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CHAPTER 1

Development Trends of the Luxury E-commerce Industry

As a result of economic growth and changes in policy, the global luxury market has been subject to significant fluctuations. Now, with the recovery of the global economy, the luxury market has also seen its own overall recovery and has experienced moderate growth. The Chinese market, after a three-year economic downturn and a series of economic shocks, marked a turning point in 2016 to regain momentum. Against the backdrop of the moderate-to-high economic growth, China’s luxury market is expected to maintain stable increase. In this new period of growth, the influence of global digitalization on the luxury market continues to expand. Although traditional sales channels remained the main distribution channel for luxury goods, the year 2016 witnessed double-digit growth of luxury goods sales through online channels, while the growth of traditional channels was only 2% in the same period. In China, the growth of sales through online channels is also increasing as these new channels play a more prominent role in the sale of luxury goods. With the rise of new generation of consumers, the expansion of retail business digitalization and the continuous increase of luxury e-commerce users, this trend is expected to continue.
1.1 The Development of the Luxury Market

Analysis of the development trends of the global luxury market

After significant fluctuations, the global luxury market has started to experience stable growth. In the overall context of sluggish recovery of the global macro economy, the growth of the global luxury market began to slow down from 2011, with the year 2013 seeing negative growth. The luxury market began to show signs of recovery in 2014 and 2015, which continued through 2016. Throughout the year of 2016, the overall scale of the global luxury market increased by 3.32% in real terms, with a total value exceeding USD389.2 billion. Influenced by the continued recovery of the global economy, consumption of luxury goods is expected to enter into a period of stable development over the next five years with an actual growth rate of about 3%.

Consumption of luxury goods begins to pick up and is expected to maintain stable growth

Figure 1. Global sales of luxury goods and growth (2011-2021)

Source: Euromonitor International
China and the US lead in luxury sales.

In terms of sales volume, China and the US are the top two largest luxury markets in the world, with their sales combined accounting for over 40% of all global sales. In 2016, luxury sales in the US made up 22% of global sales, followed by China’s market share of 21%. Over the past five years of strong economic recovery, the US has maintained a sustained high growth trend in luxury sales, and witnessed the highest incremental sales globally during the period from 2011 to 2016, with an increase of $12 billion in absolute terms; Japan ranked second with an increase of $7.2 billion in luxury sales. China, however, was one of the worst market performers in luxury sales growth due to the economic slowdown, exchange rate fluctuations and policy changes. China saw negative sales growth from 2011 to 2016, which meant that the US regained the top position as the world’s largest luxury market.
1.1 The Development of the Luxury Market

In 2016, China was the world’s second largest luxury market with an overall sales volume of RMB498.3 billion, making up 21% of global sales and second only to that of the US. After a continuous slowdown from 2013 to 2015, China’s luxury market started to recover and its luxury goods sales increased by 8.4% compared with that of the previous year. It is expected that China’s luxury market will enter a stage of moderate and stable growth as Chinese consumers’ household income increases, luxury brands continue to adjust price spreads between domestic and overseas markets and the impact of policy changes starts to wane.

Luxury consumption recovery expected to lead to stable future growth

Source: Euromonitor International

Large-scale wine consumption and rapid growth in cosmetics consumption

Analyzing the proportion of sales in terms of different luxury categories, luxury wine took the dominant position in China’s luxury market, followed by apparel and footwear. In 2016, the sales of luxury wine soared to 76% of China’s total luxury sales, apparel and footwear followed by 7%, while leather products ranked in third place with a share of 6%.

Source: Euromonitor International
In terms of sales growth during 2011 to 2016, the consumption of cosmetics/personal care products experienced high growth, while that of stationary and clocks & watches declined. Considering that the compound average growth rate (CAGR) of luxury consumption in China was -2% during this period, the 9% annual growth in luxury cosmetics/personal care products clearly stands out. Jewelry and apparel & footwear followed closely with a growth of 6% and 5% respectively. In addition, the consumption of leather products, glasses and portable devices all achieved an increase of 3%. Among the luxury categories that declined in sales, stationary and clock & watches were the worst performers with an average annual decline of 5%, while sales of luxury wine, with a CAGR of -3%, saw a remarkable upturn in 2016.

In terms of where this consumption took place, China’s luxury consumption in the past five years mainly took place outside of the country, with domestic consumption only accounting for about 25% of the total. The growth rate of consumption abroad had been higher than that of domestic consumption until 2015. In 2016, the trend reversed and, as a result, there was an increase in the proportion of domestic consumption. This shift was mainly driven by worldwide price adjustments of luxury goods, RMB devaluation and guidance by relevant taxation policies, all of which had led to recovery of domestic luxury consumption stimulated by substitution consumption. Data from the Fortune Character Institute shows that luxury price spreads in China in 2017 declined considerably compared with those in 2011. At a policy level, government policies have stimulated growth in domestic luxury consumption. Taking import duty as an example, in 2015 and 2016, the government issued several policies to reduce the import duty on apparels, cosmetics and daily necessities, which played a role in contributing to the growth of luxury consumption.
Figure 8. Average price spread of luxury goods between China and the world (2011-2017)

Table 1. Changes of policies on import and export duties

<table>
<thead>
<tr>
<th>Time</th>
<th>Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015.06 June</td>
<td>Reduction in import duty rates for certain types of apparel, footwear,</td>
</tr>
<tr>
<td></td>
<td>skin-care products and other daily necessities, as well as import duties</td>
</tr>
<tr>
<td></td>
<td>for business suits, basic house decoration products, short boots, sneakers,</td>
</tr>
<tr>
<td></td>
<td>diapers, skin-care products, etc.</td>
</tr>
<tr>
<td>2016.01 January</td>
<td>Extension of the scope of tax reduction for daily necessities, and</td>
</tr>
<tr>
<td></td>
<td>reduction of import duty by imposing provisional tax rates for</td>
</tr>
<tr>
<td></td>
<td>commodities with high tax rates and high-demand like luggage, apparels,</td>
</tr>
<tr>
<td></td>
<td>scarves, rugs, vacuum cups, sun glasses, etc.</td>
</tr>
<tr>
<td>2016.09 September</td>
<td>The Ministry of Finance issued the Notice on Adjusting Consumption</td>
</tr>
<tr>
<td></td>
<td>Taxes for Import of Cosmetics, which stated that the commodity subject</td>
</tr>
<tr>
<td></td>
<td>to cosmetics consumption tax was adjusted to “top-grade cosmetics”, and</td>
</tr>
<tr>
<td></td>
<td>tax rate was reduced from 30% to 15%.</td>
</tr>
</tbody>
</table>

Source: Fortune Character Institute

Source: Public Information
Chapter 1
1.2 Rapid Development of Luxury E-commerce

01 The global trend of luxury e-commerce development

Weak growth in traditional channels with rapid growth in online sales

The luxury industry is faced with various challenges. In terms of sales channels, traditional luxury retail channels continue to dominate but shows a lack of momentum for sustained growth. In 2016, effective sales of luxury goods through offline channels accounted for 91% of global sales, a year-on-year increase of only 2%. Even though luxury goods sales via online channels is relatively low, the growth in online channels is more prominent. In 2016, online sales in the global luxury market represented 9% of the total, an increase by 12%. In terms of market segment, during the period from 2011 to 2016, luxury goods sales through online channels in the US reached the peak amount of USD10.5 billion. At the same time, benefiting from a booming e-commerce industry in the Chinese market, online sales in China’s luxury goods sector have also rapidly increased, ranking second in global sales volume after the US market. Following the acceleration of omni-channel development in luxury brands and the shift in the trend of luxury goods consumption, the penetration of online channels in the luxury market will gradually grow.

