

Analysis of the Current Chinese Consumer for Luxury Goods - Generation Z

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Abstract: As a mainstay of the luxury consumer group, Gen Z has become a global phenomenon, especially in the United States and China. Marketing strategies for attracting this emerging consumer segment can be learned from the Chinese luxury market. This study used the Chinese luxury market and its Gen Z consumers as a case study to offer scientific recommendations to luxury marketers based on various statistics and related literature, including demographic descriptions, market reports, and consumer behaviors. It also discusses how Gen Z differs from its elder sibling, millennials, who are currently the focus of luxury brands' marketing efforts. Consequently, three factors contributing to Gen Z's dominance of the Chinese luxury market have been found. Firstly, the optimism and impulsivity of Gen Z make them spend more than they can afford. In addition, Gen Zs are exposed to a constant stream of uncensored, real-time events, information, and entertainment, which makes it easier for them to access information related to luxury goods. Lastly, digitalization facilitates online shopping for luxury goods. Accordingly, as Chinese Gen Z crave unique and personalized experiences, customized services can be a winning point for luxury brands.

Keywords: Consumer segmentation, generation Z, consumer behavior, luxury marketing

1. Introduction

Luxury goods and services in the world are evolving rapidly. Affluence, exclusivity, and status, which were considered conventional for luxury purchases, have been overturned by seismic cultural and categorical changes. As a redefinition of objects of status and desire, access to fulfilling experiences is replacing ownership of goods. It has become increasingly difficult for marketers to allocate promotional resources scientifically as a result of the deeper spiritual motivations for luxury purchases. Meanwhile, Generation Z (Gen Z), defined as people born from 1995 to 2010, is becoming the major source of luxury consumption worldwide, especially in China. Younger generations between the ages of 20 and 30 are the consumer segment in the Chinese luxury fashion market with the fastest growing trend [1]. By 2025, millennials and Gen Z consumers will become a major segment that takes up more than 40% of the world's luxury market [2]. These changes are taking place at a high speed. In the Chinese luxury market ten years ago, the most prominent consumer group was still 40-60-year-olds, often referred to as "Chinese mamas," however, today it is their children or even grandchildren. In addition, in China, it is predicted that first-time luxury consumers will become a major source of growth in the luxury industry [3].

With the dramatic changes in consumer segmentation, luxury brands have begun to develop social media strategies to stimulate customer interest [2]. In spite of this, marketers are spending five times more of promotion resources on reaching Millennials than the combination of all other demographic groups [3]. The fact is, most marketers are unaware of this gigantic trend, even though Gen Z heralds a new era.

In previous studies, the sociological influences of Gen Z have been explored in a variety of areas, such as entertainment, consumption, education, etc. For this demographic group, however, there is a lack of research that focuses on luxury consumption. Hence, by examining the role that Gen Z is playing in the luxury market, valuable information can be gathered regarding the better allocation of luxury marketing, the global economy in the near future, and even teen culture, which can be related to broader topics, such as education, anthropology, etc., through conducting a case study. The purpose of this paper is to conduct a case study with the body of the Chinese luxury market and its Gen Z consumers. Based on the findings of the analysis, the paper made recommendations for Chinese luxury marketers as well as global luxury marketers.

2. Case Description

The majority of promotional resources are currently allocated to Millennial consumers (five times more than all other groups combined [3]). Thus, the research emphasizes the differences between Gen Z and its older sibling, Millennials, in order to gain a better understanding of Chinese Gen Z.

A common definition of Generation Z is provided by The Pew Research Center, which specifies the Gen Z's starting birth year as 1997. They chose this date because of what they call their "different upbringing", such as new technological developments and socioeconomic trends, and growing up in the world after the Sept. 11 attacks. There may not seem to be a connection between the 911 attack and Chinese Gen Z, however, it has a global impact. The historical event cannot be ignored in order to gain a deeper understanding of the Chinese Generation Z. The endpoint of the generation was not specified initially, but 2012 was used as a tentative endpoint in the 2019 report. It is important to note that there are multiple names and definitions of the same demographic group in the literature; however, we refer to Gen Z as those who have either just entered puberty or have graduated from a four-year college degree and are entering the workforce conceptually.

Many marketers have a long-standing misconception when preparing for this emerging market segment, which is that Generation Z behaves, believes and attitudes similarly to Millennials [4]. According to recent literature, which includes qualitative and quantitative research, there are some polarities between the behaviors, beliefs, and even values of these segments. The major difference may be since Millennials are digital migrants, while Gen Zers are the first true digital natives. Gen Zs are more soberminded and realistic, compared with their often characterized as idealists' elder siblings. In terms of culture, Gen Z is characterized as autonomous, ambitious, brand conscious, and, most importantly, socially responsible. Williams suggests that the Silent Generation is the closest demographic group that would resemble them most closely [5].

