BCG BOSTON CONSULTING GROUP | Tencent Marketing Solution | TMI TENCENT MARKETING INSIGHT

TENCENT X BCG

2019 CHINA TRUE- LUXURY PLAYBOOK

Tencent x BCG luxury consumer group insight study

	Tencent insight	Consumer survey
Insight source	Tencent AMS platform	Tencent platform users' survey responses
Sample size	Chinese consumers interested in luxury goods	~1,500 consumers (true- luxury buyers in past 12 months)
Key outputs	True- luxury consumer group profile and digital behavior	Luxury touchpoints and purchase pathway; category differences

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

Personal luxury goods

Category	Sub-category	Threshold price
1. Handbags	1 Handbags	>1,000 € each
2. Shoes	2 Shoes	>350 € each
3. Accessories	3.1 Sunglasses	>180 € each
	3.2 Scarves/small leather goods	>180 € each
4. Ready to wear	4.1 Outerwear/ coats	>1,400 € each
	4.2 Dresses	>1,200 € each
	4.3 Suits	>1,600 € each
	4.4 Sweaters / knitwear	>400 € each
	4.5 Shirts / Topwear	>200 € each
	4.6 Jeans / pants / skirts	>250 € each
5. Watches	5 Watches	>2,000 € each
6. Jewelry	6 Jewelry	>1,200 € each

Contents

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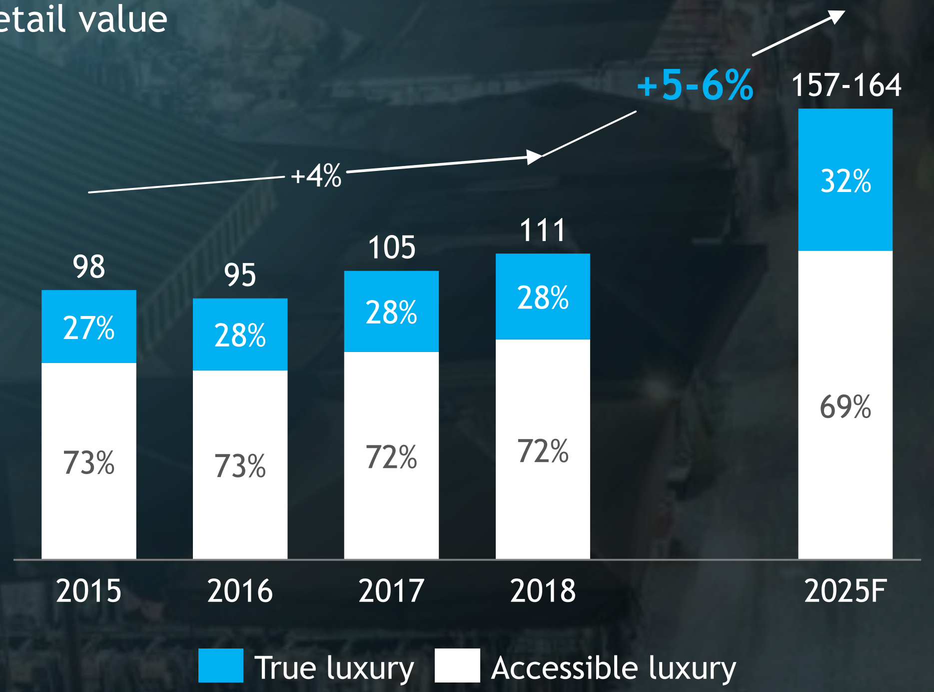
In 2018 China's luxury market exceeded €110 B, 33% of the global market, and is growing at 6%

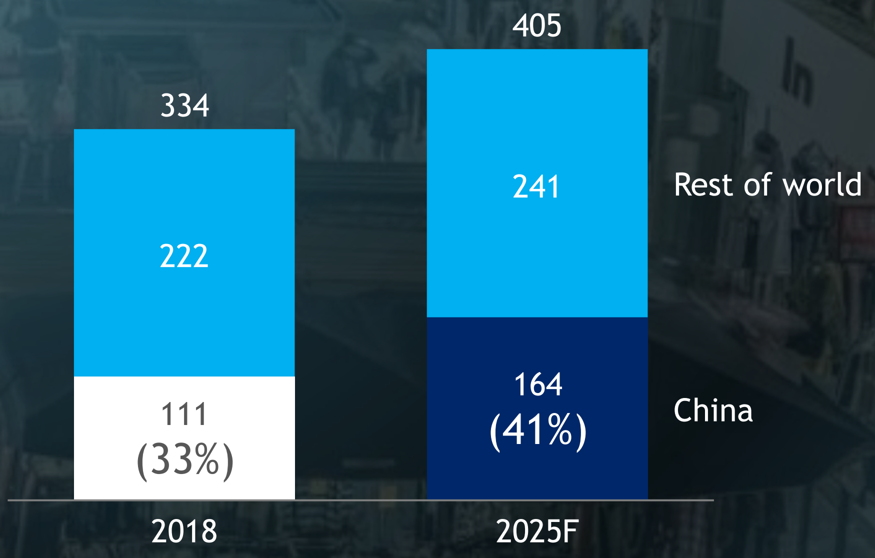
Chinese personal luxury market maintains 5-6% growth CAGR