Source: Euromonitor International
Trends in the development of luxury e-commerce in China

Traditional channels dominate while online sales grows rapidly

While traditional sales channels continue to be the mainstream, the market share has seen a decline. In 2016, luxury goods sales through offline channels accounted for 91.1% of the total, a year-on-year decrease of 1%. During 2012-2016, the share of luxury goods sales through offline channels went down while penetration of online channels gradually increased. Although the share of online luxury goods sales remains currently small, it’s important to note its rapid growth. Driven by the shift in consumer behavior and the omni-channel development in luxury brands, the share of luxury goods sales through online channels is predicted to grow, expected to reach 13% by 2021.

In terms of the luxury categories, consumer preferences for purchasing luxury goods vary by the different categories of goods. For example, in 2016, online wine purchases took up 10% of total wine purchases – the highest of all, followed by apparels and glasses at 9%, and leather products, cosmetics and personal care products ranked in third place with a share of 8%. Online purchase ratios of other categories were significantly lower than the above categories. Statistics showed that online purchase ratio of luxury portable devices (electronics) was nearly zero, and those of luxury stationary, jewelry, and clock & watches were also very low, all lower than 5%.
CHAPTER 1
1.2 Rapid Development of Luxury E-commerce

Analysis of Secoo Business Data

Using Secoo Group, the leading vertical luxury e-commerce company, as a case study: (NB. Gross Merchandise Volume (GMV) is used instead of business revenue)

- Business scale grows rapidly with increased profitability

As reported by Frost & Sullivan, Secoo grew into Asia’s largest online platform for luxury goods in 2016 in terms of GMV. During the period from 2012 to 2016, Secoo’s GMV saw exponential growth from RMB488 million in 2012 to RMB3,470 million in 2016. Over the past five years, Secoo’s GMV has maintained a relatively high growth rate, which also reflects the overall growth trend of the luxury e-commerce industry.

Omni-channel strategy continues to develop

Secoo provides consumers with integrated omni-channel platforms for the offline and online purchase of luxury goods, including the Secoo website, mobile app and offline experience center. The online platform has been designed to provide convenient services for consumers to choose products, place orders and finish payments. The offline experience center serves as a complimentary channel that provides high-quality consumer and membership services and experience. Online channels remain the major sales channel for Secoo platform. From 2015 to the first half of 2017, GMV generated from online channels accounted for over 70% of the business revenue of all platforms.

Figure 13. Secoo GMV scale and growth rate (2012-2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>GMV (in RMB million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>488</td>
</tr>
<tr>
<td>2013</td>
<td>806</td>
</tr>
<tr>
<td>2014</td>
<td>1,657</td>
</tr>
<tr>
<td>2015</td>
<td>2,572</td>
</tr>
<tr>
<td>2016</td>
<td>3,470</td>
</tr>
</tbody>
</table>

Source: Secoo

Figure 15. Secoo business revenue: online vs. offline

<table>
<thead>
<tr>
<th>Year</th>
<th>Online</th>
<th>Offline</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>2016</td>
<td>55%</td>
<td>12%</td>
</tr>
<tr>
<td>First half of 2017</td>
<td>93%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Secoo
01 The rise of new-generation consumers boosts growth of online consumption

China’s luxury goods consumers are getting younger. According to the statistics of the World Luxury Association, the average age of China’s luxury buyers has dropped from 35 to 25, which will inevitably affect the strategies of luxury market players. It is predicted that this trend will further progress in the future. Data from Euromonitor shows that, in 2015, millennial and Gen Z consumers made 34% of total social income, and the ratio is expected to increase to 50% in 2025. This means that half of all social wealth will be owned by millennials and Gen Z, the new generation consumers that will become a major consumer group in China’s luxury market within the next decade.

For this new generation consumers whose lives increasingly revolve around the internet, online shopping remains their preferred choice for purchasing products. According to Deloitte Luxury Multi-country Survey for 2017 Global Powers of Luxury Goods, 42% of luxury goods purchases through online channels were made by millennials, higher than that of Gen X (34%) and the baby boomers (28%), reflecting the higher degree of acceptability and usage of online channels for the purchase of luxury goods among this new generation consumers. The trend also shows that online channels are playing an increasingly important role in luxury consumption. Therefore, luxury brands will face the major challenge of having to address the needs and consumer behavior of the millennials in the future. The results is that it has become more important for businesses to establish omni-channel strategies.
CHAPTER 1
1.3 Drivers for the development of luxury e-commerce

Meanwhile, digital media has emerged to become an important channel for the new generation of Chinese consumers in receiving information on luxury goods. Statistics show that the new generation of Chinese consumers get as much as 75.6% of their fashion information from digital media and only 24.4% from traditional media. Specifically, of all the digital media, brand websites make up the highest share at 18.3%, vertical fashion websites follow by 16.4%, followed by social media at 15%. For traditional media, fashion magazines serve as the major channel to get fashion information with a share of 17.6%, while 6.8% of information is communicated by friends and families. This reliance of new generation consumers on digital media will influence their choice of consumption channels.

![Figure 18. Percentage of fashion information received by new generation of Chinese consumers by channel](image)

China has a unique digital environment. There have been far-reaching effects on many aspects of the retail industry as digitalization continues to take root. Statistics show a significant and rapid increase in mobile data usage, third-party mobile payment and logistics over the past several years. China now has the highest online sales ratio in overall retail sales of anywhere in the global market. On the whole, 57% of China’s retail sales are now influenced by the growth of digitalization. In light of this trend, digital capability will be a key factor determining the future success of enterprises.

