

# ***Forecast Analysis of Luxury Groups' Future Sales Priority Orientation in China***

**Bo Huang<sup>1,a,\*</sup>**

<sup>1</sup>*Department of Accounting, Hunan University of technology and business, Changsha, 410205, China*

*a. 2389802625@qq.com*

*\*corresponding author*

**Abstract:** In recent years, the global luxury market has increasingly adapted to the "new normal," in 2017, the luxury market began to recover and return to healthy growth. Based on this, it is necessary to study the luxury industry to respond to market changes. Firstly, we analyze the overview and development status of the luxury industry and study the market structure-behaviour-performance of the luxury industry based on the framework of the SCP analysis paradigm. Secondly, we analyze the characteristics of China's luxury market, such as the diversification of consumer groups and the upgrading of the consumption structure. And lastly, based on the above study, we make an outlook for the luxury industry. Finally, based on the above research, the outlook of the luxury industry is given, and appropriate suggestions are given.

**Keywords:** luxury goods, SCP paradigm, industry exploration, Marketing management

## **1. Introduction**

The production of luxury items contributes significantly to China's exports. From 2019 to 2023, China's per-capita consumption of luxury goods accounted for more than 40% of the global total. The global market for luxury goods started to rebound in 2023, with a total market value of US\$318.7 billion and a high-speed rise of 21% year over year. On the other hand, China's luxury market continued to surge, increasing at a rapid rate of 37% for the year and continuing to play a significant role with a total size of up to US\$94.4 billion and a share of 46%. Consumer demand has increased domestically in recent years due to the new crown epidemic, resulting in a steady shift away from offline brick-and-mortar stores and toward internet purchasing. In 2023, it is predicted that sales of luxury brands will exceed RMB 220 billion online, with the sales channel contributing more than half of the additional market volume and ending offline retail's hegemony [1]. However, issues like significant operational swings and inexperienced market strategies persist. Based on this, this paper examines the potential for luxury brand development in China. It makes recommendations based on the development of the luxury market as a whole and the development of mature international brands.

## **2. Literature review**

To better cater to the Chinese market, local luxury firms can optimize their marketing methods, according to the article The Future of Marketing Chinese Luxury firms [2]. For domestic luxury

brands, three solutions are suggested: digitalization, brand-specific customer needs analysis, and the addition of everyday lifestyle products. These tactics have not only been shown to increase demand and sales for luxury brands, particularly in the Chinese market, but they are also forward-looking. This study has identified three pretentious techniques that all Chinese luxury businesses should consider. Consider these three arrogant tactics for all Chinese luxury firms. A popular method in social media marketing is celebrity endorsement. Luxury companies promote images of famous people using their products on social media. However, businesses must decide whether to standardize or localize celebrity endorsements depending on the market. Luxury firms have long struggled with standardizing or tailoring advertising to local markets. The impact of localized celebrity endorsement by luxury businesses on Chinese social media is examined in this essay. We examine whether Chinese celebrity endorsers can increase social media interactions and elevate brand perceptions of luxury compared to Western celebrity endorsers based on the analysis of online big data and two trials. We also examine the best times for localized celebrity endorsements, concentrating on the moderating impact of patriotism. The findings imply that more social media engagements result from localized celebrity endorsements than traditional ones. People who are highly (unhighly) patriotic have a greater perception of branded luxury when localized (standardized) celebrity endorsements are used.

In addition, what do Chinese luxury customers look for when purchasing luxury fashion goods, according to the study Personal value vs. luxury value? The dimensions of luxury value that Chinese luxury consumers seek when purchasing fashion luxury goods are based on their personal values [3]. The study used a random sample of 308 Chinese luxury consumers. It used cluster analyses, analysis of variance (ANOVA), and regression analyses to examine three personal value variables (face-consciousness, pragmatism, and materialism) and three luxury value dimensions (symbolic value, experiential value, and functional value). The results indicate that Chinese luxury consumers are highly influenced by all three aspects of luxury value, but various categories of Chinese luxury consumers prioritize different aspects of luxury value when making purchases. The four groups of Chinese consumers of luxury goods did not show any statistically significant variations in age, gender, occupation, or personal monthly income. However, this could be because the sample size was insufficient to adequately reflect these variables. Future studies might enlarge the sample size and investigate if demographic factors are useful in estimating the individual worth of Chinese consumers.

