 and contribute 42% of luxury sales
2. Majority of true luxury consumers are from Top 50 cities (tier 2 or above); consumers in tier 3 cities and below contribute 27% of total sales
3. Luxury consumers can be classified into 9 segments: Absolute luxurer, Megacitier and Rich Upstarter represent the 3 largest segments
4. Luxury purchases continue to be highly influenced by digital: on average, 60% of the 4-5 touchpoints before final purchase are online; for handbags, the number of online touch points for handbags is as high as 6-7
5. Social media influence remains strong: 50% of consumers are influenced via the WeChat ecosystem; consumers prefer a highly curated, personalized social experience
6. KOL is a key influence on consumers aged below 30; KOLs are becoming more diverse in their online personalities and their content/themes increasingly fragmented
7. Media influence has evolved from digital content to idols created by ecosystems and immersive virtual characters (e.g. from mobile gaming)
8. Overall 80% of luxury purchase journeys are ROPO, 20% higher than the global average
9. Half of luxury consumers expect improvement of digital experience at offline stores, i.e. smart fitting, VR/AR experience and smart interactive screens
10. Online accounts for 12% of purchases: brand E-com (e.g. Mini programs) is on the rise, already 33% of total online

Luxury consumers continue to be young, 48% of them are aged below 30 and contribute 42% of luxury sales

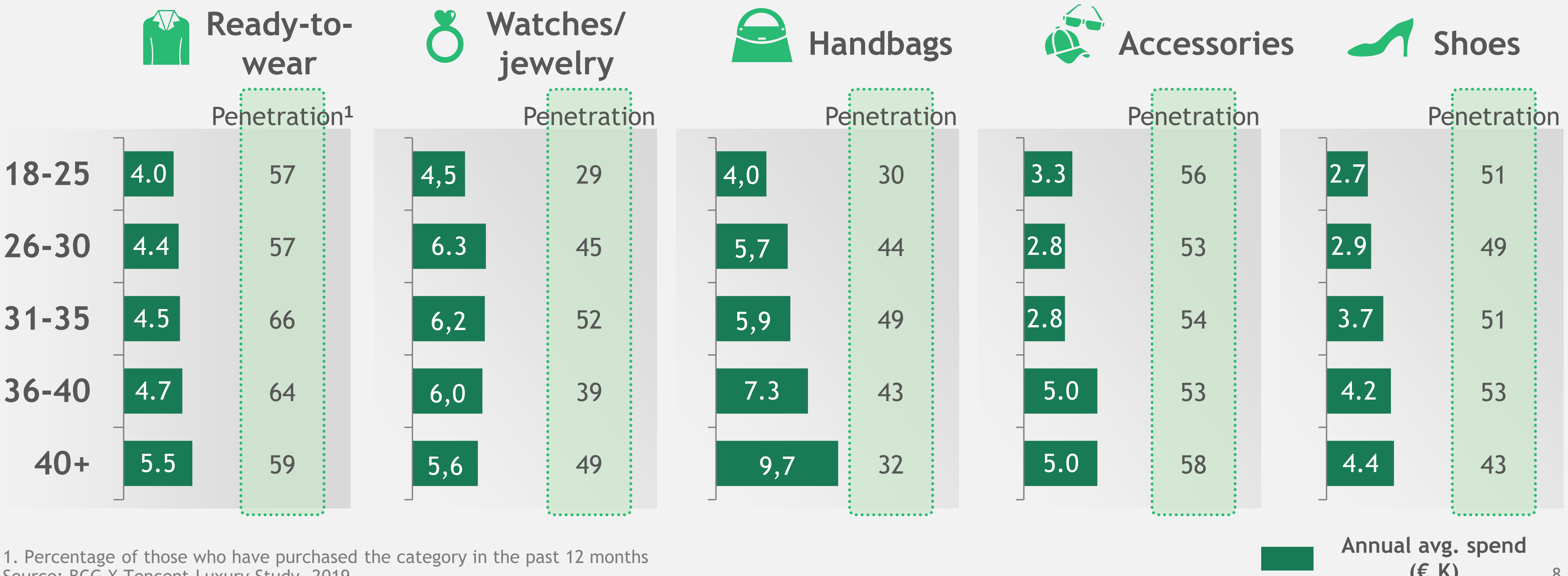
Consumers in each age group

	18-25	26-30	31-35	36-40	40+
% of luxury consumers	18%	30%	30%	14%	9%
Luxury retail sales contribution %	12%	30%	32%	16%	10%
Average luxury spend per luxury consumer (€, K)	8	11	12	13	14

Source: BCG X Tencent Luxury Study, 2019

High penetration of young consumers in RTW, accessories and shoes; older consumers core for handbags/jewelry

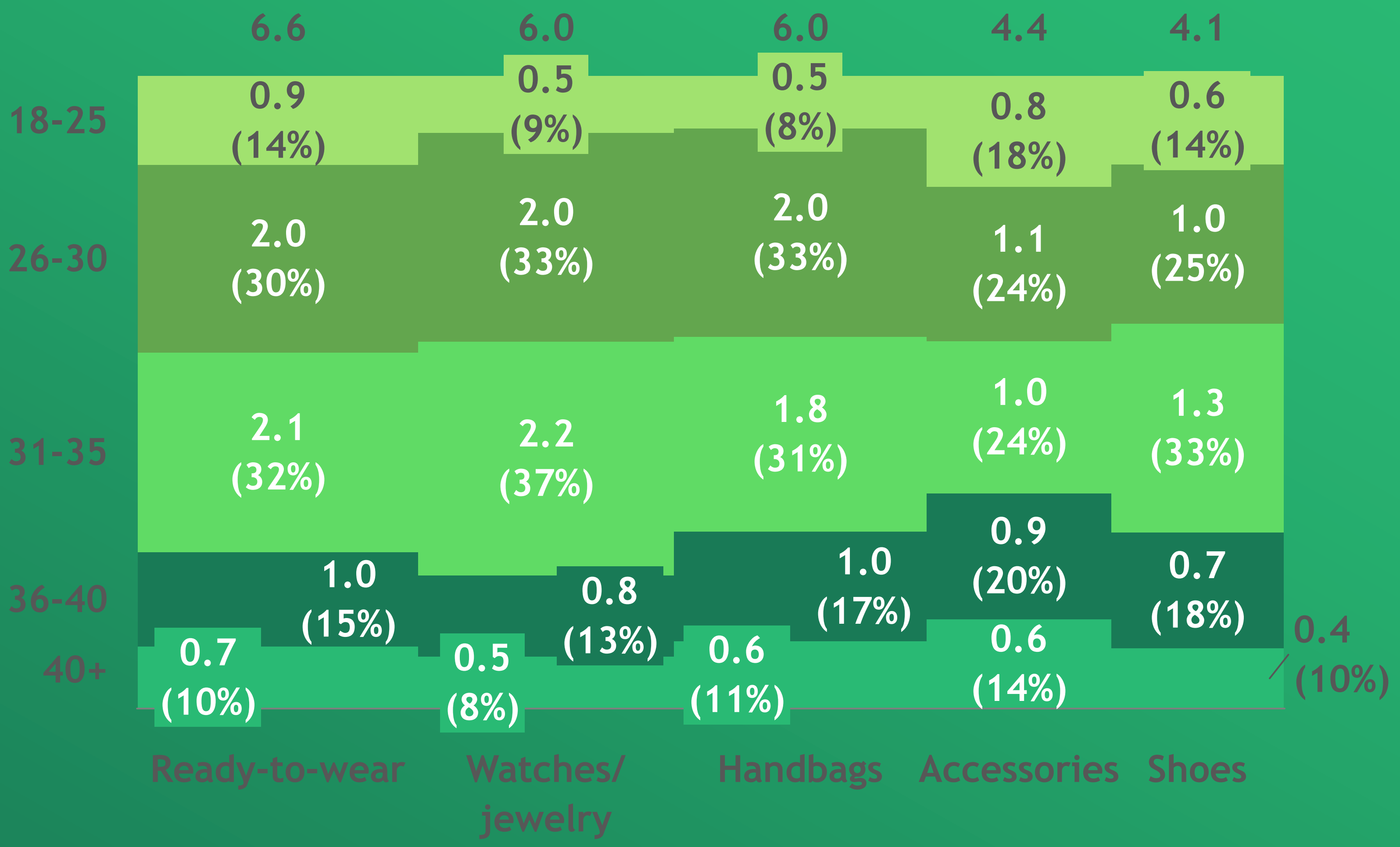
2018 average spend and purchase penetration – by category and by age