Increased digitalization in retail provides support for luxury e-commerce development

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Although offline channels remain the major channel for luxury goods sales in China, luxury e-commerce is gaining momentum with a steady growth in recent years driven by the continuous enhancement of digitalization within the retail industry. In context of China’s unique digital environment, an increasing number of luxury brand players have realized the importance of developing digital sales channels for the China market.
Based on a survey by Deloitte on consumer behavior, 85% of consumers state that they are influenced by digital carriers to varying degrees. Before making the decision to purchase, consumers may be influenced by a number of key factors including website information, social media and user comments; nearly half of consumers expect to have continual after-sale service through online channels after purchase. Digitalization has penetrated every aspect of consumer needs, and omni-channel strategy has become one of the important paths for enterprise development.

In this new digital environment, luxury brands have made numerous attempts to enter the world of online sales. According to the L2 report, as of May 2017, only 9% of fashion brands did not have online sales channels, 57% lower compared with the figure last year. The number of luxury brands running direct e-commerce platforms and WeChat e-commerce has grown significantly from 2014 to 2017. As of May 2017, 40% of fashion brands and 38% of luxury watch & jewelry brands have developed direct e-commerce business, an increase of 20% and 24% respectively compared with that of 2014. At the same time, luxury brands are also beginning to make inroads into WeChat’s one-to-one ecological system to sell small-lot products. This has resulted in 8% of fashion brands and 14% of watch & jewelry brands now operating WeChat shops.
1.3 Drivers for the development of luxury e-commerce

Based on this current trend, despite multiple online sales attempts, luxury brands are yet to transform their network influence into actual increase in sales. Luxury brands need to utilize more diverse and innovative methods to build connections with consumers. By doing this, luxury e-commerce would be able to enter a new round of opportunities for growth.

Luxury brands are also operating more digital channels and using them as a means of marketing. WeChat and Weibo are the social media most used by luxury brands for digital marketing. The L2’s survey results show that almost all the brands surveyed conducted marketing promotions through WeChat and Weibo in 2017. At the same time, luxury brands are shifting their focus to the most popular short video and stream media platforms.
E-commerce is helping luxury brands reach out to more consumers

Although traditional sales channels remain the primary method for luxury goods sales, the development of luxury e-commerce has also enabled many luxury brands (especially some niche brands) to connect and interact with more consumers. Luxury brands have always been relatively cautious in terms of store development, as they tend to open and run their stores mainly in first-tier and some key second-tier cities, which results in a lack of effective methods to build connections with consumers in areas without stores. Meanwhile, luxury brands are also making adjustments to their existing stores to better improve their value and reduce costs. Results of a survey conducted by Bernstein, an investment research firm, show that from July 2016 to July 2017 a total of 62 offline stores were closed by the 36 luxury brands surveyed.

Against the backdrop of geographical limitations and store adjustments, certain luxury brands are beginning to embrace e-commerce channels, which have helped them reach out to more consumers. According to Secoo’s business data, in the fiscal year of 2016, Secoo provided products and services to a total of 300,000 consumers covering 379 cities and, to a certain extent, helped luxury brands connect with more consumers in more regions. Although in terms of total number of consumers in different cities the top 30 cities were still first-tier and major second-tier cities covered by traditional luxury sales channels, those from the other 349 cities accounted for nearly 38% of the total. In this sense, the purchase power in places beyond first and second-tier cities is also of great importance if luxury brands want to realize higher sales growth.

Source: Secoo

Figure 24: Percentage of total consumers

- 37.91%
- 62.09%
- Top 30 cities by the number of consumers
- Other 349 cities
An increasing number of luxury brands are considering or have moved into the booming e-commerce sector. However, who are the core luxury consumers online who have stimulated this growth? Why do they choose to purchase online? What are their preferences? Answers to these questions are what these brands aim to address when developing their e-commerce strategies.
Chapter 2

2.1 Portrait of core consumers in luxury e-commerce

Age Factor: Post-90s main force are already aged 27

Millennials have become the main force of consumption in China’s luxury market with even younger consumers joining them. Although they have a much smaller income and/or a lower amount of assets than their parents, they do have more disposable income and are more willing to spend. No longer concentrated in core cities, these millennials are now spread over various key cities and surrounding areas in China. Their expenditure mainly revolves around cars, education, sports and finance in daily life, with a particular fondness for sports and foreign travel as well as migrating/studying overseas and education.

The TGI index: Unless otherwise stated, the TGI index herein refers to the ratio of target groups’ corresponding behaviors and Tencent users’, reflecting the difference between target groups’ performance regarding a certain behavioral characteristic and the overall level. Generally, when TGI exceeds 100, target groups are considered to have significant characteristics. The higher the value, the stronger the target groups’ characteristics are.

In Depth Docking of Secoo and Tencent

In order to gain an accurate understanding of Secoo’s 15 million users’ Internet behavior except from Secoo app, Secoo collaborates with Tencent, which has the most users on the Internet in China, by docking Secoo users’ IDFA to Tencent database. Thus it makes consumer path be clear at a glance.

Abundant Cross-platform Data

Tencent provides media, social network, entertainment, Internet and mobile phone value-added services and operate online advertising services. This whitebook is benefited from the Secoo’s user behavior data of Tencent’s multiple platforms at different devices and time frames.

Scientific 6 Key Labeling Systems

Tencent’s DMP profiling technology categorizes users on 6 labeling systems, namely essential characteristics, social network behavior, media interest, app using behavior, business interest and entertainment preference, to present crowd characteristics of Secoo’s 15 million users in depth.
CHAPTER 2
2.1 Portrait of core consumers in luxury e-commerce

Research Methodology

The whitebook makes an all-dimension analysis of the real time full data of Secoo’s users from 2014-2016 to achieve the accurate profiles of them.

The docking to Tencent’s big data makes it possible to analyze Secoo’s user behavior chain, including 4 brand exposure elements, platform redirect element and 5 e-commerce conversions elements.

Note: This white book is made in October, 2017. A year in this whitebook indicates the period from the previous October to September of the year. For example, the year 2016 means October 2015 to September 2016. In addition, all the Secoo’s data is from online data of Secoo Mall.
CHAPTER 2
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Age Factor: Post-90s main force are already aged 27

50% of online luxury consumers are aged between 25 and 35, with nearly 30% of them aged between 25 and 30. Another 15% are even younger, between 18 and 24. The percentage of the 18-30 age group is increasing, which means that the post-90s generation has gradually become a new force of consumption in the market.