Furthermore, the implications of digital marketing on WeChat for luxury fashion brands in China also examines the use of e-commerce and social media marketing in brand marketing by Chinese international luxury fashion retailers [4], focusing on their use of the Chinese social media application WeChat in marketing communications and sales [5,6]. The study involved 15 luxury fashion companies worldwide engaged in 2015 on Chinese e-commerce platforms. Face-to-face semi-structured interviews with senior management at the Chinese headquarters of the retailers and their VIP clients, together with examinations of the brands' WeChat accounts, were used to gather qualitative data. Contrary to earlier shaky views that e-commerce undermines luxury brand exclusivity our data reveal that concerns about exclusivity due to social media overexposure are unrelated to the Chinese market and that product exclusivity continues to be a key component in preserving brand exclusivity. WeChat provides advantages over other social media for luxury consumers and brand managers in China and other countries, and it differs significantly from Western social media in terms of functionality and use. Finally, this essay suggests a theoretical framework for the management of luxury brand marketing in China in the age of the Internet.

### 3. Analyses

#### 3.1. Geographically differentiated input ratios

The global luxury goods market is improving in the first half of 2023 due to positive impacts such as global economic recovery. According to Bain & Company's 2023 Mid-Year Update on the Global Luxury Industry, it is expected that global luxury sales can grow by 5-12 percent year-on-year in 2023. Overall, seven luxury groups saw varying revenue growth, of which five were half-year results, and two were first-quarter results. Among the luxury groups that released half-year results, LVMH ranked first in sales with 42.2 billion euros, and Ermenegildo Zegna ranked first in revenue growth with a 23.9% year-on-year increase. Richemont's first-quarter revenue jumped 19% to 5.322 billion euros; Burberry's first-quarter retail revenue rose 17% to 589 million pounds.

By category, the bags and leather goods category continued to grow as it has in the past, with revenue from the fashion and leather goods division of LVMH organically jumping 21 percent year-on-year. In comparison, revenue from Burberry's leather goods products rose 13 percent. From the brand point of view, most of the revenue mainstay brand performance has a certain degree of increase, such as occupying 85% of the group's sales. Prada's first-half performance growth of 17.7%, Zegna and Thom Browne of Zegna show double-digit growth. It is worth noting that Gucci, which accounts for 60 percent of Kering Group sales, did not perform well in the first half of the year, with a year-on-year decline in performance.

From the perspective of market distribution, the Asia-Pacific market has recovered stronger than other regions, especially the Chinese market. With the recovery of the domestic social environment, the gradual improvement of disposable income, and other objective factors, the sales of luxury goods in China have grown strongly. Among them, Burberry and Richemont Group made it clear in their financial reports that the strong growth of the Asia-Pacific market covering China made up for the decline in revenue brought by the Americas. However, in the Asia-Pacific and other regions have obvious growth at the same time, the luxury group in the Americas sales have different degrees of decline: LVMH's first half of the year in the U.S. organic revenue declined by 1% year-on-year; Kering Group's first half of the year in North America, revenue fell by 23% year-on-year; Burberry first-quarter Americas market sales fell by 8%, and so on.

As one of the important markets for major luxury goods, mainland China's luxury market has been experiencing positive growth. According to Bain, China's luxury consumption will account for about 17 percent of global sales in 2022. In the first half of this year, executives from LVMH, Gucci, Prada, Hugo Boss, and Burberry visited China, reflecting the importance luxury brands attach to the Chinese market.