Compared to Millennials, most members of Generation Z are more pragmatic [6], future-proof and financially conservative [7]. It has been found that they tend to grow up being highly concerned about their family's finances and are very open to discussing money issues [8]. Since they experienced the concealment of their Boomer or Gen X parents during the Great Recession, they are debt-averse savers. They are self-aware when it comes to planning their future, so they seek practical solutions to earn a living based on their limitations [9]. There is research that suggests that baby boomers are raising millennials who think they can do anything, whereas their Gen X counterparts are teaching their children pragmatism - encouraging them to build strategical thinking, develop practical skills, and get used to make trade-offs [7].

Gen Z prefers and expects to create their own content rather than collect and share media with social media. While Millennials tend to collect and share media with social media, Gen Z prefers and expects to develop and share their own work. The best way to illustrate these preferences is by observing their enthusiasm with original content on social media [10]. Gen Z's passion for creativity extends even to their educational and career choices. In general, Gen Zs are more inclined to work for themselves than their elder siblings. Gen Z are creative self-starters who have easy access to all the information they require, regardless of whether it is for work or play. Even though Generation Z is still far from adulthood, they value work ethic and independence and perceive professional success as a coveted status symbol, contrary to stereotypes of Millennials as self-satisfied, entitled, underemployed and living in their parents' homes [11]. As a generation and as individuals, they place a great deal of importance on achievement. As opposed to Millennials, wealthy Gen Z are not content with riding their parents' coattails or blaming their success on their parents' good fortune. Even members of wealthy Gen Z have a strong desire to make it look like that they "earned" it themselves.

Having grown up in a globalized and ethnically diverse world, Generation Z is growing up in an era where racial, cultural, sexual and religious tolerance has become the norm, rather than a laudable achievement. "They are so diverse that they do not see diversity unless it does not exist," notes intergenerational researcher Jason Dorsey. It is unlikely that Generation Z members will recall a time when there was no black president, same-sex couples were not granted equal rights, or gender fluidity was not widely accepted [12]. Although Millennials reject the restrictive social norms that their parents and grandparents were afraid to challenge in adulthood, Generation Z members do not feel obligated to adhere to such expectations. Their identities are fluid and multidimensional, and they avoid associations with binaries and categories.

Furthermore, the Chinese market accounts for a larger share of the global luxury market, growing from 20% to 21% and is predicted to continue to be the world's largest luxury market regardless of continued restrictions on international travel.

As reported by Bain [13], China's luxury goods market experienced strong double-digit growth in 2021, despite mounting global social and economic challenges. Considering the limited international travel options available to Chinese consumers, they have continued to purchase luxury goods domestically. A 48% increase in China's domestic sales of luxury goods in 2020 was followed by a 36% increase in 2021, totaling nearly RMB 471 billion. In only two years, the total sales of personal luxury goods in China have nearly doubled. Domestic spending in the luxury market also continues to be strengthened due to duty-free opportunities, and digitalization.

The pandemic accelerated China's already high and increasing level of digitalization. As a result, online events have become one of the most effective methods of marketing and engaging consumers. Despite this, offline stores remain the most effective channel for building brand awareness and converting sales. There has been a significant increase in online luxury sales across all categories, with online personal luxury sales increasing by almost 56% while offline luxury sales increased by 30%. Nearly a fifth of all luxury sales was conducted online in 2021. Online marketing is efficient and convenient, resulting not only in a higher share of luxury sales coming from online shopping, but also in increasing the number of first-time buyers and changing their shopping habits. There is no doubt that Chinese Gen Z is the major contributor to further digitalization of luxury purchases since they are the only demographic group who are considered to be internet natives.

For continued repatriation, in 2020, international and domestic travel restrictions caused mainland China's share of global luxury purchases to peak at approximately 70% to 75%. In the following year, this percentage increased to almost 90%. The repatriation is expected to continue, and Chinese consumers' personal luxury purchases are expected to return to pre-Covid levels between the end of 2022 and the beginning of 2023. The pandemic kept the international students, which take up a

significant portion of Chinese Gen Z luxury goods consumers, to make luxury purchases domestically. Therefore, Chinese Gen Z's involvement in the luxury market contributes to the continued repatriation.