€ B, retail value



China will contribute 41% of global luxury consumption by 2025

€ B, retail value



74% of global growth

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

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

Purchase penetration among luxury consumers[1] (%)					
	61	44	42	54	50

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

Summary of insights

1. Luxury consumers continue to be young, 48% of them are aged below 30 and contribute 42% of luxury sales
2. Geographically, majority of true- luxury consumers are from Top 50 cities (tier 2 or above) who contribute 73% of sales; the rest 27% are widely dispersed in over 2,000 lower tier cities
3. Chinese true- luxury consumers can be classified into 9 segments. Absolute luxurer, Megacitier and Rich Upstarter represent the 3 largest segments; collectively they contribute 46% of sales
4. The path to purchase happens digitally. On average, 60% of the 4-5 touchpoints before final purchase are online; for handbags, the number of digital touch points for handbags is as high as 6-7
5. Social media influence remains strong: 50% of consumers are influenced via the WeChat ecosystem; Chinese consumers prefer a highly curated, personalized social experience
6. KOL is a key influence on consumers aged below 30; KOLs are becoming more diverse in their online personalities and their contents & themes increasingly fragmented
7. Chinese consumers prefer more innovative media such as idols created by ecosystem and immersive virtual characters (e.g. from mobile gaming)
8. Overall 80% of luxury purchase journeys are ROPO, 20% higher than the global average
9. Half of luxury consumers expect improvement of digital experience at offline stores, i.e. smart fitting, VR/AR experience and smart interactive screens
10. Online accounts for 12% of purchases: Brand E-com (e.g. Mini Programs) is on the rise, already 33% of total online

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

Consumers in each age group

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

Source: BCG X Tencent Luxury Study, 2019

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

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

Age	Ready-to-wear: Annual avg. spend (€,K)	Ready-to-wear: Penetration[1]	Watches & jewelry: Annual avg. spend (€,K)	Watches & jewelry: Penetration	Handbags: Annual avg. spend (€,K)	Handbags: Penetration	Accessories: Annual avg. spend (€,K)	Accessories: Penetration	Shoes: Annual avg. spend (€,K)	Shoes: Penetration
18-25	4.0	57	4.5	29	4.0	30	3.3	56	2.7	51
26-30	4.4	57	6.3	45	5.7	44	2.8	53	2.9	49
31-35	4.5	66	6.2	52	5.9	49	2.8	54	3.7	51
36-40	4.7	64	6.0	39	7.3	43	5.0	53	4.2	53
40+	5.5	59	5.6	49	9.7	32	5.0	58	4.4	43