First-half or first-quarter results of major luxury groups:

(1) LVMH: H1 sales exceed €42.2bn, up 15% year-on-year

LVMH released its financial results for the first half of 2023. The financial report shows that in the first half of the year, LVMH sales increased by 15% year-on-year to 42.24 billion euros, and gross profit reached 29.317 billion euros, an increase of 16% year-on-year. By region, U.S. organic revenue declined 1% year-on-year, Japan grew 29% year-on-year, excluding Japan's Asian organic revenue grew 34%, and in Europe, organic revenue grew 19% year-on-year. Except for the wine and spirits division, which was impacted by high base factors, all other LVMH business groups achieved double-digit organic revenue growth. The Fashion and Leather Goods division saw a 21% organic year-on-year revenue jump; the Fragrances and Cosmetics division increased 16% year-on-year; the Watches and Jewellery division increased 14% year-on-year; and Boutique Retail increased 25% year-on-year.

(2) Kering Group: H1 revenues exceed €10bn, up 2% year-on-year

Kering Group released its financial results for the first half of 2023. The financial report shows that in the first half of the year, the group's revenue increased by 2% year-on-year to 10.135 billion

euros. Net profit attributable to the group recorded 1.785 billion euros, down 10% year-on-year. By region, in the first half of this year, Western Europe, Japan, and Asia-Pacific region revenue increased by 4%, 26%, and 22% year-on-year, respectively, while North American revenue fell by 23% year-on-year. By brand, in the first half of this year, in the group's results accounted for nearly 60% of the Gucci revenue fell 1% year-on-year to 5.128 billion euros; YSL revenue rose 7% year-on-year to 1.576 billion euros; Bottega Veneta (Baodiejia) revenue of 833 million euros almost the same period last year; Balenciaga (Paris family) in the rest of the brand The division's revenue fell 5 percent year-on-year to €1.856 billion, while the eyewear division grew 16 percent year-on-year to €869 million.

(3) Hermes: H1 revenue rises over €6.6bn, up 25% year-on-year

Hermès released its financial results for the first half of fiscal year 2023. In the six months to 30 June, Hermès sales rose 25% to €6.698bn, up 22% at immediate exchange rates. During the period, sales in the leather goods and harness division, where the brand's platinum bags are housed, rose 21 percent, ready-to-wear sales were up 35 percent, silk and textile revenues were up 22 percent, perfumery and beauty were up 10 percent, and the watch business was up 24 percent. By region, in the first half of 2023, Hermès revenues in France, Europe excluding France, Japan, Asia excluding Japan, and the Americas grew 23.5 percent, 21.5 percent, 26.0 percent, 27.6 percent, and 19.9 percent, respectively, at constant exchange rates.

(5) Prada: recorded a net income of 2,232 million euros in the first half of the year, an increase of 20.5 percent compared to the same period last year

Prada announced its consolidated results for the six-month period that ended 30 June 2023. According to the announcement, in the first half of 2023, Prada recorded net revenues of EUR 2,232 million, an increase of 20.5% at constant exchange rates compared to the same period last year, and profit attributable to shareholders of EUR 305 million, an increase of 62.1% compared to the same period last year. By region, all regions except the Americas recorded double-digit growth during the period, with sales in Japan up 49.2 percent, Asia Pacific up 25.3 percent, Europe up 24.4 percent, and the Middle East up 13.5 percent, while the Americas declined by one percent year-on-year. By brand, the group's eponymous Prada brand grew 17.7 percent year-on-year in the first half of the year on a constant currency basis, accounting for 85 percent of retail sales and holding on to the top spot. Miu Miu posted a 50.1 percent year-on-year increase in sales and accounted for 14 percent of retail sales.

(6) Ermenegildo Zegna: H1 revenue up 23.9% to €903m

Ermenegildo Zegna has released its key financial figures for the first half of the 2023 financial year. In the first half of the year, the group's revenues grew 23.9 percent to €903 million. When viewed excluding the Tom Ford Fashion business, organic revenues grew by 21.5 percent, with Zegna and Thom Browne delivering double-digit organic growth. By region, in the first half of 2023, the Group achieved strong growth in all regions of the world, driven by all regions. Strong demand from Chinese consumers contributed to 24.1% growth in Greater China. Sales were particularly strong in Hong Kong and Macao, China, thanks to a healthy recovery in direct-to-consumer activities. Southeast Asia saw strong year-over-year growth, with Japan up 30.9 percent. EMEA grew 23.8 percent year-over-year, with sales in the Middle East and Africa up 46.7 percent; North America grew 28.9 percent, with the U.S. up 26.1 percent; and Latin America also had a high growth of 25.6 percent. By brand, Zegna and Thom Browne both showed double-digit growth. Among them, the Zegna division's first-half sales of 65,175,500 euros, up 17.9 percent year-on-year; Thom Browne division's first-half sales of 20,795,900 euros, up 11.90 percent.