1. Percentage of those who have purchased the category in the past 12 months
Source: BCG X Tencent Luxury Study, 2019

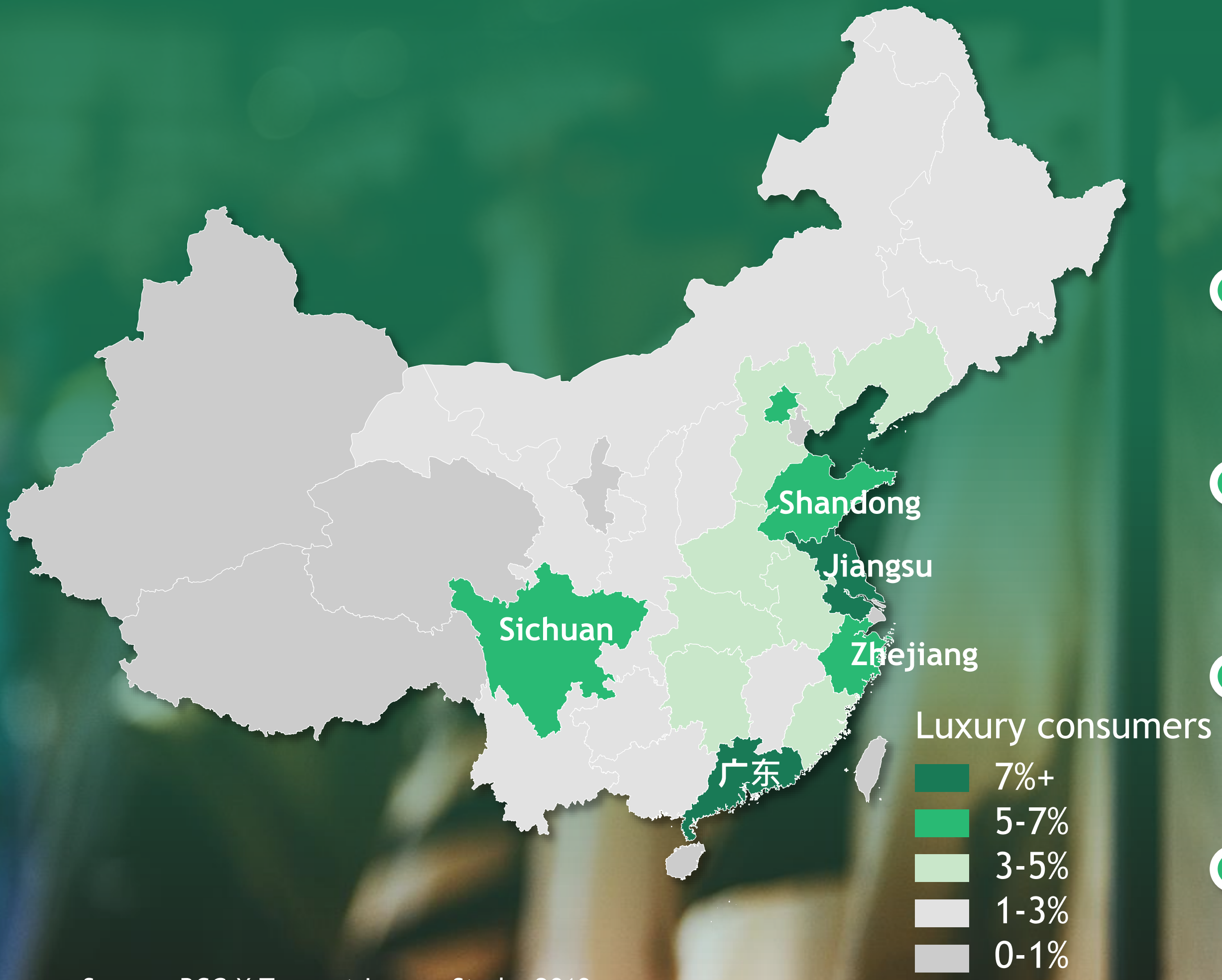
26-35 y.o. the core customers of watches/jewelry and handbags, consumption for other categories are evenly distributed among age groups

2018 true-luxury market size by category and age (€ , billion)



Source: BCG X Tencent Luxury Study, 2019

Over 70% of true luxury sales come from the ~50 tier 2 or above cities



City tier	% of luxury consumers	Luxury retail sales contribution %	Avg. luxury spend per luxury consumer (€,K)
BJ/SH/GZ/SZ (Top 4 cities)	26%	32%	13
Tier 1 (11 cities)	21%	22%	12
Tier 2 (32 cities)	18%	19%	11
Tier 3 & below (2206 cities)	35%	27%	9

Source: BCG X Tencent Luxury Study, 2019

Lower tier consumers' spend on RTW, watches/jewelry and handbags still lags behind their high tier counterparts

2018 average spend and purchase penetration – by category and by city tier

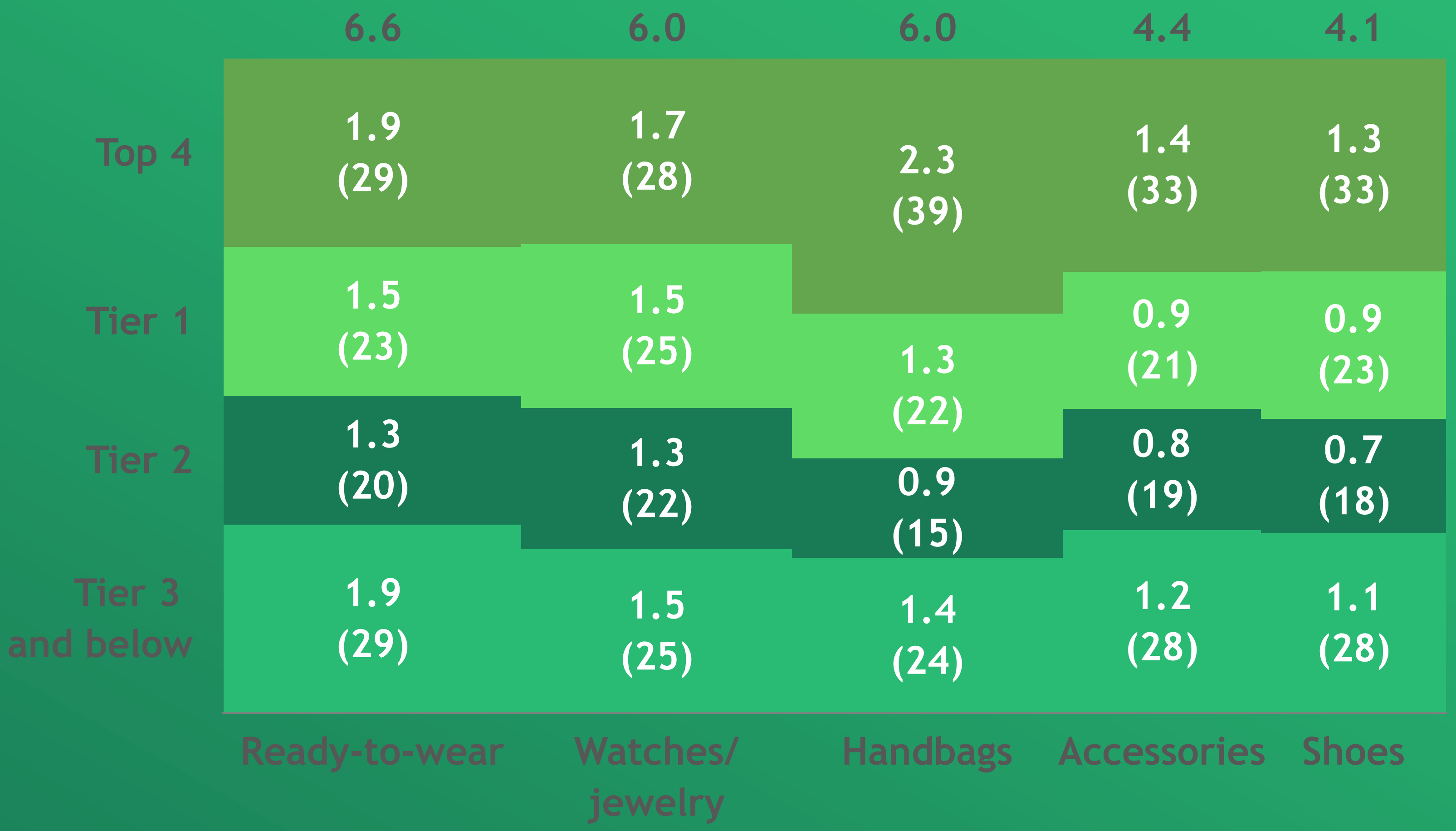
	Ready-to-wear		Watches/jewelry		Handbags		Accessories		Shoes	
	Annual avg. spend	Penetration[1]	Annual avg. spend	Penetration	Annual avg. spend	Penetration	Annual avg. spend	Penetration	Annual avg. spend	Penetration
BJ/SH/GZ/SZ	5.3	56	6.2	44	6.3	53	3.3	60	3.3	59
Tier 1	5,0	57	6,3	47	5.9	43	3.2	54	3,5	48
Tier 2	4,7	62	6,5	45	5,6	38	3,2	56	3,1	53
Tier 3 & below	3,7	66	4,7	42	5,1	35	3,1	49	3,2	43

Annual avg. spend (€,K)