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

1

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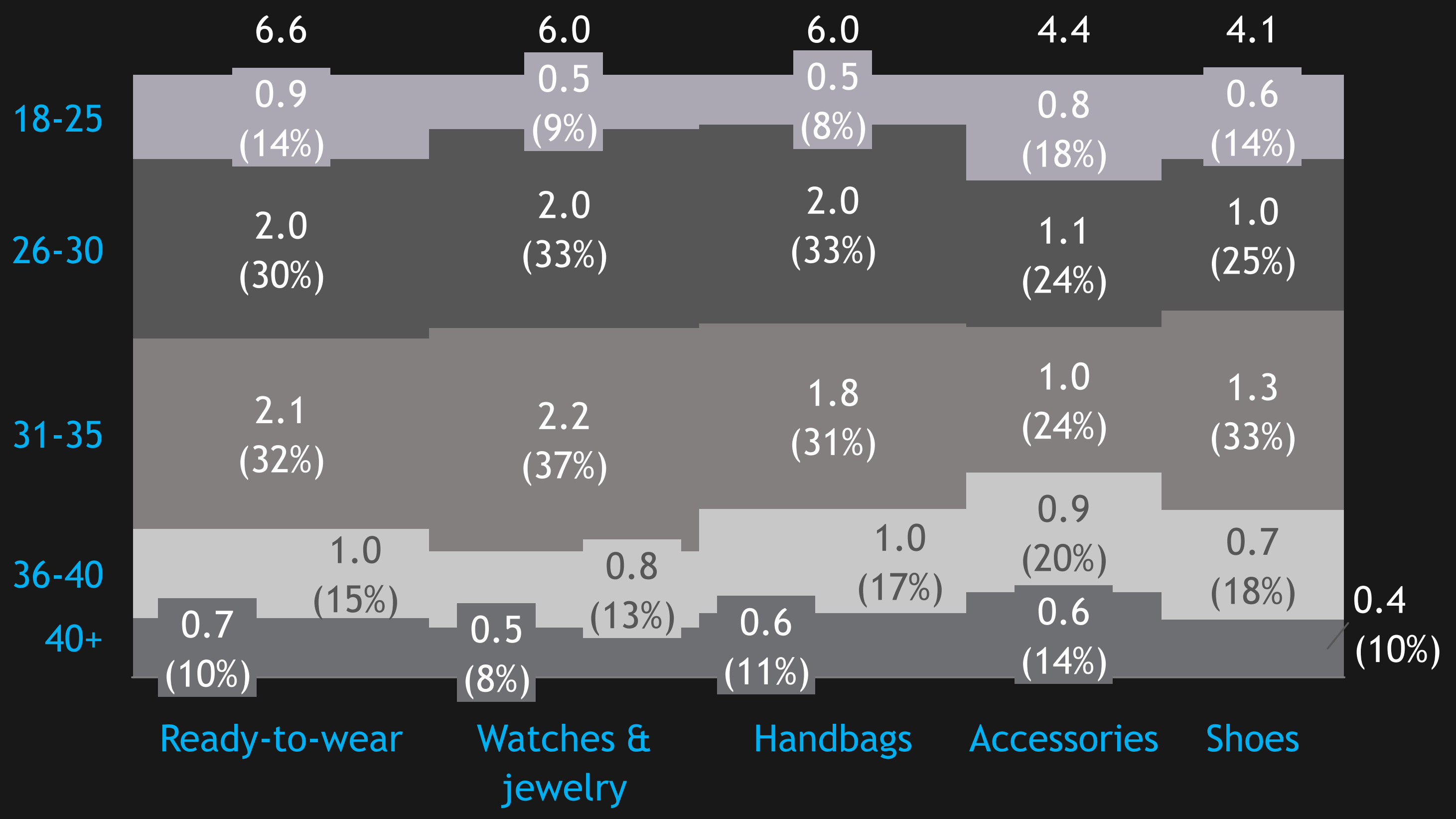
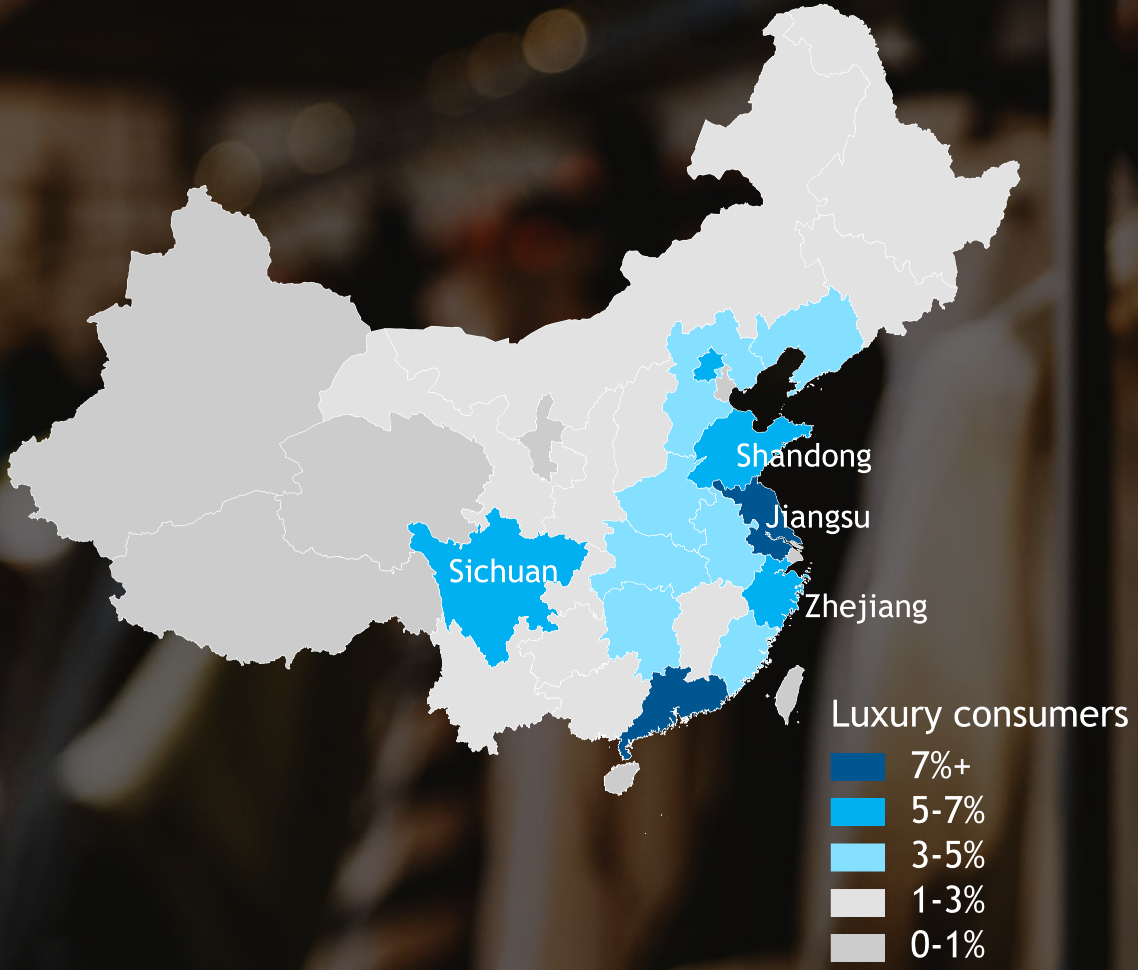
26-35 y.o. the core customers of watches & jewelry and handbags, consumption for other categories are evenly distributed among age groups