(7) Richemont: Q1 revenue jumps 19% to €5.322bn

In the three months to the end of June, Richemont's sales jumped 19 percent year-on-year to 5.322 billion euros, or 14 percent at actual exchange rates. During the reporting period, the group saw a strong rebound in the Asia-Pacific market, which covers China, offsetting weaker sales in the Americas. By region, Asia-Pacific saw the strongest sales growth, up 40 percent at constant exchange

rates; mainland China saw double-digit year-on-year growth; Japan achieved a 14 percent increase in sales; Europe saw an 11 percent increase in sales; the Middle East and Africa saw a 15 percent increase in sales; and the Americas saw a 2 percent decline in sales in the first quarter. By division, the Group's three jewellery brands, Buccellati, Cartier, and Van Cleef & Arpels, posted the strongest sales growth. During the quarter, the jewellery division posted sales growth in all channels and regions, except in the Americas, where sales were essentially flat, and the Professional Watchmaking division, where sales rose by 10%.

(8) Burberry: retail revenue up 17 percent to £589m in Q1

Burberry has reported its first-quarter results for FY2024. For the 13 weeks ended 1 July, retail revenue grew 17% to £589 million (\$5.5 billion). Comparable shop sales grew 18 percent year-on-year, compared to just one percent in the same period in 2022. By region, comparable shop revenue in Asia-Pacific grew 36 percent during the quarter, with comparable shop revenue in China growing 46 percent. The financial report mentioned that globally total sales contributed by Chinese consumers grew by about 15 percent and drove growth in Japan and Southeast Asia. Comparable shop revenue in Europe, Africa, and the Middle East, including the UK, grew 17 percent, driven mainly by tourists; sales in the Americas declined 8 percent, but the decline in the home market was compensated to some extent by spending by visitors from the Americas in other countries. By category, comparable shop revenue for outerwear grew 36 percent, driven by the popularity of classic trench coats, while leather goods revenue grew 13 percent, with women's handbags seeing significant sales growth.

### **3.2. Gradual shift from traditional marketing to Netflix marketing**

#### **3.2.1. Short video-led sales continue to surge**

The initial decline of the traditional advertising industry, short video platforms are on the rise, and surveys of blogger takeaway conversion rates have concluded that marketing tactics are undergoing a format shift, with TV adverts switching to short video embeds. In 2023, the blogger marketing industry shows no signs of slowing down. Still rather, as the short video industry booms, driving a three-fold year-on-year increase in the number of sales it brings in, consumers are increasingly favoring more authentic content, and blogger Creating content is particularly strong in this regard. The momentum-boosting short-form video market will face even stronger growth in 2023, with fast-food browsing providing users with information that can be digested quickly and platforms' push mechanisms leading to an increasing tendency to spend more time on short-form video. According to the forecast, the scale of short video content will accelerate in 2023. On the other hand, Gen Z is a more responsive "blogger-led shopper." According to the study, 79% of Gen Z's purchases originate from social media platforms, and "seeding," "plucking," and "blogger wearing" play a great role in promotion. According to the study, 79% of Gen Z's purchases originate from social media platforms, where "seeding," "pulling," and "blogger's outfit" play a great role in promotion; we found that when making order decisions, Gen Z trusts blogger's recommendations the most, and their trust is even higher than that of social media advertisements and celebrities.