1. Percentage of those who have purchased the category in the past 12 months
Source: BCG X Tencent Luxury Study, 2019

Majority of consumption comes from tier 2 or above cities across categories

2018 true-luxury market size by category and city tier (€ , billion)



Source: BCG X Tencent Luxury Study, 2019

China luxury consumers can be classified into 9 segments

<table>
<tr><th rowspan="2">Luxury sophistication level</th><th colspan="5">Emotional needs for luxury consumption</th></tr>
<tr><th>Following trend</th><th>Expressing status</th><th>Seeking quality/ classic style</th><th>Pursuing top-fashion</th><th>Pursuing self-expression</th></tr>
<tr><td>Sophisticated</td><td></td><td>Social Wearer 9%</td><td rowspan="2">Timeless Proper 12%</td><td colspan="2">Absolute Luxurer 16%</td></tr>
<tr><td>Explore</td><td rowspan="2">Trend Follower/ Classpirational 8%</td><td>Rich Upstarter 14%</td><td>Fashionista 11%</td><td>Megacitier 16%</td></tr>
<tr><td>Entry</td><td>Status Seeker 7%</td><td></td><td></td><td>Statement Seeker 7%</td></tr>
</table>

x Market value share

Source: BCG X Tencent Luxury Study, 2019

" Absolute Luxury","Megacitier" and "Rich Upstarter" represent the 3 largest segments

	Absolute Luxurer	Megacitier	Rich Upstarter
Attitudes	• Very experienced luxury buyer, fashion-forward • Values exclusivity and customization	• Pursues and explores individual style • Fashionable and well informed	• Looking for status and recognition • Inexperienced with luxury, un-sophisticated
Age and city tier: % of 18-30	40%	42%	39%
Age and city tier: % of top 4 & tier 1	55%	62%	52%
Purchase behaviors: % of luxury consumers	4%	12%	14%
Purchase behaviors: Annual spend (€,K)	40.4	14.9	8.8
Purchase behaviors: % of digital touchpoints[1]	64%	62%	63%

1. Proportion of digital touchpoints among all touchpoints, during the discovery and research stages
Source: BCG X Tencent Luxury Study, 2019

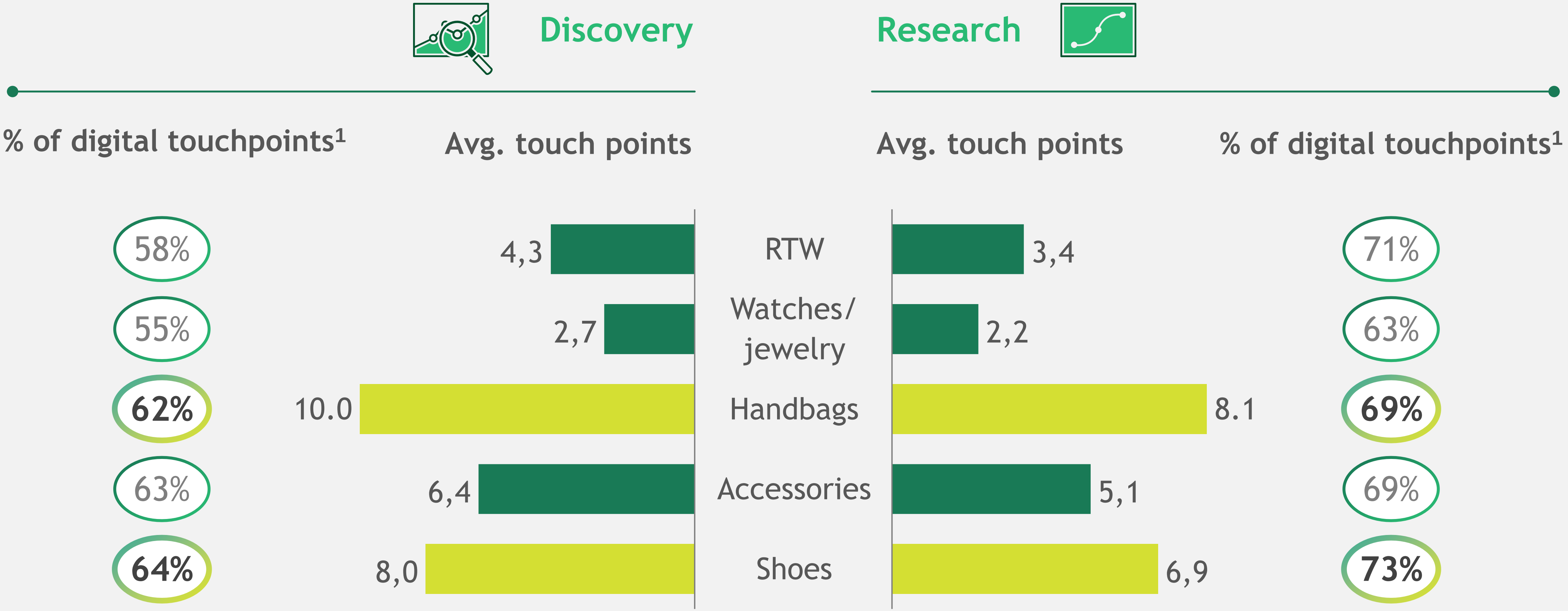
Consumers are exposed to an average of 4-5 touch points during discovery and research, of which ~60% are digital

	Discovery	Research	Purchase	Delivery	Aftersales
Average touch points[2]	5.0	4.1	1.0	1.0	2.5
% of digital Touch points[3]	60%	69%	12%[1]	10%[1]	66%

1. Exclusive of Daigou; 2.Touch points exposed per stage by a luxury consumer ; 3. Proportion of digital touch points among all touch points

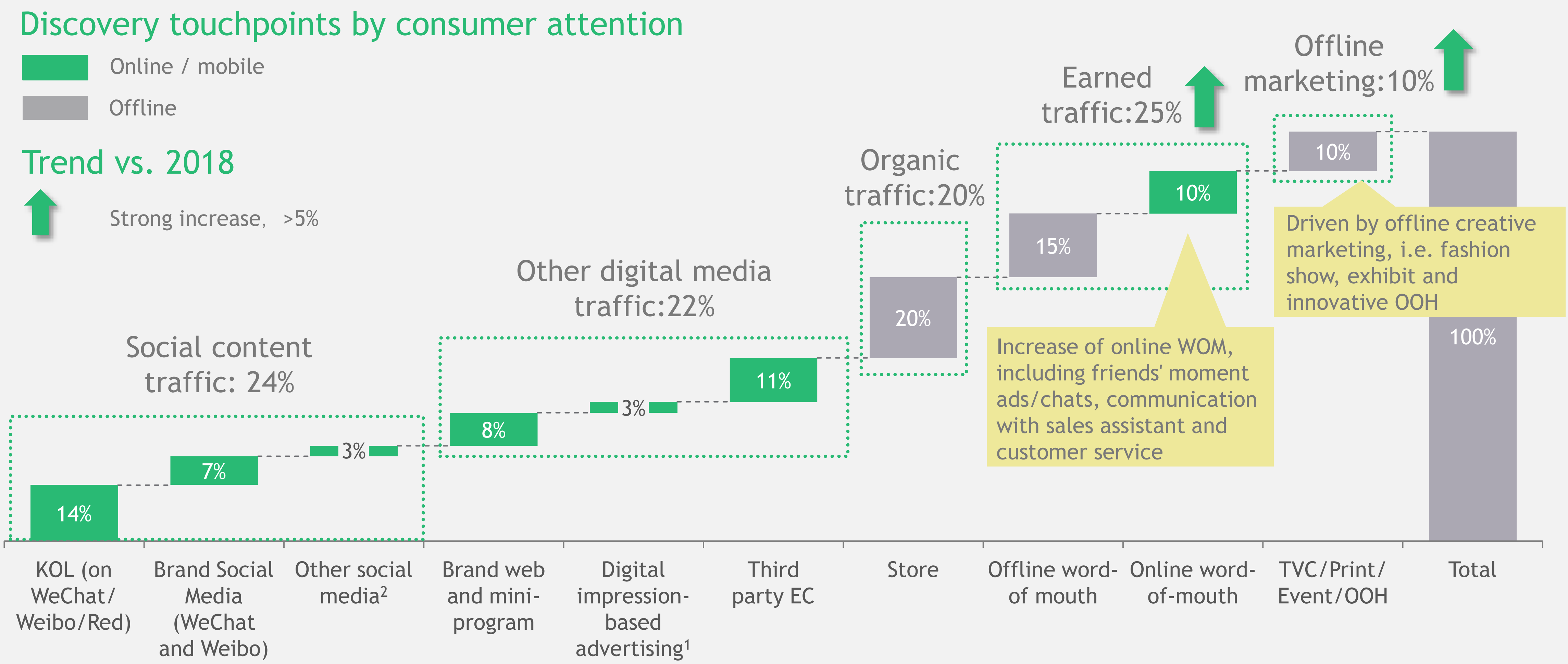
Source: BCG X Tencent Luxury Study, 2019