50% of online luxury consumers are aged between 25 and 35, with nearly 30% of them aged between 25 and 30. Another 15% are even younger, between 18 and 24. The percentage of the 18-30 age group is increasing, which means that the post-90s generation has gradually become a new force of consumption in the market.
CHAPTER 2
2.1 Portrait of core consumers in luxury e-commerce

Regional factor: Frequent and increased number of purchases in non-core regions

Calculating by number of consumers, core cities and key cities still account for nearly 50%. In particular, the number of luxury buyers in core cities is well above the average among the total urban population. By province, Sichuan has outstanding performance. In terms of purchasing power, purchases in core cities tend to be stable and rational, while medium and small-sized cities in non-core regions are showing strong momentum. Looking at purchase frequency and repeat purchases, all the top 20 cities are non-core/key cities, where the average annual consumption frequency is 40% higher than that in the core cities, and the percentage of consumers making repeat purchases, and for three times and above among the total purchasers outperforms core and key cities.
2.1 Portrait of core consumers in luxury e-commerce

Identity Factor: highly educated, male and married

Most luxury consumers are highly educated with 67% having a bachelor’s degree, a slight increase over the previous years. According to gender, men make up 51%, slightly higher than women. This is partly due to the business needs of highly educated men. Luxury consumers mainly comprise of married couples as well as mothers & infants.
CHAPTER 2
2.1 Portrait of core consumers in luxury e-commerce

Interests: extreme sports, tourism and immigration, overseas education

Luxury consumers are interested in studying abroad and education as well as healthy sports, finance and cars. Compared with previous years, they continue to enjoy travel and education, while the data of this year indicate a growing enthusiasm for extreme sports, immigration and studying abroad. Over 60% of luxury consumers purchase high-end mobile phone brands, with half of them being Apple fans. Luxury consumers have downloaded APPs related to health, communication, office and wealth management onto their mobile phones, and use online ticketing, astrology and food services more through WeChat. For entertainment, they prefer purchasing objet d’art as well as music such as blues, Latin and jazz. These activities strongly suggest that luxury consumers are choosing to spend more on experiences and an overall better quality of life.

Luxury consumers are more interested in education, sports, finance and cars. In terms of sports, compared with previous years, their attention to more niche extreme sports and aquatic sports has increased over 50% in comparison to gym activities. There is also an increased interest in immigration/studying abroad as well as language and education programs.

Over 50% of luxury consumers use high-end mobile phone brands, with one third of them being Apple fans. Huawei, a domestic mobile phone brand, ranks the second place.

Luxury consumers download more APPs about travel, health, communication, office, wealth management on their mobile phones. Online games and mobile phone games, which have become highly popular this year, are still yet to attract them.
CHAPTER 2
2.1 Portrait of core consumers in luxury e-commerce

Luxury consumers particularly use online ticketing, astrological and food services through WeChat services.

*Figure 10. WeChat Service preference of online luxury consumers*

Luxury consumers prefer to travel in Europe and Asia. Among these destinations, the UAE, Italy, France and Germany are the main tourist choices.

*Figure 11. Foreign travel preference of online luxury consumers*

In terms of recreational activities, luxury consumers pay more attention to objet d’art, TV series, cultural and artistic pursuits than other groups of people. Their enthusiasm for comedy and variety shows has declined over the last year while their interest in TV series, culture and art grows. As for musical preferences, they prefer European and American music from the 1970s to the 1990s, with a particular keenness for the blues and jazz as well as Latin music.

*Figure 12. Recreational activities of online luxury consumers*

Recreation (TGI index)

<table>
<thead>
<tr>
<th>Recreation</th>
<th>Track era</th>
<th>Music genre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural articles and antique</td>
<td>248 1970s</td>
<td>Blues 199</td>
</tr>
<tr>
<td>TV series</td>
<td>157 1980s</td>
<td>Latin 178</td>
</tr>
<tr>
<td>Culture and art</td>
<td>156 1990s</td>
<td>Jazz 159</td>
</tr>
<tr>
<td>Animation</td>
<td>147</td>
<td>Country 159</td>
</tr>
<tr>
<td>Books and magazines</td>
<td>146 2005-2009</td>
<td>109 Jazz 159</td>
</tr>
<tr>
<td>KTV</td>
<td>144 2000-2004</td>
<td>110 Country 159</td>
</tr>
<tr>
<td>Movie</td>
<td>126 2010-2014</td>
<td>105 World music 144</td>
</tr>
<tr>
<td>Entertainment and gosips/Constellation &amp; jokes</td>
<td>115 2015 and beyond</td>
<td>101 World music 144</td>
</tr>
<tr>
<td>Variety show</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: secoo.com, Tencent
The millennials have made their grand debut into the world of luxury consumption. They follow the principle of "being good to yourself", just as they follow their favorite fashion icons when dressing up for parties and events. Aside from the quality aspect that they value when purchasing luxury goods, “being good to yourself” remains their primary motivation. Compared with their parents, this generation is more individualistic and see luxury goods as a means of achieving a higher quality of life.

![Motives for luxury purchase](source: Deloitte’s luxury report Bling it on)

![Reasons for online luxury purchases](source: secoo.com)
CHAPTER 2
2.2 Motivation for purchasing luxury goods online

As a result, the younger generations are more accustomed to searching for the latest fashion online. About 35% of these consumers purchase luxury goods online, while almost 100% of them will increase the frequency or number of online purchases in the future. This is a completely logical prediction, especially given the convenience of online shopping in being able to purchase from an incredibly large range of goods without even setting foot into a physical store. These consumers still make purchases primarily at physical stores, but more interestingly, their visits to physical stores are not for shopping per se but to see and experience the product firsthand. In most cases, consumers have already done their homework online before going to the offline stores to simply do what they can’t do online. In other words, online and offline channels are not in opposition to each other in the eyes of these consumers but two stages in completing the whole shopping experience. However, it also reflects that physical stores of luxury brands are becoming less attractive to young people. In order to appeal to this consumer group, brands need to consider how to create an unparalleled shopping experience through online and offline integration.
Niche brands meet the demand of the masses

As popular culture becomes segmented, a greater number of consumers are increasingly attracted to niche brands, reflecting the more specialized trends within fashion while also aiming to meet the consumers’ demand for more unique individualized products. For example, as Chinese hip-hop culture is emerging from underground to more mainstream, more young people are beginning to recognize and follow the fashion brand Supreme. Their pursuit of personalized products will promote the development of niche brands in more vertical sectors. Moreover, personalized custom-made products meet most of the expectations of luxury consumers, even if it is at an extra cost.
CHAPTER 2
2.3 Consumer preferences for luxury goods

**Professional Key Opinion Leaders (KOLs)**

Younger generation consumers tend to think more carefully before making decisions. They are no longer satisfied with how unique a product is, with value maximization being a main consideration. Other important factors which guide their decisions are style, quality, price and overall suitability. In terms of the question where this influence on their decision-making comes from, fashion brands still hold sway over consumers’ decision-making. In China, most consumers will search for information released on brands’ official websites or in flagship stores. It is also the reception of these luxury trends by celebrities and key opinion leaders (KOLs) that also hold a strong influence over the younger demographic purchase decisions.