3. Analysis

As a significant contributor to luxury consumption in China today, Generation Z exhibits the following consumer behaviors. The Gen Z generation is most likely to make spontaneous purchases of products. In part, this behavior is driven by a high level of confidence in future income. 78% of Chinese Gen Z respondents believe they will earn as much as they do now or even more in the future. Secondly, Chinese Gen Z customers are particularly interested in customized products and tailor-made services. Chinese consumers tend to favor brands that offer "unique products", especially when they are purchased as gifts. As a third point, McKinsey's China consumer report for 2021 indicates that once engaged, China's Gen Z is also more loyal to brands: 47% of respondents agree that they stick to their favorite brands, while 43% cite the preference for familiar brands over new ones [14]. Customer relationship management with social apps is increasingly used by successful brands to maintain customer engagement and retention.

Furthermore, the further digitalization discussed earlier is also part of the consumer pattern that Chinese Gen Z is exhibiting. There has always been an interconnection between shopping and technology in China, especially among the tech-savvy generation Z. Their shopping experience is more omnichannel than that of Gen Z in other countries. When it comes to clothing, for example, nearly 40% of Chinese Gen Z shoppers browse in-store but shop online, compared to about 15-30% of Gen Z in other countries. In conclusion, online reviews, such as product experience articles on Taobao, Tmall, and Xiaohongshu, as well as personal opinions on social media are strong sources of influence across generations in China. As well as blogs, key opinion leaders (KOLs), and brands' official social media accounts, Gen Z uses other sources to obtain product recommendations.

Consequently, there are three factors that contribute to Gen Z's dominance of the Chinese luxury market.

From the demographics of China's Gen Z, it is apparent that most of the group is still in puberty, receiving compulsory education, and is not financially independent. They are therefore limited in their purchasing power, making entry-level products more accessible and popular among them. Also, there is a significant difference in the gross population between genders, which will contribute to the challenges faced by Gen Z males when seeking romantic relationships. Due to the perception that luxury goods are fancy gifts, they tend to sell well during the holiday season. The second characteristic of Chinese Gen Z is optimism and impulsivity. They tend to spend more than they can afford. The majority of their exceeded budgets are spent on products and services that are deemed to be "unique.". In addition, many of China's Gen Zs are of the opinion that purchasing the same brand all the time will create a personal brand. First-time buyers are therefore more valuable to luxury brands as a result. Fourth, Gen Z tends to have a higher level of trust in individual e-sellers than previous demographic groups, who generally believe that most products sold by individuals are fake. The increased competition in pricing will also create challenges in product distribution. In addition, Gen Z also seeks product recommendations from other sources (such as bloggers, Key Opinion Leaders (KOLs), and brands' official social media accounts) meaning new measures of promotion are needed to attract this new demographic market. Lastly, Chinese Gen Z's purchasing preferences can be influenced by the role of technology. As technology advances, many products are losing their exclusivity. The change in exclusivity may lead Gen Z to purchase more exclusive products to demonstrate their identity.

A second reason for Gen Z's preference for luxury consumption can be attributed to their upbringing. Gen Z grew up in an environment of insecurity in both financial and political areas. As a result, their childhood was filled with instability, which led to their craving for stability, thus

spontaneity may not be a desirable quality. Moreover, since Gen Z in China has never experienced a prosperous economy, it is easy to perceive that this generation is showing a frugal spirit reminiscent of their grandparents, which indicates that there are not as many entitled idealists as in their younger sibling generation. Along with their mature buying habits, Gen Z is also more focused on content creation than any other demographic group. It can be related to their tendency to seek advice for shopping from various media and their desire for personalized experiences and products. Besides leading to cautious purchasing, the pragmatic spirit motivates them to investigate the future as well. Gen Z is more concerned about whether the value of a product will increase in the future than whether they will be able to afford it. In their view, shopping is more like investing in practical assets. Also, Gen Z's inclusiveness seems to be ingrained in its soul. As native internet residents, they are more open to other cultures to the point where they may not even be aware that there are elements that represent diversity. Due to the fact that multicultural products have become a norm, innovations may need to come from other sources.

In contrast to Millennials, Generation Z values robustness, manipulability, and familiarity [7]. Growing up in a post-9/11 world of escalating political insecurity, terrorism and school shootings, Generation Z' sense of security was challenged from an early age [15]. Chinese Gen Z were less affected by 9/11 than their counterparts in North America, but their conservative culture made the global influence greater in terms of shaping generational characteristics. Members of Generation Z, however, do not have access to alarming information from their parents, unlike previous generations. Instead, they are exposed to a constant stream of uncensored, real-time events, information, and entertainment. Even though they are accustomed to instability, they still seek predictability and security [16]. It is also evident in their habits and behaviors that they are risk averse. The Gen Z generation is highly cautious and aware of the impact of their decisions on themselves and others. Therefore, they are less likely to be part of risky behaviors, which are considered by Millennials and members of Gen X to be teen "rituals" [7]. In spite of this, Gen Z does not only care about safety. Gen Z is still willing to experiment and explore if there is a purpose and a plan.