Extremely complicated purchase pathway for handbags and shoes; highly digitalized discovery and research



1. Proportion of digital touch points among all touch points
Source: BCG X Tencent Luxury Study, 2019

Social content and digital media draw ~50% of attention; offline creative marketing gaining traction



1. Primarily Moments ads and OTV ads ; 2. including short videos and other social media

During discovery and research, over 60% of the online touch points are on social media

Discovery

What triggered your interest in the product？(Multiple choice)

Discovery - % of luxury consumers

83% Online touch point penetration[1]

69% Social media penetration[2]

Research

Through what channels did you do research before making your purchase decision？ (Multiple choice)

Research - % of luxury consumers

84% Online touch point penetration[1]

67% Social media penetration[2]

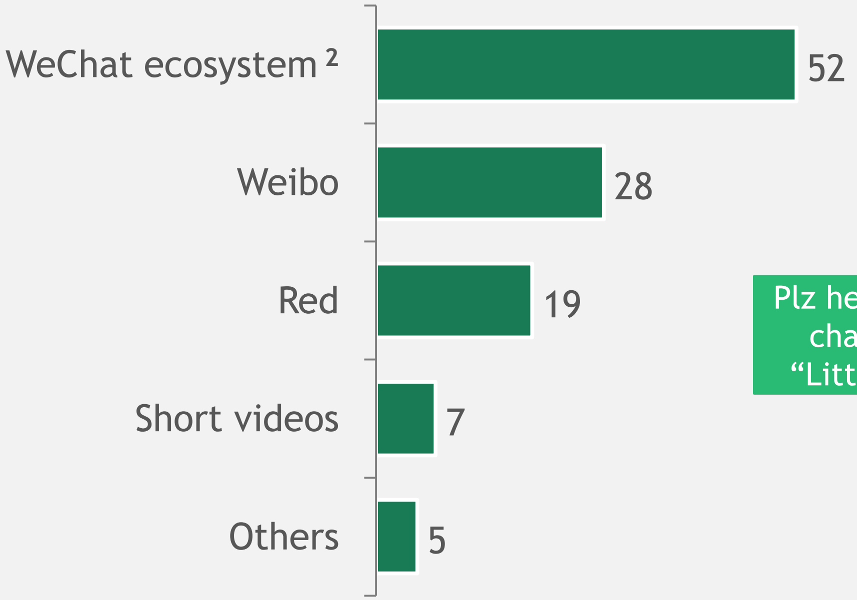
1. Proportion of luxury consumers who were exposed to online touch points； 2. Proportion of luxury consumers who were exposed to social media

Source: BCG X Tencent Luxury Study, 2019

WeChat is the most used social platform during discovery and research, followed by Weibo and Little Red Book

? What triggered your interest in the product？
(Multiple choice)

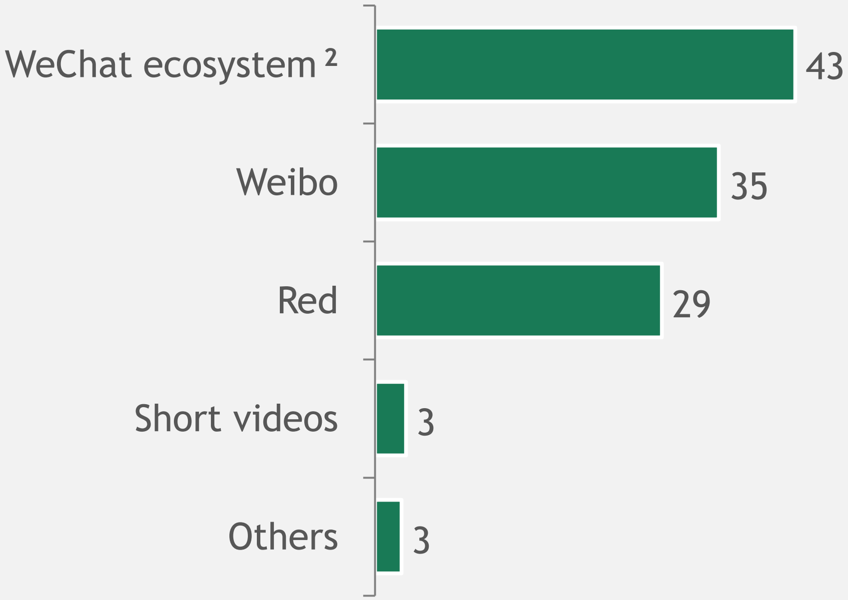
Discovery - % of consumers[1]



Plz help change the chart “Red” to “Little Red book”

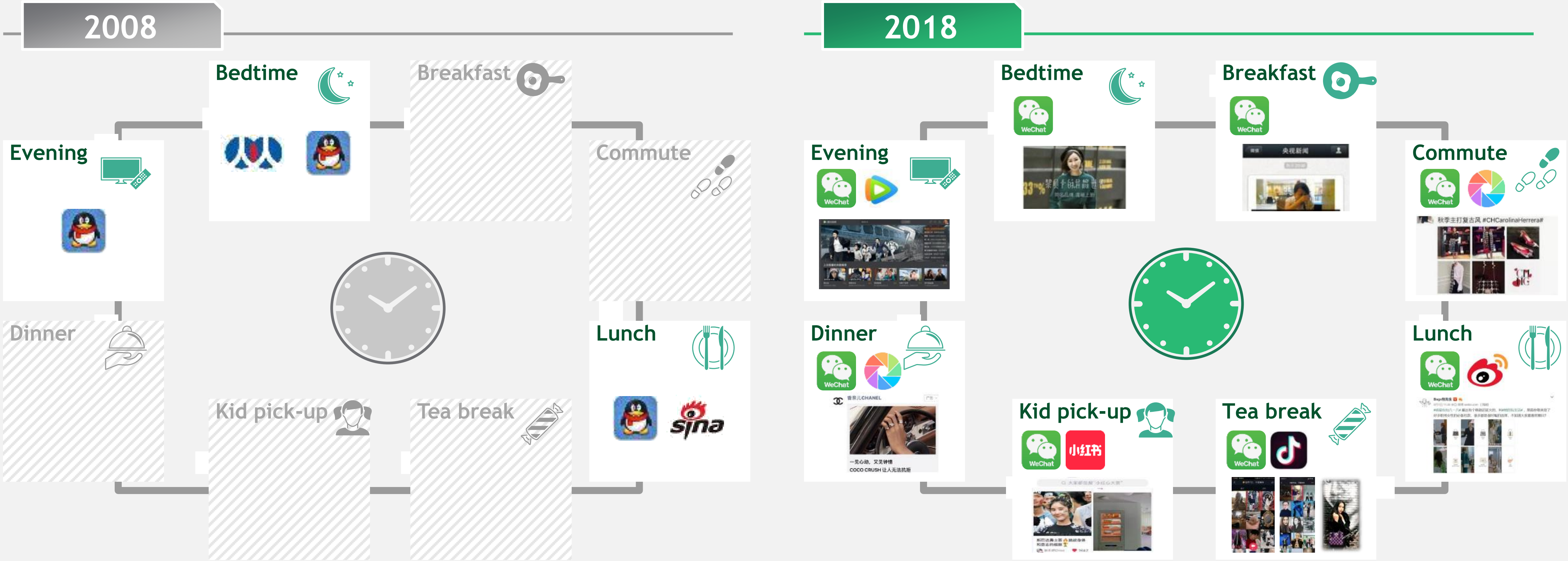
? Through what channels did you do research before making purchase decision？ (Multiple choice)

Research - % of consumers[1]



1.Base is all luxury consumers, numbers represent % of consumers who were exposed to the channel; 2. includes WeChat mini program,WeChat public account and WeChat moments of friends/sales assistants
Source: BCG X Tencent Luxury Study, 2019

Consumers' increasing preference towards personalized social networking driven by unique digital ecosystems



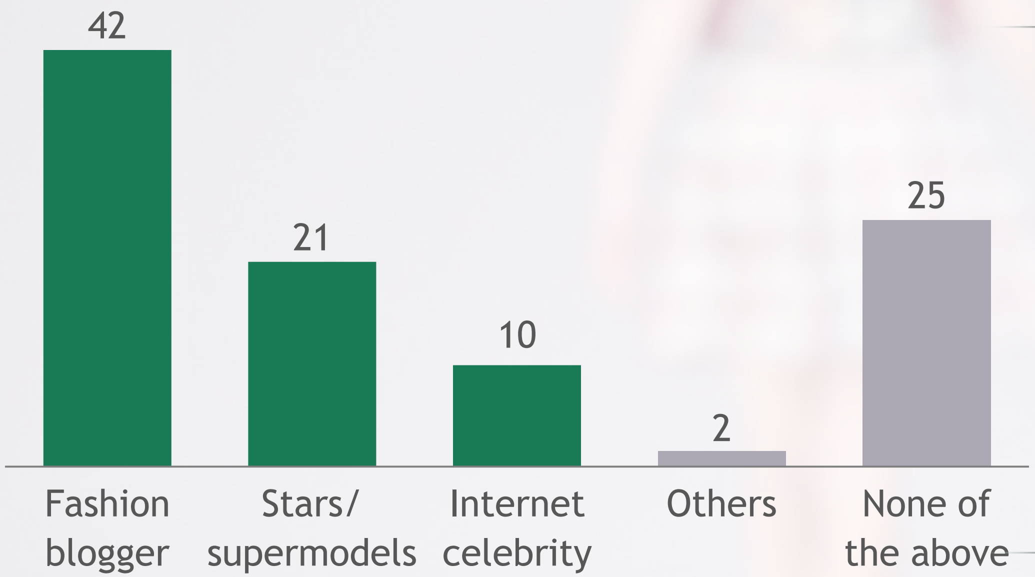
Undifferentiated mass social networking focused on information distribution

More personalized, digitized 24/7 social networking scenes

Source: desk research, BCG analysis

More than 70% of consumers, mainly those young consumers aged below 30, are still influenced by KOLs

? Which type of fashion influencer has the highest impact on you?