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



Source: BCG X Tencent Luxury Study, 2019

Over 70% of true luxury sales come from top 50 cities



City tier	% of luxury consumers	Luxury retail sales contribution %	Avg. luxury spend per luxury consumer (€,K)
BJ/SH/GZ/SZ (Top 4 cities[1])	26%	32%	13
Tier 1 (11 cities)	21%	22%	12
Tier 2 (32 cities)	18%	19%	11
Tier 3 & below (2,206 cities)	35%	27%	9

1. Beijing, Shanghai, Guangzhou, Shenzhen

Source: BCG X Tencent Luxury Study, 2019

Lower tier consumers are catching up on their luxury spending power, but currently average spend remains ~2/3 those from high-tier cities

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

Annual avg. spend (€,K)

	Ready-to-wear: Annual avg. spend (€,K)	Ready-to-wear: Penetration[1]	Watches/jewelry: Annual avg. spend (€,K)	Watches/jewelry: Penetration	Handbags: Annual avg. spend (€,K)	Handbags: Penetration	Accessories: Annual avg. spend (€,K)	Accessories: Penetration	Shoes: Annual avg. spend (€,K)	Shoes: Penetration
BJ/SH/GZ/SZ	5.3	56	6.2	44	6.3	53	3.3	60	3.3	59
Tier 1	5.0	57	6.3	47	5.9	43	3.2	54	3.5	48
Tier 2	4.7	62	6.5	45	5.6	38	3.2	56	3.1	53
Tier 3 & below	3.7	66	4.7	42	5.1	35	3.1	49	3.2	43

1. Percentage of those who have purchased the category in the past 12 months

Source: BCG X Tencent Luxury Study, 2019

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

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

	Ready-to-wear	Watches & jewelry	Handbags	Accessories	Shoes
Total	6.6	6.0	6.0	4.4	4.1
Top 4	1.9 (29)	1.7 (28)	2.3 (39)	1.4 (33)	1.3 (33)
Tier 1	1.5 (23)	1.5 (25)	1.3 (22)	0.9 (21)	0.9 (23)
Tier 2	1.3 (20)	1.3 (22)	0.9 (15)	0.8 (19)	0.7 (18)
Tier 3 & below	1.9 (29)	1.5 (25)	1.4 (24)	1.2 (28)	1.1 (28)

Source: BCG X Tencent Luxury Study, 2019

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

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

1. Exclusive of purchase from Daigou; 2.Touch points exposed per stage by a luxury consumer; 3. Proportion of digital touch points among all touch points
Source: BCG X Tencent Luxury Study, 2019