#### **3.2.2. Blogger-generated content (IGC) is at the heart of marketing**

This year, with changes in marketing budgets, the funnel effect, and strong return on investment influencing the next changes in market direction, considering the role blogger-created content plays in increasing awareness, boosting conversions, and building loyalty, marketers will pay more attention to the efficiency and utility of bloggers' content outputs as the core of their next marketing efforts. Overall, blogger marketing bridges the gap between brands and consumers, shortening the distance from inspiration to real purchase. Looking forward to 2023, blogger-created content will be

the foundation of their social marketing and other marketing efforts, guiding and driving the market further.

### 3.3. Sinking of merchandise classes in duty-free zones

The data shows that the synchronisation rate of new products in the duty-free zone is not much different from that of the counters, which makes consumers more willing to go to the duty-free zone, thus affecting the sales KPIs of the offline directly-managed shops. Therefore, it is necessary to distinguish the styles of goods in the free zone from those in the directly-managed shops.

In recent years, Hainan duty-free shopping has made a remarkable contribution to the prosperity of China's luxury market. Duty-free shopping in China has suffered considerably in 2022, with Hainan duty-free sales at around RMB 35 billion, down around 30 percent year-on-year, with reduced traffic being the direct cause of the drop in sales. However, the government, brands, retailers, and developers are all working hard to launch a series of measures to promote the return of consumption (e.g., Haikou's distribution of 1.6 million yuan of mid-autumn duty-free vouchers). Meanwhile, CDFG and its subsidiaries offset the impact of air travel restrictions by vigorously promoting their in-country e-commerce businesses. In addition, tourist visits to South Korea in 2022 are more than 90 percent lower than in 2019, but sales remain at around 70 percent of 2019 levels. This suggests that the South Korean market carries out a significant amount of cross-border export activities, such as buying on behalf of others. At the recent LVMH FY2022 global analysts' meeting, Bernard Arnault, chairman and chief executive officer of the group, explicitly referred to surrogate purchasing in the South Korean duty-free market and threatened to "fight it resolutely, at great cost." However, Bain said the Korean duty-free market will continue to play an important role in China's broader luxury beauty ecosystem.

## 4. Conclusion

Based on the overview and development status of the luxury industry, this paper first adopts the framework of the SCP analysis paradigm to study the market structure behavior performance of the luxury industry from the perspectives of geographic differentiation of input ratio, the gradual transfer of traditional marketing to Netflix marketing, and the sinking of commodity grades in duty-free zones, respectively. Secondly, it analyses the characteristics of China's luxury consumption market, such as large development space, diversified consumer groups, and constantly upgrading consumption structure, and based on this it gives suggestions such as attaching importance to consumers' emotional experience, integrating online and off-line resources, cultivating talents in the industry, tapping into the use of new technology, and focusing on innovation and brand building. The impact of the epidemic and the economic downturn have made the luxury industry lukewarm in recent years. It is necessary to change the marketing methods and publicity methods to create a luxury market suitable for China so that it can continue to develop and grow in the post-epidemic era.

## References

- [1] Yu, Shubin, and Yangjuan Hu. (2020) "When luxury brands meet China: the effect of localised celebrity endorsements in social media marketing." *Journal of Retailing and Consumer Services* 54: 102010.
- [2] Li, Jun Liang, et al. (2021) "The Future of Marketing Chinese Luxury Brands." 2021 International Conference on Enterprise Management and Economic Development (ICEMED 2021). Atlantis Press.
- [3] Zhang, Lini, and Haidong Zhao. (2019) "Personal value vs. luxury value: what are Chinese luxury consumers shopping for when buying luxury fashion goods?" *Journal of Retailing and Consumer Services* 51: 62-71.
- [4] Liu, Sindy, Patsy Perry, and Gregory Gadzinski. (2019) "The implications of digital marketing on WeChat for luxury fashion brands in China." *Journal of Brand Management* 26: 395-409.
- [5] Loranger, David, and Erik Roeraas. (2023) "Transforming luxury: Global luxury brand executives' perceptions during COVID." *Journal of Global Fashion Marketing* 14.1: 48-62.

- [6] *Bharwani, Sonia, and David Mathews. (2023)"Sustainable luxury: from an oxymoron to a tautology-the case of the Indian luxury hospitality industry." Worldwide Hospitality and Tourism Themes 15.3: 231-248.*