An important factor to note is that as niche fashion grows, the influence of stars and celebrities on the popularity of luxury goods has lowered to 4.4%, while KOLs’ influence has substantially increased. KOLs have become segmented as well, with more professional KOLs becoming more specialized in and focused on a certain field, such as in hip-hop culture, cocktail culture and history. These individuals or groups may not be particularly famous and could even be completely unknown outside their own circle, but, with an increasingly-specialized expertise and deeper understanding of fashion trends, they have gained attention and recognition from an increasing number of young people who are looking for more niche culture.
CHAPTER 2
2.3 Consumer preferences for luxury goods

Multi-brand loyalty

This consumer group shows higher loyalty to brands. Nearly 60% of them consistently purchase the products of a few certain brands with around 35% making selections across many brands. As the Chinese market grows increasingly more mature, consumers have more brand choices, which places more challenges on these brands. How to improve consumer loyalty is a question of long-term strategy. Unique products with excellent quality are the main reason for consumers why choose to keep following a brand. Another guiding factor for this younger generation of consumers is social responsibility, therefore they also value brands’ social sustainability and ethical standards. Aside for merely purchasing a nice-looking product, luxury consumption is also a reflection of the consumer’s identity and what they want from life and society as a whole. Brands need to create positive messages on sustainability and social responsibility, in order to build a long-lasting connection with consumers.

Brand loyalty

Which is the most accurate description that applies to you when you purchase luxury goods? (240 samples aged 20-30 on average)

- I only consider one brand I like: 34.7%
- I only buy what I like, regardless of brands: 6.7%
- I mainly consider a few favorite brands: 51.9%

Characteristics of luxury goods

What are the key characteristics of luxury goods that attract you compared with non-luxury goods? (240 samples aged 20-30 on average)

- High-quality products: 31.4%
- Unique products: 26.4%
- Back Stories: 10.9%
- Tradition/reputation: 8.8%
- Celebrity endorsement: 6.7%
- Somehow relevant to me: 6.3%
- Interesting: 4.2%
- Inspiring: 2.5%
- Popular among friends: 1.7%

Attention to sustainability

Are you concerned about a brand’s sustainability and ethical standards before purchasing products? (240 samples aged 20-30 on average)

- Occasionally: 53.1%
- Always: 38.5%
- Rarely: 6.0%
- Never: 0.4%
Challenges to and reflections on luxury e-commerce

Following the shift of consumer power to younger generations and the continuous development of commercial digitalization, e-commerce is now the new frontier for luxury brands. Prior to 2016, luxury brands had already started to make their online presence known with digital marketing, with an impressive array of remarkable luxury digital marketing cases. However, only a few brands made the leap into digital sales, e-commerce, but they did not go any further. However, since 2016, more and more players in the luxury market have started to develop their online capabilities, seeking to connect digital marketing and sales. A closed loop with higher conversion rate has been formed, and transformation has been significantly enhanced in terms of depth and breadth.

However, throughout the process of e-commerce development for numerous luxury brands, there has yet to be a recognized successful case study. Most luxury brands are still at the trial and exploration stage. We have observed that after stepping beyond the boundaries of their more-traditional sales practices, luxury brands have faced enormous challenges that are far beyond their expectations. The challenges confronting luxury brands mainly fall into the following three areas:
CHAPTER 3

Challenge 1: Selecting the right business platform

Compared to the familiar offline channels, online channels are a brave new world for luxury brands. This is against the backdrop of e-commerce development in the Chinese market long surpassing the European and US markets. Therefore, there is only so much that multinational companies can learn from foreign markets. How should a brand choose between integrated e-commerce platforms, vertical e-commerce platforms, social platforms and self-built brand websites? How should the operational difficulty and input-output ratio of different platforms and models be considered? How to align with the brand’s own offline channels and maintain the price systems between different channels? Does the platform’s image match the brand? How to fight against counterfeits? Does a company need to consider different models or even composite models during different periods and under different circumstances? These are all pressing issues that need to be addressed by luxury companies.

Challenge 2: Creating a unique e-commerce experience

Customer experience is a key concern for luxury brands, in which high standards with impeccable detail is at its core. Consumption paths and key influence points of online luxury goods are notably different from those in their offline counterparts. Driven by the digitalization trend, the existing high standards of consumer experience are further extended. Apart from how products are displayed online, the customer experience is more of a question of the transmission and interaction of customized information based on the in-depth analysis of the consumer. Luxury e-commerce requires more than flawless visual presentation. Compared to the precision marketing of mass consumer products, there needs to be a focus on customized exclusive service, which attracts to internet natives’ self-oriented digital experience.

Challenge 3: E-commerce is not “another new channel” – the necessity of transforming to an omni-channel business model

As consumers become more demanding and retail technologies continue to develop, retail models across the world, especially in China, have started on the path of developing from the traditional channel-based purchase model to a scenario-based purchase model. Online and offline channels are no longer divided in the eyes of many consumers. All consumers need are personalized shopping experiences that are convenient and seemingly seamless; or to put it more succinctly, “what they think is what they see, what they see is what they get”. Therefore, for luxury companies, e-commerce is not simply about setting up an “e-commerce department”, separate from existing channels, but aims to links digital marketing as well as sale and offline channels as a whole. A transformation to an omni-channel business model is needed. Luxury companies need to consider how to move away from the separated channel-based business model and internal management, and build a truly customer-oriented, omni-channel, high-end experience as well as an effective operation plan behind.
Given China’s unique digitalization environment, online retail has become a significant part of the overall retail market. Due to its continuous rapid growth, the penetration of online retail has increased year on year. Meanwhile, digital marketing has become an important way for brand companies to carry out marketing and manage their users in China. The core issue remains though of how brand companies should set out their online strategies based on their own conditions, this report summarizes the representative models used in the Chinese market. Different models have their own respective characteristics, and luxury brands should design their online strategies in a systematic manner based on their own strategic directions, brand needs and brand characteristics.