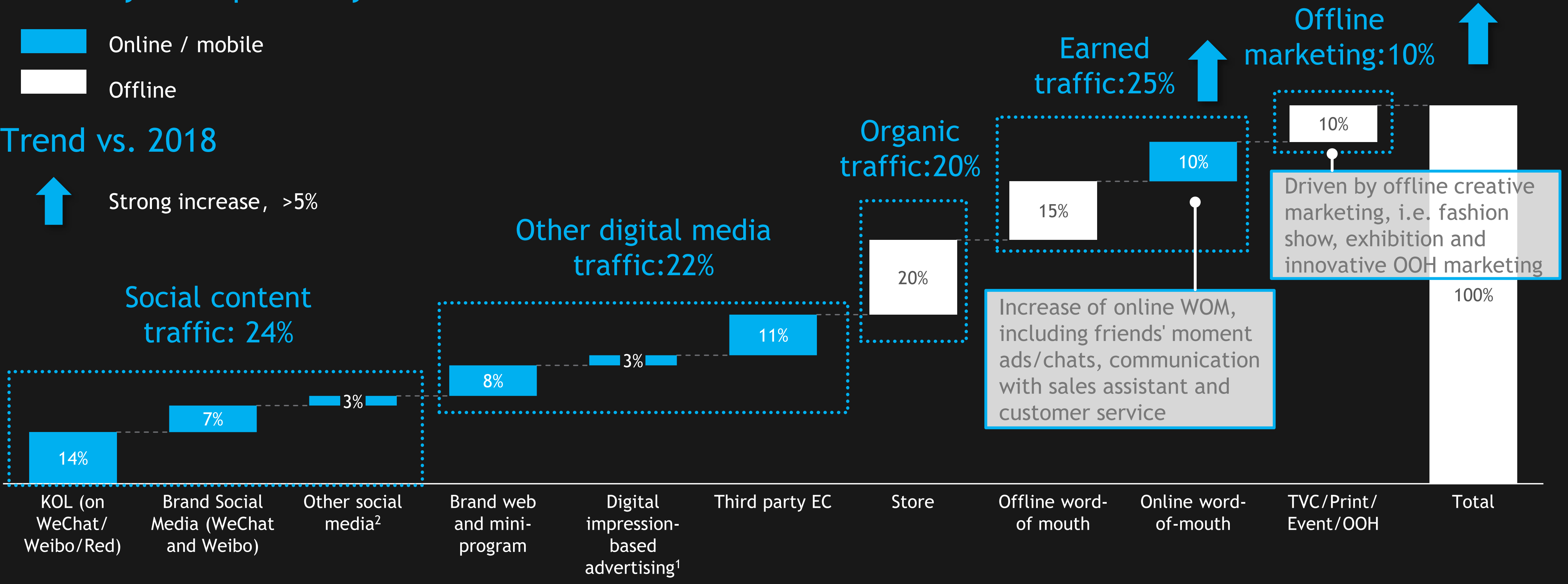
Extremely complicated purchase pathway for handbags and shoes; highly digitalized discovery and research

Discovery: % of digital touchpoints[1]	Discovery: Avg. touch points		Research: Avg. touch points	Research: % of digital touchpoints[1]
58%	4.3	RTW	3.4	71%
55%	2.7	Watches/ jewelry	2.2	63%
62%	10.0	Handbags	8.1	69%
63%	6.4	Accessories	5.1	69%
64%	8.0	Shoes	6.9	73%

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

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

Discovery touchpoints by consumer attention



1. Primarily Moments ads and OTV ads; 2. Including short videos and other social media
Source: BCG X Tencent Luxury Study, 2019

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

Discovery

What triggered your interest in the product?

Discovery - % of luxury consumers

- **83%** Online touch point penetration[1]
- **69%** Social media penetration[2]

Research

Through which channels did you do research before making your purchase decision?