Source: BCG X Tencent Luxury Study, 2019

Trends of fashion KOL

Fashion blogger

- They have started their own EC business via WeChat Mini Programs ("Content EC")
- Jointly produced limited-edition products with the fashion industry, i.e. Mr. Bag's collaboration with Givenchy and Tod's

Stars/supermodels

- Popularization: celebrities with more down-to-earth and applicable fashion styles gain popularity

Internet celebrity

- Celebritization: their style and reviews influence the purchase decisions of post '90/'00s consumers
- Multi-platform: they promote customized content suited for different platforms to attract more followers

More diverse types of fashion bloggers, stars and internet celebrities, and more fragmented social media content

Global

Limited KOL types...


A list stars


Fashionista


Niche internet celebrities

Limited social media topics:
Fashion street snap, lifestyle pics,and travel

China


Celebrities w/ huge fan base


Product influencers


Home decor lovers


Sharenting


Fitness lover


Island collectors


Food bloggers


Girls next door


Artsy backpackers


Brand product collectors

Fitness | Food & culinary delight | Skincare | Celebrity gossip
Fashion | Travel & photography | Astrology | Baby care | Music
Diving | Skiing/snowboarding | Cosmetics | Home decor | Movie/TV

Fragmented luxury fashion related stars and internet celebrities...

...with broader topics

>40,000
Social media topics

Source: desk research, BCG analysis

Format wise, media has evolved from digital content to idols created by ecosystems and immersive VR experiences

Digital content

- Content created by fashion KOL, and frequent interaction w/ consumers via social media
- Text, pictures, and new formats such as short videos

Idols created by ecosystems

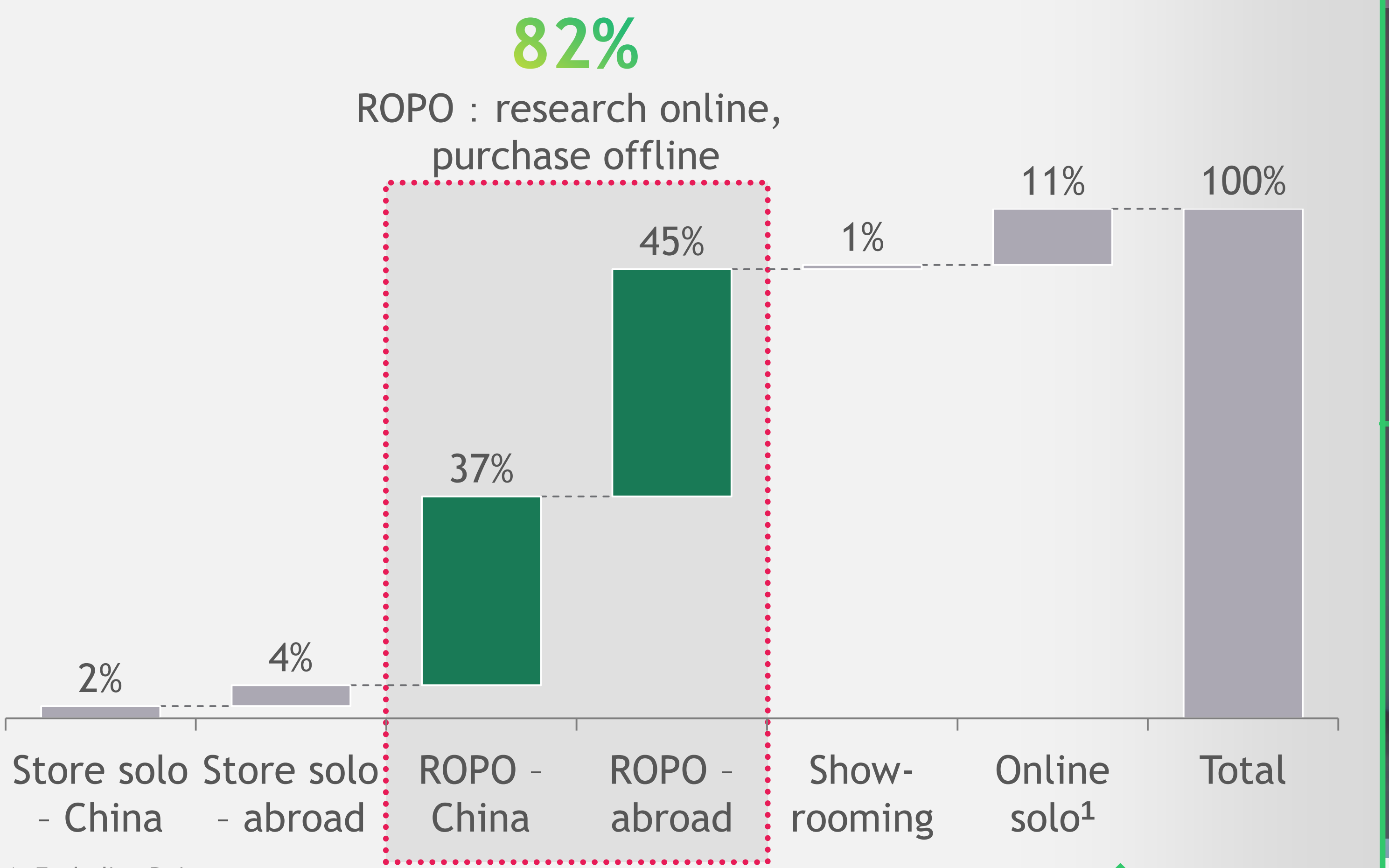
- Consumers involved in the creation of idols via talent show i.e. Produce 101
- Strong emotional bonding, thus higher willingness to pay

Immersive VR experience

- More interactive and entertaining digital content, i.e. games and virtual idols
- Immersive digital experience enabled by technology

Source: desk research, BCG analysis

Overall 80% of luxury purchase journeys are ROPO, much higher than the global average



Purchase pathway of China luxury consumers is **highly digitalized**

- Proportion of ROPO is **30%** higher than global average
- And **~20%** higher than in 2018

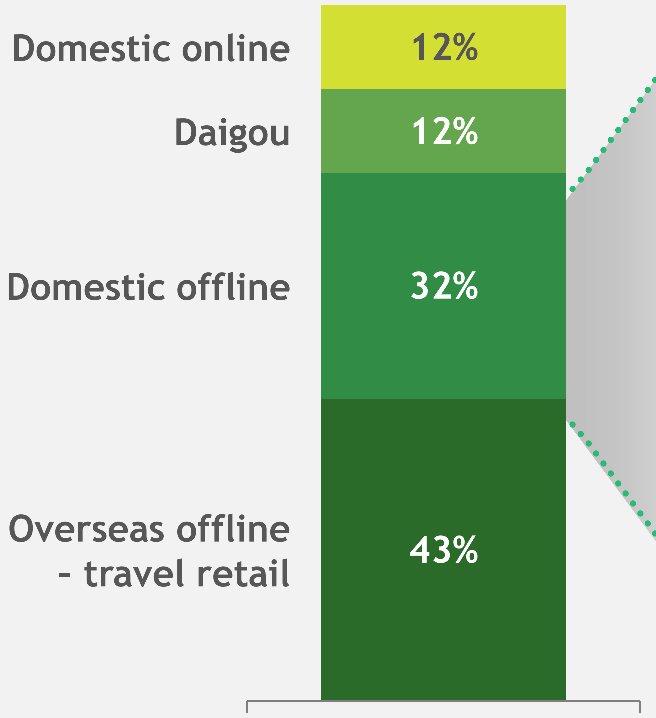
Even overseas luxury consumption is highly influenced by domestic online touch points before purchase