**Figure 1. Interpretations of the models for luxury brands to enter the e-commerce market**

<table>
<thead>
<tr>
<th>Brief introduction of the model</th>
<th>Advantages</th>
<th>Points to note</th>
</tr>
</thead>
</table>
| **Integrated e-commerce platform** | • Be able to quickly develop customized solutions by partnering with professionals in the luxury e-commerce industry.  
• Relatively low investment, with direct access to ready-made templates  
• Integrated platforms have certain traffic advantages  
• Be able to benefit from the technical and resource advantages of the platform by leveraging more digital means.  
• Customer experience and content are subject to the platform’s constraints  
| **Vertical e-commerce platform** | • Huge number of active users on the mainstream social platforms  
• Be able to achieve a variety of functions, including online sales, marketing, customer relationship management, etc.  
• Simple model construction of WeChat public account and micro-stores (Weidian) and relatively low threshold  
• Socialization is in line with the major trends in the Chinese market  
| **Social platform** | • Be able to maintain high level of consistency and flexibility of brand image  
• Full control of content and platform  
• Ownership of all resources, including user data, etc.  
• Creating an independent space to interact with consumers  
| **Self-built website** | • Starting at a late stage, it takes a certain amount of time to accumulate user resources and to fully utilize word of mouth, and forms a positive sales cycle  
• The professional level of each vertical platform is uneven, and the brand needs to be cautious in making the right choice.  
| | • The role of social platform is more related to customer operations than e-commerce  
• In order to better serve consumers, WeChat can serve as a diversion tool rather than a complete solution  
• Requiring large-scale investment in the early period and ongoing investment in the later period with high investment risk  
• High demands for multifaceted resource mobilization and integration, and higher demands for internal management and operation  
• There is a need to continuously encourage users and accumulate traffic  

Source: Deloitte Analysis
CHAPTER 3
3.1 Challenge 1: Selecting the right business model

Interpretations of different models are listed in the chart above. After analysis of different e-commerce business development models, the following conclusions can be made:

Integrated platforms feature high traffic and have resource strength. Integrated platforms are characterized by their wide range of categories and high traffic. A brand can quickly set up its own online store by utilizing the mature modules. Partnering with platforms can attract more traffic and sales. Meanwhile, these platforms have strong technical resources and data resources behind, which are able to empower the brand. It should be noted, however, that as mass platforms, traffic conversion rate may not be high. Users tend to be price-sensitive and are susceptible to discount promotions. In terms of professional level and elimination of counterfeits, there may be no guarantee either. This means that it is impossible for brand companies who need to maintain a specific brand image and direction or those with high standards to fulfil their requirements.

Vertical platforms are highly specialized and are able to meet individual requirements. Since product categories and teams are specialized, vertical platforms are more professional in terms of the operation of luxury brands. Interactions between luxury brands and the platform can be improved with the interaction between the two, thereby promoting products and developing marketing among luxury users on this type of platform. Vertical platforms also excel in their effectiveness and level of professionalism; they also have better control over issues of counterfeiting. Meanwhile, existing luxury users on these platforms are more willing to purchase products at full price, which better fulfils the luxury brands’ requirements on price and brand image. Since vertical platforms have had a shorter history of development within China, it takes time to increase traffic and encourage word-of-mouth marketing. Brands need to choose more professional platforms and explore business models that suit both parties together.

Self-built platforms need higher input and feature the most powerful resource control. The self-built platform is a model that requires substantial early-stage input and on-going post-input. Not only the various front-end functions need to be improved, but also back-end functions need to be complemented, in order to develop an efficient operational system. In addition to one-off high input at the early stages, on-going input afterwards is required to attract traffic and run the platform to expand its scale. As a model requiring the highest input while simultaneously being the most difficult to operate, this model enables a brand to control resources in the best possible way. A brand has total control over all traffic-related information and can independently determine the design of the content, category and service. In this way, the brand can standardize and refine their own image and customer service in a better way. This model is more suitable for mature and large-scale luxury brands or groups. A brand is expected to have already set out long-term plans for continuous development of the e-commerce channel on a strategic level, and is able to accept unmatched input-output results in the short to medium term.

* Figure 2: Comparison of the characteristics of different e-commerce models (illustrative)
In the actual operations of the market, we have noticed that some well-known luxury brands had chosen to build self-owned platforms with substantial investment. In spite of positive store sales volume, platform establishment and on-going operation input cost far more than offline store establishment and operation. This high cost is due to the early stages of high input for global unified development, as well as the considerable on-going input during the later stages of operation, i.e. high cost of attracting traffic. However, under this model, those brands have continued to maintain a high degree of autonomy and resource ownership, so they are able to promptly meet consumer demands as they arise. From the perspective of long-term development, this model is more sustainable, despite the high cost.

In addition, in order to explore business models and expand coverage in a more efficient manner, some brands have adopted a diversification strategy during their e-commerce business development. This strategy makes attempts have been given to each of the four models. The brands have attracted substantial traffic by leveraging a range of innovation projects on integrated platforms, while also being able to reach out to direct users and potential luxury consumers through vertical platforms, which has ensured the rapid establishment of online sales channels. Simultaneously, social platforms have become an important form of media. This means that marketing on social platforms can reach a much greater audience, which could be diverted to the brands’ official websites through the brand account and their own WeChat account, thereby achieving user conversion and consistent services.
Creating a unique e-commerce experience

E-commerce is a brand new channel for the luxury goods market and opens up a world of possibilities and challenges in terms of a younger customer demographic, consumption process and operation models. These have all made ecommerce notably different from their offline counterparts. For luxury brands that focus on each and every practical detail on the shop floor, creating unique e-commerce experiences means offering customized products, service and shopping experiences through exclusive e-commerce channels. To achieve this, brands need to develop customized marketing plans and efficient operation models, in order to further expand the market and customer groups by leveraging e-commerce channels, and maintain a balance between the unique characteristics and positioning of luxury brands.

Target the younger consumer demographic. As analyzed in Chapter 2, the mainstream online consumers of luxury goods are not the same as those at offline outlets. In order to seek new business growth points, luxury brands should expand their markets to younger customer groups through e-commerce channels. Seizing the initiative to develop e-commerce provides luxury brands with a broad platform to accelerate brand development and immersion, and offer consumers with a wider range of experience. The challenge, however, is that the demands of this generation of consumers have changed significantly compared to the previous ones. Brands need to consider how to shake off the images developed through offline channel customer groups to become more appealing to the younger Internet generations, e.g., younger brand images and product designs, trendy store design and innovative business models. In this process, some brands have started to explore possible ways of transforming their image, for instance, by spokespersons in their twenties to engage more effectively with younger consumers. Meanwhile, some brands leverage on new media, celebrity marketing and content marketing which appeal to the younger generations to increase the network influence of their brands and products.
3.2 Challenge 2: creating a unique e-commerce experience

Create a real-time sales closed-loop. Previously, when offline outlets were dominant, luxury brands launched new fashion items of the new season on an annual basis. Information was communicated via mass media, and there would be certain time lags. For products, they were passed down from the show runways to the stores before they were uploaded to e-commerce channels. As a result, e-commerce was placed at the end of the information flow and product flow. Nowadays, such an approach is apparently no longer able to meet netizens’ changing demands. We have observed that some brands had started adopting a different approach. For example, fashion shows are broadcasted live on the Internet, with products being made available for reservation immediately through e-commerce channels using advanced digital technology. Traditional models are incomparable with such shopping experiences. Some brands even incorporate the “flash mob” concept, which is popular among the younger generations, and set up a “pop-up sale” store online to offer a selected range of items for a limited time only. While being profitable, this approach also paves the way for exploring the very cutting-edge of e-commerce in a more efficient manner.