Research - % of luxury consumers

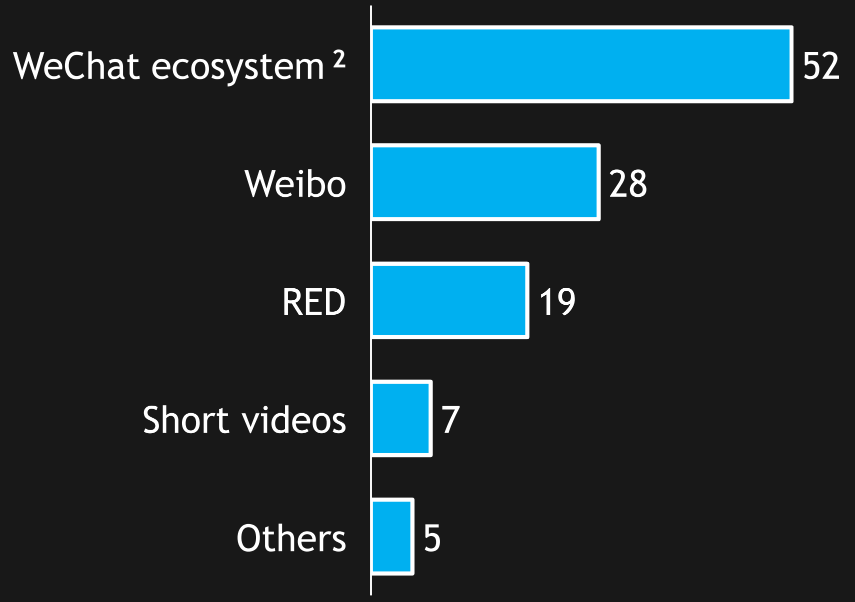
- **84%** Online touch point penetration[1]
- **67%** Social media penetration[2]

1. Proportion of luxury consumers who were exposed to online touch points; 2. Proportion of luxury consumers who were exposed to social media
Source: BCG X Tencent Luxury Study, 2019

WeChat is the most used social platform during discovery and research, followed by Weibo and RED

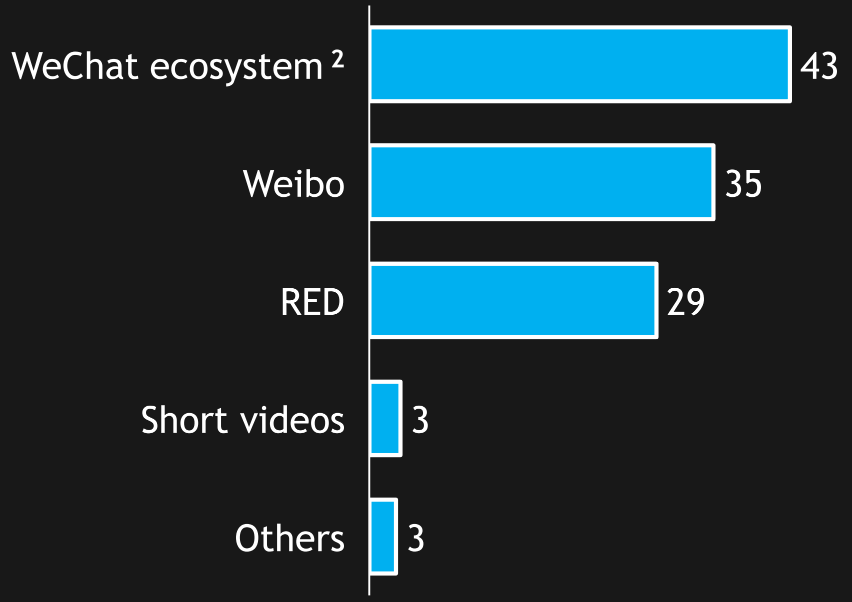
? What triggered your interest in the product?

Discovery - % of consumers[1]