1. Excluding Daigou
Source: BCG X Tencent Luxury Study, 2019

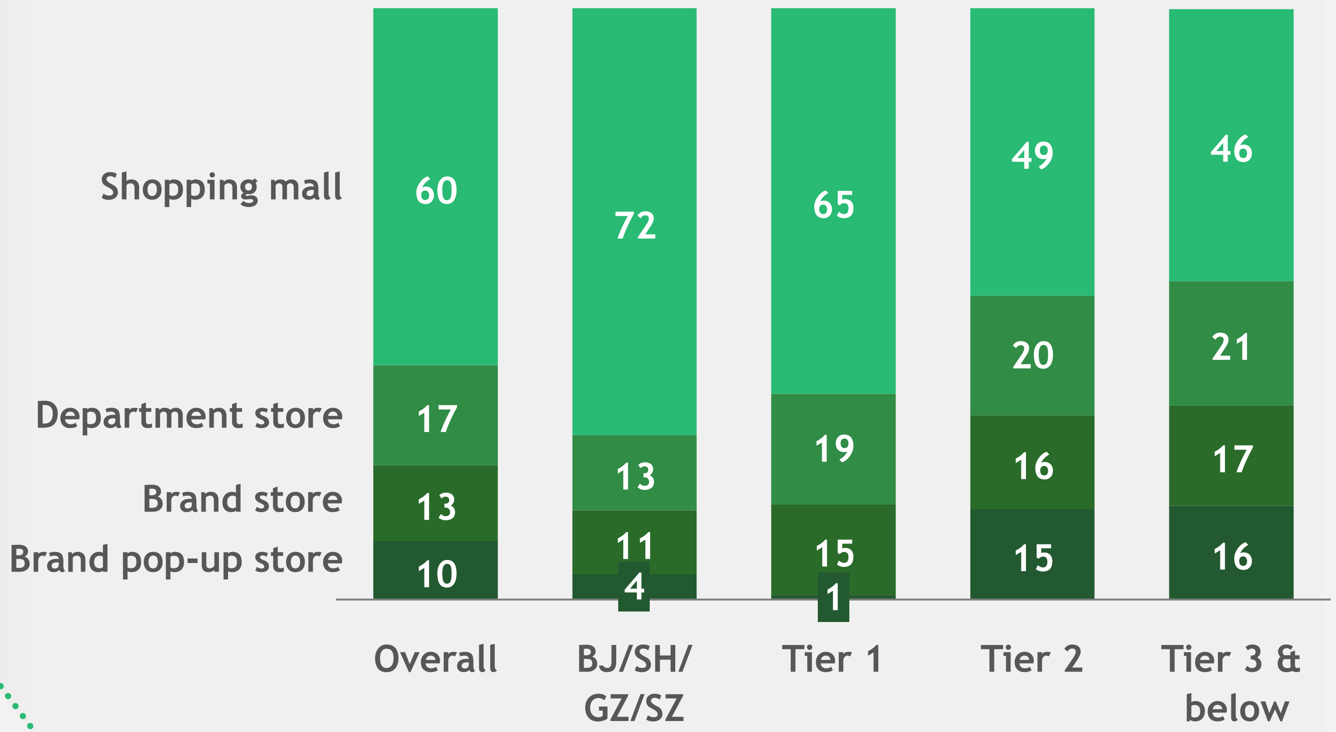
Shopping mall the main purchase channel for domestic offline sales; brand pop-up stores also help boost sales

Through which channel did you purchase your most recent luxury product? (Single choice)

Purchase channel break down （%）



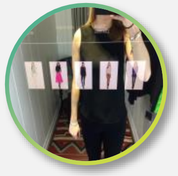
Purchase channel break down （%） - domestic offline deep-dive

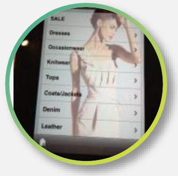


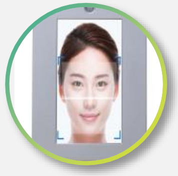
Source: BCG X Tencent Luxury Study, 2019

Nearly half of luxury consumers expect improvement in digital shopping experience at offline stores

? *What digital features would you be interested in for future offline stores? (Multiple choice)*




Smart fitting	VR/AR experience	Smart interactive screen	Self-service browsing	Self-service order	Intelligent robot service	Face recognition payment	QR code shopping	Fingerprint recognition payment	Electronic posters/ads
43%	36%	33%	30%	30%	27%	16%	16%	15%	14%

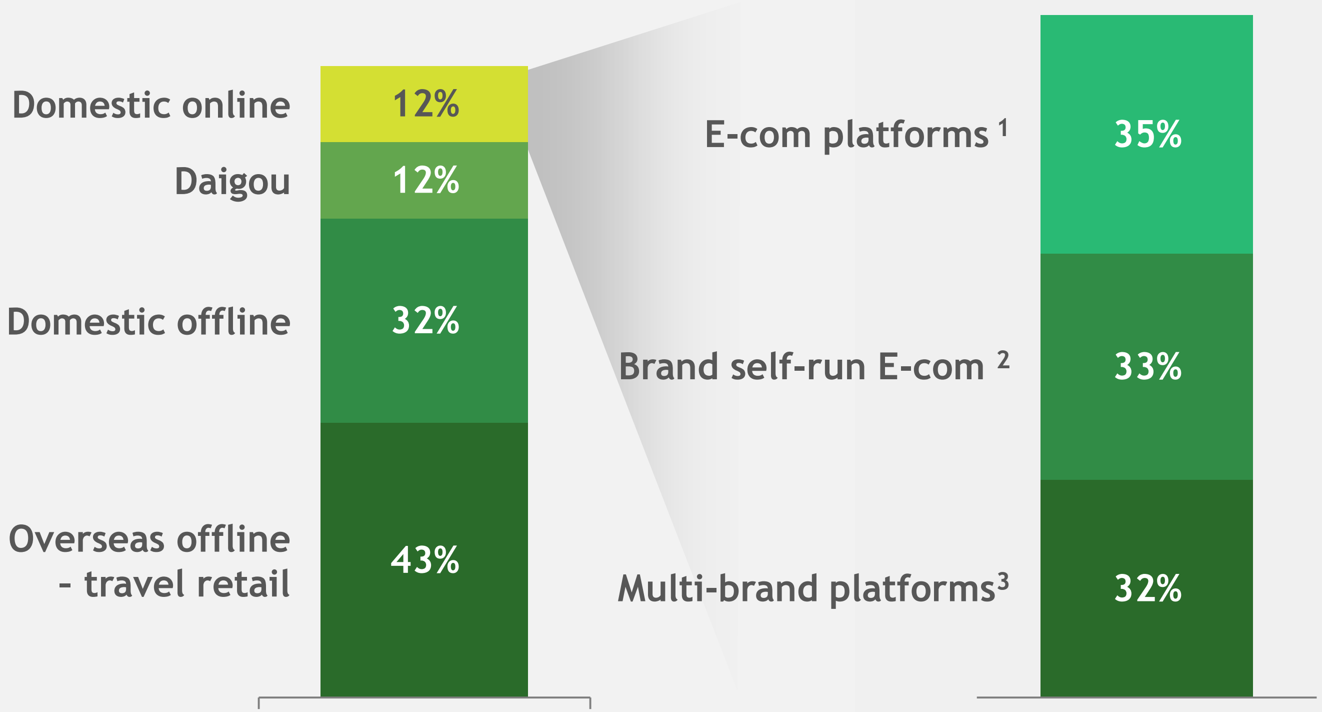
Source: BCG X Tencent Luxury Study, 2019

12% of purchases are pure online; brand own E-com is on the rise, currently 1/3 of total online

?

Through which channel did you purchase your most recent luxury product? (Single choice)

Purchase channel break down (%)



Luxury online sales is still at its infancy, consumer purchase penetration hasn't yet made a significant breakthrough

Brand-driven online channels growing fast, driven by the rise of brand WeChat mini programs and official accounts

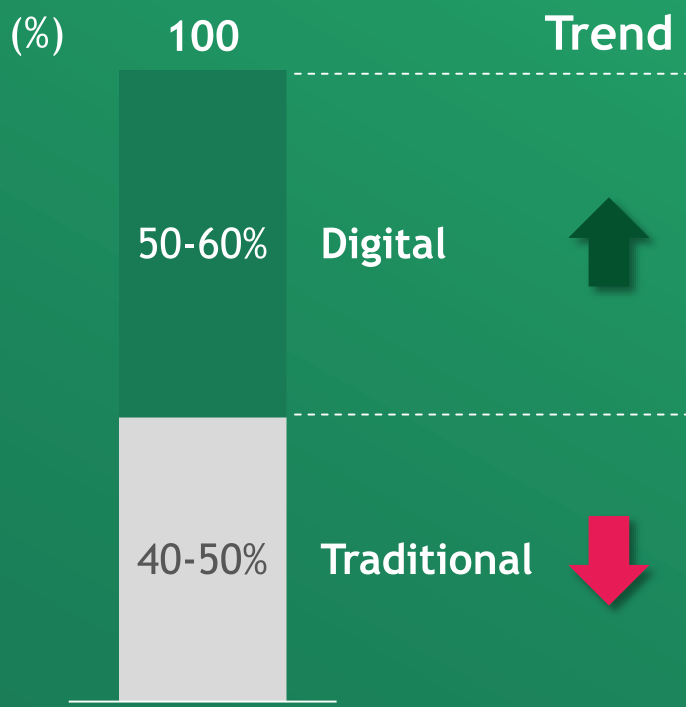
1. Including Taobao/Tmall/JD ; 2. Including brand official website, APP and WeChat mini program ; 3. Including non-discount online luxury multi-brand platforms, i.e. Farfetch, Shopbop