Digitalized customized marketing. In the times when offline physical stores dominated, data was limited to information of customers who made purchases. Such data was only utilized by sales staff for understanding customers’ personal preferences, while comprehensive and in-depth processing and analysis was simply not possible. Following the rapid development of digital technologies, work related to data has experienced ground-breaking changes. Unlike offline stores which can only record information of customers who make purchases, e-commerce can track consumer information right from the very moment consumers consider a making a purchase. User behaviors now cover not only the act of purchasing, but also searching, browsing and converting activities, which has triggered the need for in-depth data mining and analysis by the brands themselves. These needs are backed by powerful advanced consumer data storage, comprehensive algorithm models and precise operation systems. Based on digital analysis, precision marketing is being gradually promoted, and some early-starters have already achieved initial success, with a notable increase in sales over that of more traditional models during the same period. In fact, if technologies are properly utilized, benefits that customized marketing would bring to companies would be far more than merely sales growth. In the past, luxury companies relied on products, brands, culture and services for success. Nowadays, digital capabilities will also become an important instrument for market players to attract consumers.
CHAPTER 3

3.2 Challenge 2: creating a unique e-commerce experience

Emphasize luxury experiences. Although the entire luxury industry has
demonstrated a trend towards entry-level luxuries and making luxury goods
more available to consumers, the value propositions of luxury goods and mass
commodities remain essentially different. Aside from pursuing high standards in
product quality, luxury brands still need to focus on personalized and luxury
shopping experiences. How to put these existing strengths of luxury brands
from traditional offline outlets into practice on the new online channels is a
question that brands and platforms need to consider together now. The robust
development of the e-commerce business is, to a large extent, due to price
competition. Although it is gradually developing towards value seeking, it is
particularly important to create exclusive luxury experiences which match the
unique characteristics of the luxury goods themselves. Some players have
already actively explored the market. As an example, some vertical e-com-
merce companies have started to provide a “butler service” targeting luxury
goods. It provides each buyer with an one-on-one online purchase enquiry
service and off-platform WeChat “butler service”. The service is provided by
real people, just as in offline stores, which allows consumers to experience
preferential treatment at all times. Compared to offline outlets, online services
certainly enjoy better support, through big data and greater insight into
consumer demands. Through precise big data analysis and forecasts of
consumer demands, plus a professional personalized service, luxury e-com-
merce can fully create unique experiences to a standard that is no less than
those offered by offline outlets.

Efficient e-commerce operations. For luxury brands, e-commerce
operation is a brand new area, in which all their previous experience in offline
channels unable to meet the challenges of operating online channels. Such an
operation system involves complicated marketing processes, ranging from
outlet display, website traffic diversion, precision marketing, to product image
design and SEO. Every detail of the system requires professional skills and
years of industrial experience. Brands which are keen on creating high-end
products have yet to develop these capabilities, which means the existing
operation departments of these companies are confronted with a wide range of
new issues and questions. In order to explore these new channels as soon as
possible, many brands have chosen to partner with third-party operators, but
this collaboration is not without its downsides. The first is that most third-party
companies vary in professionalism, and may not be able to meet the brand’s
exacting requirements in terms of creating channels for luxuries. Secondly, the
majority of third-party companies usually serve as the agent for several brands
simultaneously, which may lead to insufficient resources or care being given to
a single brand. These issues mean that luxury brands need to select partner
companies carefully and develop the appropriate management and coopera-
tion models, which allow brands to leverage third-party operators without
compromising the control and ownership of the operation of the channel. Even
though interdisciplinary personnel possessing expertise in both e-commerce
and the luxury good industry are scarce, it is imperative that the brands’ human
resources focus over the long term to search for and train a new generation of
staff that have the skills and expertise to ensure smooth and efficient e-com-
merce operations.
3.3 Challenge 3: e-commerce is not simply “another new channel”:
The necessary transformation to an omni-channel model

Being consumer-centered

While outlook of e-commerce development looks increasingly positive, many luxury companies, which are interested in making their own attempts to enter the world of online channels, still have a lot of misgivings. These largely are due to concerns over how to manage the correlation between online and offline channels. For example, would e-commerce development damage the original luxury brand image? Do online products have to be consistent with offline products? How to set the online pricing mechanism to reduce the impact on offline products? The root of these concerns lies on the fact that most companies are still organizing and managing their business with the existing traditional channel-based business mindset, resulting in more divergences between the two channels. However, these problems can be easily solved, if the brand starts to consider the issues from a more consumer-centered perspective.

Being consumer-centered is a familiar term in the business sector, and many companies have been working hard towards this direction. However, in reality, there are only a small number of companies that can achieve this. In the past, companies tended to consider consumer demands based on a business- and product-centered model. Of course, apart from the business concept, another major factor is the constraints due to data accessibility and business technology development falling behind.

Driven by the current development of various new retail technologies, being consumer-centered has been redefined. Consumers no longer pursue channel-based isolated experiences but rather convenient and integrated scenario-based experiences. The purchases of luxury goods in the future can take place in any daily scenario, e.g. when consumers go to social events, watch live broadcast of fashion shows, browse content on social platforms or play games. Brands should formulate an internally highly integrated end-to-end omni-channel experience plan to effectively convert each and every potential consumption business opportunity.

Figure 3. Consumer-centered scenario-based shopping (Illustrative)
3.3 Challenge 3: E-commerce is not simply “another new channel”: The necessary transformation to an omni-channel model

As a wide range of digital information is being conveyed to consumers with increasing precision, e-commerce is emerging accordingly and developing rapidly. However, purchasing products at offline outlets is still the consumers’ most favorite way to shop. Online and offline channels remain fundamentally two different sales scenarios. Brand companies should always provide consumers with the convenience of “what they see is what they get” so that consumers can make online purchases as well as enjoy offline dispatch and offline services; or experience offline and purchase online. Companies should focus on how to successfully build up customer loyalty rather than sales of a certain single channel. Consumers’ diversified shopping demands can be satisfied through different types of retail channels and services. Therefore, it is necessary for brand companies to tap into multi-format retail channels through self-development and partnership in order to maintain competitiveness.

Under the new retail models, the previously-clear boundaries between channels are becoming increasingly blurred. This means that it is imperative that traditional companies change their traditional mindset, and reform the internal traditional channel-based operation management and performance evaluation models in order to achieve cross-channel integration.