Thirdly, the Chinese luxury market itself has changed in a way that has led Gen Z to become one of the major consumers in the industry. During the past year, three keywords have been associated with the Chinese luxury market: Hainan offshore duty-free shopping, further digitalization, and continued repatriation. The Hainan offshore duty-free shopping program initiates a pricing war for luxury goods, hence making luxury goods competitive in earning favors from pragmatic Gen Z consumers. In addition to making consumption easier, further digitalization also opens the doors to a promotion war between KOLs and content creators, a key to winning Gen Z consumers, because they tend to listen to good reviews before making purchases. It appears that COVID will continue to have an impact on the whole market for the foreseeable future, at least for the next few years. Therefore, in the present economic climate, the already pragmatic and cautious Gen Z buyer may even reduce their unnecessary purchases, making the marketing of luxury goods even more challenging.

4. Suggestions

Several suggestions were made based on the results of the research, each addressing a different group of individuals.

There may be a heterogeneous influence on Gen Zs themselves when they are in the position of making most luxury purchases. First of all, there is a positive side to this situation. Gen Z is more likely to develop an aesthetically good appetite if they spend more on outfits than on other items. If they do this, they will be able to quickly locate their own wardrobes. The young generation enjoys following trends, so they dress better and live more aesthetically than any other demographic group. However, the downside of chasing luxury goods may outweigh its benefits. The most notable aspect of China's Gen Z is its optimism, impulsivity, and tendency to exceed budgets, as discussed earlier in

the analysis section. Their over-budget is primarily due to their desire to provide "unique" products and services. There is always a cost associated with "unique" products. Malevolent events are more likely to occur when consumers exceed their budgets on a regular basis. Considering that most of the members of this group are still enrolled in compulsory education, the malevolent event may include, but is not limited to, bullying and violence in schools.

Furthermore, since supervision over online loans is still at an early stage, it is possible that teenage Gen Z borrows money online to meet their shopping needs. In the case of premature lending, the consequences can be extremely serious, and the impact can last for a lifetime. Additionally, despite the fact that Chinese Gen Z's are all from wealthy families and can afford all of their shopping requirements, their habit of buying luxury goods may easily lead them to worship money. According to Klontz et. al. [17], young, single, and broken individuals are more likely to engage in this behavior. The individuals with this behavior are enthusiastic with the idea that they need more money to advance in life, meanwhile, they believe that there will never be enough money to satisfy their wants or needs. Having such beliefs can have several negative effects on Chinese Gen Zs over the course of their lives.

The research concludes with the following recommendations for marketers of luxury brands. First and foremost, stability should be in the slogan for marketers to promote their products to China's Gen Z as stability has become the principal pursuit of this consumer segment when it comes to consumption. Secondly, marketers should focus on making their products useful to China's Gen Z. Since consuming idealistically is the opposite of consuming practically, viewing Gen Z as the same idealists as millennials will negatively impact marketing strategies. The third recommendation is to lower the primary market price while maintaining a high secondary market price for luxury goods, therefore making authorized distribution channels more attractive than secondary markets. As a result, the brand will not only increase its revenues when the total sales are equal, but consumers will believe that their purchases are value-preserving. As Chinese Gen Z crave unique and personalized experiences, customized services can be a winning point for luxury brands. A fifth point is that entry-level products should be solid and given sufficient attention since they are both accessible to financially dependent consumers and most likely to attract first-time buyers. Therefore, a larger population of loyal customers could be built up. The influence of individual content creators on product promotion is significant, which is why marketers should have some control over them.

5. Conclusion

Although Generation Z members are young, they represent a highly complex consumer group that is influenced by nuances in their beliefs and behaviors and led by strong beliefs. According to this study, China's Gen Z consumers desire stability, buy pragmatically and in an investment-oriented manner, desire personal experiences, have preferred brands and are loyal to them, and are influenced significantly by content creators. It is increasingly important for brands and marketers to understand how Gen Z's perception of value is changing as household spending continues to rise and the oldest members of this generation enter the workforce.

Future research can benefit from examining the role of technology in determining how Gen Z will influence the luxury market. In particular, the advancement of technology has resulted in many products losing their exclusivity, which may encourage Gen Z to purchase more exclusive products to demonstrate their identity. It would be beneficial to explore further the questions raised above.

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