Source: BCG X Tencent Luxury Study, 2019

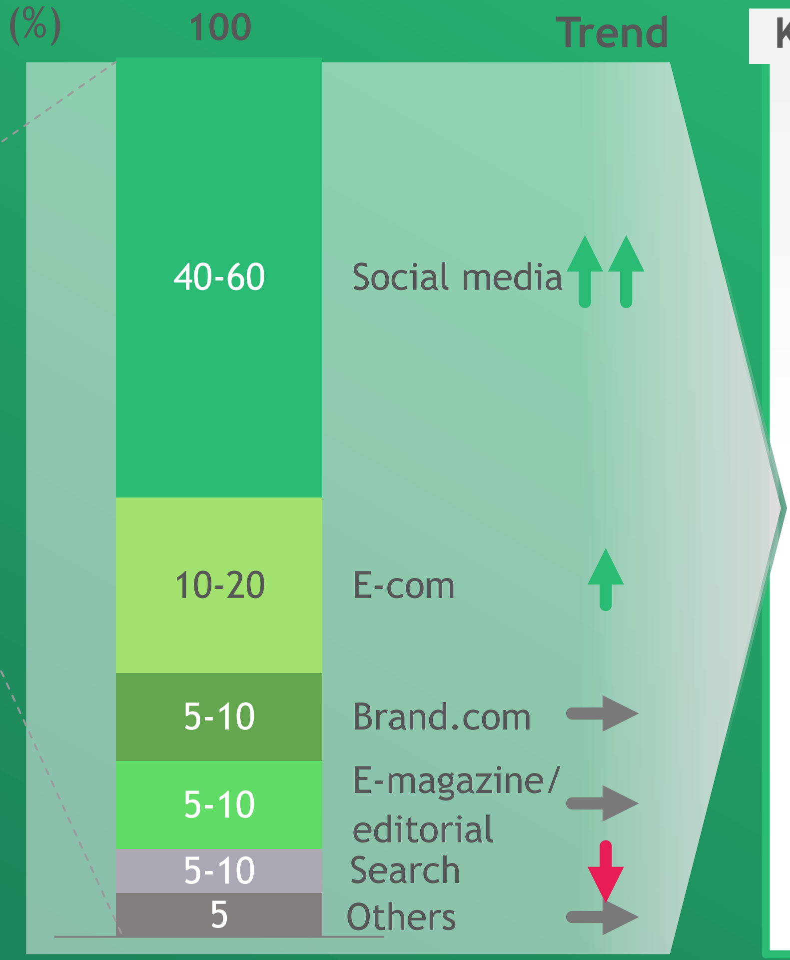
Contents

Continued increase in digital marketing spend

2018 luxury marketing spend breakdown



Increase of digital marking spend driven by social media and EC platforms



Key observations

China **luxury consumers are young**, driving the **increase of social media marketing spend**

- Diverse social media platforms
- Rich and visualized media format

Importance of **search and purchase roles** for vertical EC and EC platforms increases

Stable investment in Brand.com

- More in WeChat ecosystem, i.e. official account and mini program

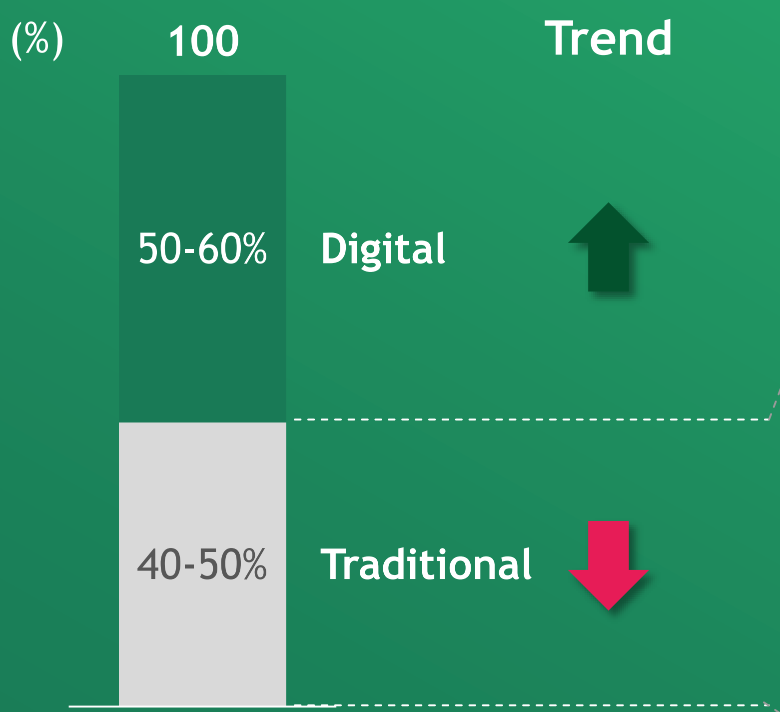
Minimal spend on search engines so that customers can find relevant info

Note: more than 10 luxury brands covered
Source: expert interviews, BCG analysis

Traditional marketing spend shifts to digital

Pop-up store and PR event the growth drivers of traditional marketing

2018 luxury marketing spend breakdown



Key observations

More investment in events to **create social buzz and promote brand spirit**

- I.e. "Volez, Voguez, Voyagez" by LV, and "Mademoiselle Privé" by Chanel

Small investment in pop-up stores can drive **higher traffic and sales conversion**

- Consumers are willing to share pop-up store experiences on social media

Other traditional channels have stagnated

- Print preferred by older consumers
- Poor efficiency of OOH due to fixed location
- TV spend focuses mainly on digital TV

Note: more than 10 luxury brands covered
Source: expert interviews, BCG analysis

As investment in digital marketing increases, luxury brands need to understand how to do it efficiently

Data driven: analyze consumer profiles and needs to make data-driven marketing decisions

Data integration

- Integrate data across online and offline touch points, holistically manage client data along the pathway (from discovery to purchase and after sales)
- Integrate domestic and overseas purchase data for Chinese consumers to do better CRM

Real-time monitoring

- Data monitoring, i.e. conduct A/B test together with marketing activities, to monitor marketing efficiencies
- Leverage data results to adjust marketing spend in an agile manner

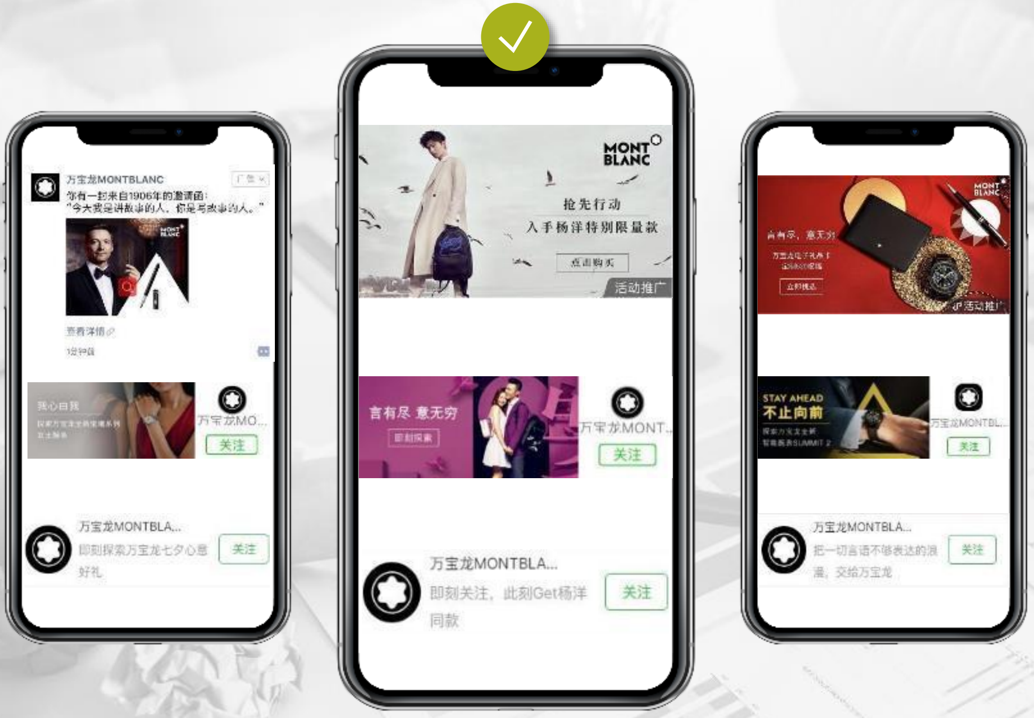
Result quantification

- Quantify results, optimize and make timely adjustments to marketing spend across touch points