Under the traditional retail management models, companies manage and operate their businesses according to channels, set up relatively independent business teams, assign them to the corresponding marketing and supply chain resources. Companies then set individual performance metrics to evaluate the performance of sales teams of different channels. Most brand companies are failing to break through this traditional channel management mindset when implementing the new omni-channel retail model, and still allocate sales income to online or offline channels based on consumers’ final points of purchase and payment. The constraints of the traditional KPI metrics and the design of the omni-channel retail incentive mechanism have become the largest barriers for companies to achieve omni-channel transformation.

In reality, under the new retail models, the boundaries between online and offline channels have blurred to the point of almost being indistinguishable. Consumers are constantly active in both online and offline scenarios. Companies need to change their attitude, closely analyze consumers’ location and times for consumption. Companies also need to increase interaction with consumers in even more scenarios, so as to cover the entire consumption process from demand, purchasing to goods return, before traffic and conversion rate can be increased. Maintaining separate online and offline operations is no longer relevant to modern consumers, and it is very important to integrate the internal management resources and management system which are segregated according to channel.
3.3 Challenge 3: e-commerce is not simply “another new channel”: The necessary transformation to an omni-channel model

Many companies have now begun to build an omni-channel. The usual practice is to cut in from a certain point, e.g. the earliest O2O, online purchase and offline delivery. At the trial stage, such practice is not at all impossible, but the drawback of similar practices is only part of greater business integration as other parts remain isolated. For example, back-end omni-channel delivery capability is already in place, but the front-end businesses in the channel are still not aligned. Due to this lack of a cross-channel coordination, internal implementation remains difficult.

It is our recommendation that once a company has decided to create an omni-channel experience, it needs to consider designing a systematic end-to-end plan, ensuring a united vision at a strategic level and business and synchronization at operation level.

**Omni-channel strategy.** A company has to first formulate reasonable omni-channel strategies. The initial step is that the management has to agree on the future development goals and strategic initiatives, so as to effectively guide future sales and operation activities. Secondly, the issue of cross-channel resource integration and allocation must be addressed. In terms of organization and performance evaluation, companies also need to consider setting up cross-channel management and execution functions, while designing matching performance evaluation metrics.

**Integrated business plans.** At a business level, emphasis should be laid on how to work together to maximize the benefits of omni-channel rather than simply pursuing maximization of channel revenues and growth. For example, the promotion of marketing plans takes multi-channel interaction into account, which shall optimize investment returns by leveraging online coverage and transmission speed. In terms of sales, companies may consider consolidating the online and offline CRM systems, so that online and offline channels can complement each other and divert traffic to each other.
CHAPTER 3
3.3 Challenge 3: e-commerce is not simply “another new channel”: The necessary transformation to an omni-channel model

Integrated and flexible supply chain. Undoubtedly, the supply chain of companies in the future must be able to serve multiple channels at the same time, and therefore, supply chain optimization requires across-the-board consideration and strategies. More importantly, as end users are turning more towards scenario-based forms of consumption with purchasing needs being possibly triggered at any time in any scenario, this poses new challenges to companies’ traditional demand forecasts and planning. Meanwhile, supply chain flexibility has become particularly important. As such, how to work with diversified third-party operators and formulate responsive and flexible supply chain plans is a topic that needs be continuously addressed by brand companies.

These types of omni-channel plans imply the needs for a transformation of the existing business strategies. Upgrading the current information system, implementing real-time data information transmission online and offline and in-depth mining, improving the terminal service platform, turning sales staff into smart service staff, plus achieving transparency and deployment of omni-channel of goods all require advanced retail technology-driven digital solutions. All of these requirements confront the management and operation teams of luxury brands with higher demands and new challenges.

In conclusion, e-commerce development in the luxury industry has already become inevitable. Luxury companies may expand current consumer groups and obtain new growth points by developing e-commerce business. However, in order to attract younger generation Internet consumers, expand the geographical sales network and reap the benefits from omni-channel strategies, luxury brands will not only require an “e-commerce department” but also new vision, solutions and talent. The time is now for brands to develop a revolutionary omni-channel sales model that builds on top of their more traditional competitive edges.
CONCLUSION

Before you know it, we have stepped into the end of the year, when the White Paper is ready for us again. Compared with last year’s paper published 52 weeks ago, the industry and user data have experienced rapid change, and we have been aware that we are now in the front line of luxury industry’s one-hundred-year development history. Last year, we still lingered on the discussions about what luxury e-commerce is and what attitude we should hold towards it; today, we have started to participate in the business and explore the way to welcome and embrace the new trend.

As the leading enterprise within this emerging industry, Secco sticks to our original intention and cooperates with more forward-looking and insightful partners to publish a book every year covering basic data, change and guidance for players in such a period of rapid reform. This year, with both the help of our old friend Tencent as always and the support of new partner Deloitte that performs study well into the field of Luxury, 2017 China Luxury Network Consumption White Paper has been successfully completed.

This year, the consumers in China’s luxury market or their mentality have become younger in average age. The millennial generation (born from 1985 to 1995), and Generation Z consumers (born after 1995) will become the major wealth owners in 30 years. As net users, they tend to depend more on digital technology throughout the whole consumption process from purchase decision and after-sales service. Besides, their taste and recognition of luxury is quite different from ours. Instead of those best-known luxury brands, they prefer niche brands unknown to the majority; and they tend to pay much attention to “feelings” one product gives them, which means “what I buy reflects my taste and my personality”; moreover, luxury begins to have broader meaning - for example, an extreme water sport event on a small island across the Pacific Ocean makes them thrilled like never before, and they are likely to regard this kind of activity as their enviable “luxury”. Obviously, the all-pervasive digital technology and information can be applied to get information about these activities and realize self-recognition.

According to the change of consumers’ core needs, how should these companies that have already participated in the luxury industry take advantage of the improvement of digital capability to seize the opportunity and gain market? Three challenges should be tackled properly: 1. Selecting suitable business platform. Digitalization has overturned the categorization of traditional retail business and the single and vertical dealer system. How to evaluate the efficiency of different e-commerce platforms and select one proper platform or platform portfolio according to unique positioning and basis has become hard nut for us to crack. 2. Avoiding homogeneity and providing distinctive e-commerce experience. Consumers’ needs are becoming diversified and personalized. How can we provide them with customized consumption experience has become the problem we need to solve. 3. Designing end-to-end omni-channel solutions. Consumers don’t really care whether it is online or offline shopping because what matters to them is whether they can enjoy seamless consumption with omni-channel, full and closed-loop supply chain.

In order to make these changes better and deeply understood by China’s luxury brands and famous media at home and abroad, this year, on the publishing ceremony, besides white paper itself, we have also invited 100 influential millennial generation “Secco users” to demonstrate their era and share their life attitude.

What we want to record is not just the luxury industry, but also a vivid chronicle of the constant evolution of China’s high-end consumers.

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