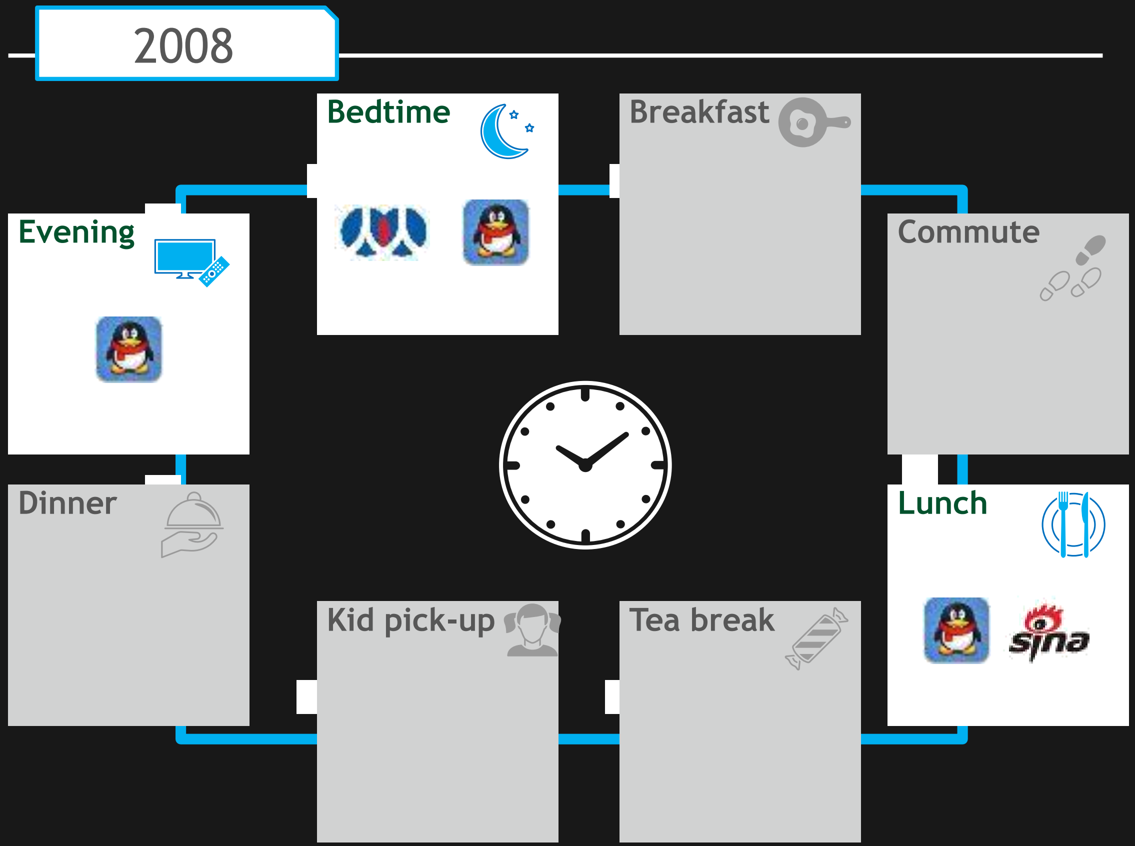
? Through which channels did you do research before making purchase decision?

Research - % of consumers[1]