MontBlanc: utilize oCPA to dynamically adjust marketing spend and to increase conversion rate of followers and sales

oCPA

Promoted 3 ads with different styles at the start of campaign, identified the most clicked ad via oCPA, then increased investment for that ad



More clicks, more followers, and higher sales conversion efficiency

Cost per follower is much less than industry average

Social media: companies need to excel in four dimensions to achieve efficient social media marketing

Accurate consumer targeting

- Obtain precise customer profiles, including demographics, emotional needs, fashion sophistication level, via internal CRM and media advertising data
- Manage and distribute varied content across different target consumer segments

The right media partner/KOL

- In-depth understanding of potential partners' follower base via big data to help build the most suitable media/IP/KOL mix
- Maximize marketing investment and efficiency through real-time monitoring and adjustment of media campaign

Consumer touch points expansion

- For new customers or customers have no access to offline stores, the roles of social media platforms range from discovery/research to purchase and aftersales
- For existing customers, social media platforms are a connecting point, allowing brands to conduct consumer analysis to help offline stores better serve customers

Content creation adjustment

- Rapid generation and distribution of content suitable for social media, i.e. for consumers with short attention spans and exposed to constantly changing hot topics
- Content with diverse perspectives (i.e. localized content) to target desired consumers
- Try interactive technologies and encourage UGC content and social sharing

Source: BCG analysis

Hermes: used ads retargeting on WeChat to provide customized content and closed-loop omnichannel experience

Ads retargeting

Leverage 1st round of engagement results and Mini Program data for ads retargeting:

- Mini Program interaction group and other historical engagement group
- Brand followers and lookalikes
- Keyword searcher (i.e. competitor)
- Fashion lover and high-end user

Tripled engagement rate of phase 1, engagement rate of Mini Program group reached 28%

Customized content

Customized interaction w/ brand product

- Swipe right or left to choose favorite theme song
- Click button to create own silk mix

Generated 15,000+ songs, each consumer spent an average of 43s per viewing

Close-loop O2O experience

87% of Mini Program traffic driven by WeChat ads; 3500+ people reserved an event, 60% from online

GUCCI

Gucci: combine social media ads in a single campaign to maximize publicity and sales conversion

KOL endorsement

- WeChat vertical KOLs Mr. Bag and Shiliupo
- Identified 2 highly relevant public accounts based on Gucci fans

Brand awareness

- Engagement rate[1] **triples** industry benchmark
- Engagement rate of KOL influenced audience **quadruple** industry benchmark

Sales conversion

- Launched limited-edition on Mini Program and online stores, **converted** social buzz and awareness to **sales**
- Collaborated w/ fashion blogger Gogoboi, and launched exclusive 2017 Holiday series together

1. Engagement rate considers clicks, likes and comments

Omnichannel: brands need to provide personalized & holistic brand experience across increasingly complex touchpoints

Potential challenges for omnichannel marketing

Lack of differentiated roles per touchpoint

Consumer touchpoints are complex with different roles, requiring more precise targeting and content distribution

- I.e. media impact might not increase significantly if the same content is distributed across touchpoints

Inconsistent brand image across touchpoints

Different sources of content, with different teams in charge, result in inconsistent quality and image

- I.e. Offline store display and communication are inconsistent with digital media communication

Isolation of online/ offline touchpoints

Separation between digital audience and offline customers/existing CRM data, decreasing traffic and sales uplift

- I.e. digital marketing efficiency is still measured by publicity, rather than quantifiable results

Brand strategies

- Target different segments via different platforms with customized content
- Identify use cases to formulate interactive communication strategy
  - I.e. launch online video ads and Moments ads together to boost awareness and sales conversion

- Centralize content creation capabilities/function and distribution of content across touchpoints managed by digital content expert, to ensure brand image consistency in terms of content format, visual display style and ways of communication

- Experiment diverse methods to drive traffic from online to offline, i.e. use online labeling system or Official Account follower data to identify potential consumers and push customized offline store events and invites/gifts

Louis Vuitton: using WeChat ecosystem to facilitate a smooth O2O experience and consumer journey to offline events

Reach: Online & offline to Mini Program

Convert: brand zone & Mini Program to reserve offline events

Online

3 rounds of Moments Ads to attract various consumers to event Mini Program

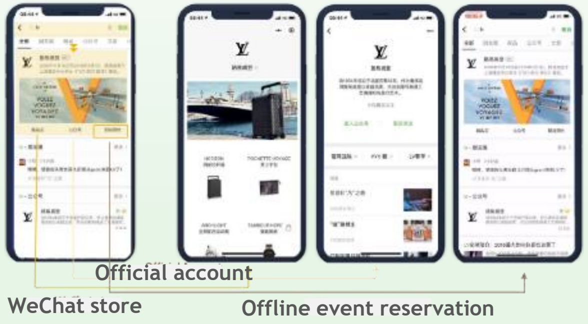
Offline

Event Mini Program QR code displayed at offline stores and in magazines

ELLE
VOGUE

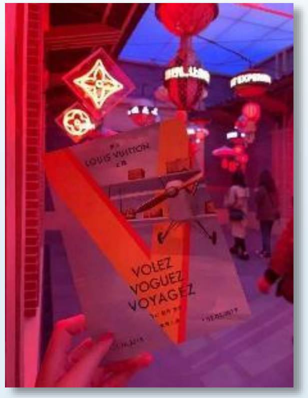
Online

WeChat ecosystem, including brand zone, Official Account and brand store, to direct traffic to offline event



Offline

Offline exhibition



VACHERON CONSTANTIN

Vacheron Constantin: closed-loop O2O shopping experience to expedite consumer decision making process from interest to final purchase

- **Interaction/ like rate:** 2 times industry avg. in past 10 months
- **Comment rate:** 3 times industry avg. in past 10 months
- **Sales:** 38 limited-edition watches launched, 10+ sold in 3 days, all by NEW buyers

Consumer purchase journey

Step 1
LBS-TA
Precision targeting

→ **Step 2**
Limited edition sold on WeChat

→ **Step 3**
Prepayment in WeChat

Step 4
Brand CRM

→ **Step 5**
1-1 prestige service

→ **Step 6**
Store experience/ product pickup

→ **Purchase**

Contents

Luxury players need to build capabilities in 3 dimensions to achieve long-term digital transformation

Centralized data integration and analytics

Companies need to integrate cross-functional data, build integrated data platform and implement data driven decision making processes

More flexible organization and ways of working

Reshape agile ways of working and company culture, align objectives, and orchestrate cross-function digital transformation

Enablement with cutting-edge IT tools

Build IT infrastructure for the digital era, integrate new IT technologies to improve customer experience & operating efficiency

Centralized data integration & analytics

Present…

Valuable data scattered across different business units, i.e.:

- Sales and CRM teams control offline sales data and customer information
- Media procurement team control data on online media advertising and consumer research results
- EC team controls online sales and online customer information

No real-time monitoring; lack of cross-functional accountability and data integration

Future…

Centralized enterprise data platform

- Integrate and match data via consumer profiles in order to gather 360-degree insights on consumer online/offline purchases, media browsing behavior etc.

Data-driven business decision making

- Better resource allocation across touchpoints and channels along consumer purchase pathway with the support of data; achieve precision marketing among target consumers
- Proactively track consumer trends as reference for future campaign planning, procurement and even new project designs

More flexible organization & way of working

Present…

Digital related functions are dispersed and independent of each other, i.e.:

- Digital marketing team in charge of online KOL and media collaboration
- Online media procurement team
- E-commerce team
- CRM team

Old fashioned and conservative company systems, which operate via strict function-specific plans and KPI evaluation

Future…

Symphonized digital transformation

- A "conductor" who orchestrates cross-functional project design, implementation and the creation of digital infrastructure
- A "platform" that provides the capabilities for data integration and analytics
- Multiple "small front ends" to showcase their business expertise for different digital use cases

Incentivize creative and agile ways of working and culture

- Digital transformation needs to be rolled out in multiple agile iterations
- Separation of functions might be replaced with more flexible and business-first way of working

Uniform evaluation and incentives

- Align digital transformation objectives across functions and provide consistent assessments and incentives

Enablement with cutting-edge IT tools

Present…

Luxury companies are relatively cautious to apply new digital technologies in daily operations

Future…

Build IT infrastructure for the digital era

- Enterprise data management platforms to integrate various data sets and formulate holistic consumer behavioral profiles
- AI-based advanced analytics to support business decisions

Enable touch points along consumer purchase pathway with new tech

- Online technology: agile trial of innovative online interaction and ways to sell, i.e. Mini Program
- Offline in-store technology: build more unique and prestigious in-store experience using digital techniques, i.e. RFID, AR/VR experience, product interactions based on facial recognition

Achieve internal operation efficiency

- Purchasing: smarter online/offline stock mgmt and demand forecasting
- Marketing: more precise resource allocation and content creation
- CRM: better consumer segmentation and more customized services

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Thank you

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