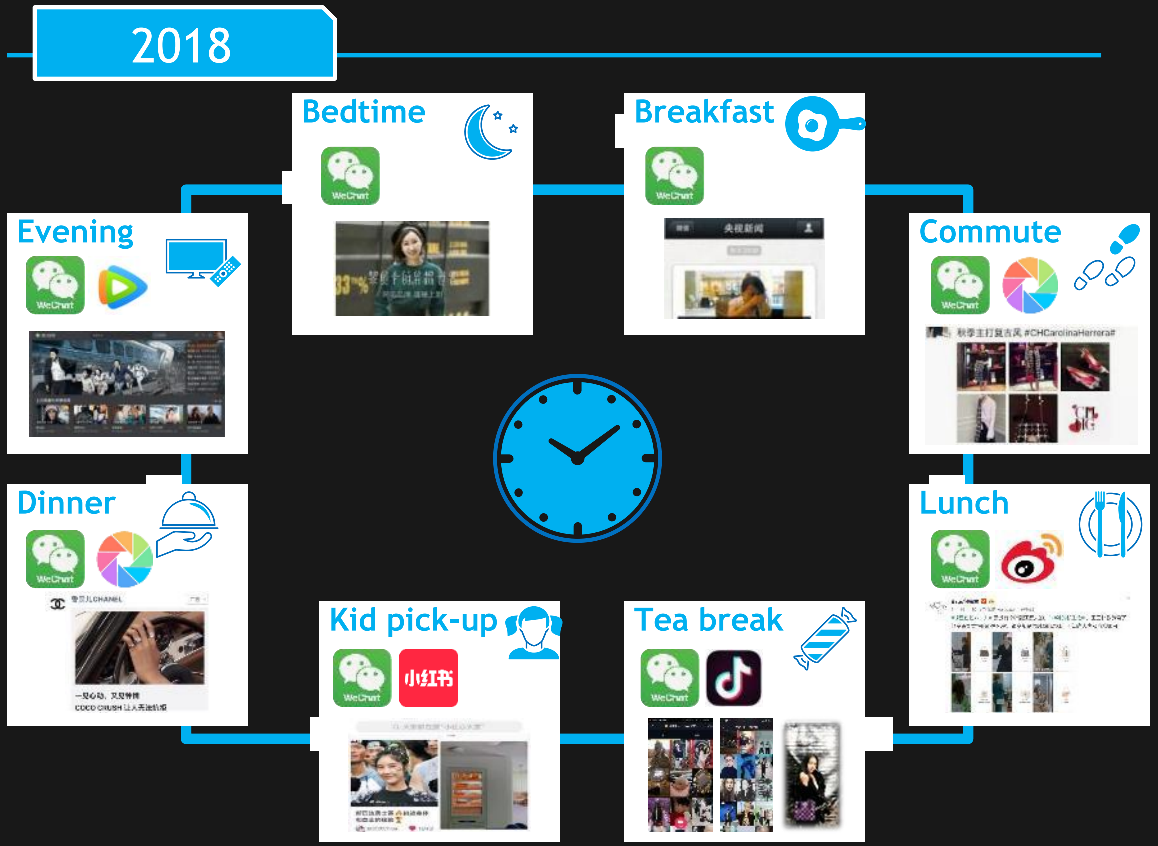


1.Base is all luxury consumers, numbers represent % of consumers who were exposed to the channel; 2. includes WeChat Mini Program, WeChat Official Account and WeChat moments of friends/sales assistants
Source: BCG X Tencent Luxury Study, 2019

Consumers increasingly prefer personalized social networking driven by unique digital ecosystems



Undifferentiated mass social networking focused on information distribution

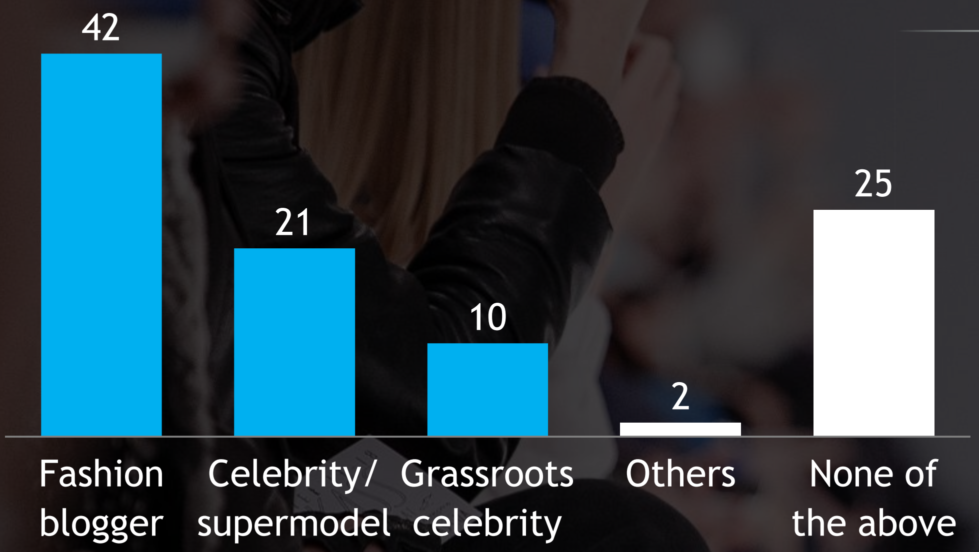


More personalized, digitized 24/7 social networking occasions

Source: Desk research, BCG analysis

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

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



Source: BCG X Tencent Luxury Study, 2019

Trends of fashion KOL

Fashion bloggers

- Many have started own e-commerce businesses via WeChat Mini Programs
- Some have launched collections in collaboration with brands, e.g. Mr. Bag X Tod's

Celebrities and supermodels

- Rather than the traditional images, celebrities and supermodels with more down-to-earth and approachable fashion styles are gaining popularity

Grassroots celebrities

- Grassroots celebrities are exploding, thanks to the growth of multi-platforms (WeChat ecosystem, RED, ByteDance, etc.) that maximize followers

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

Global

Limited KOL types...


A list stars


Fashionista


Niche grassroots celebrities

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

China


Celebrities w/ huge fan base


Product influencers


Home decor lovers


Sharenting

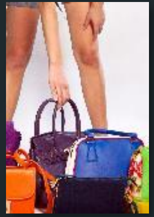

Fitness lover


Island collectors


Food bloggers


Girls next door


Artsy backpackers


Brand product collectors

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

Fragmented luxury fashion related stars and grassroots celebrities ...

... with broader topics

>40,000
Social media topics

Source: Desk research, BCG analysis

Format wise, media has evolved from digital content to idols created by ecosystems and immersive virtual characters developed from gaming

Digital content

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

Idols created by ecosystems

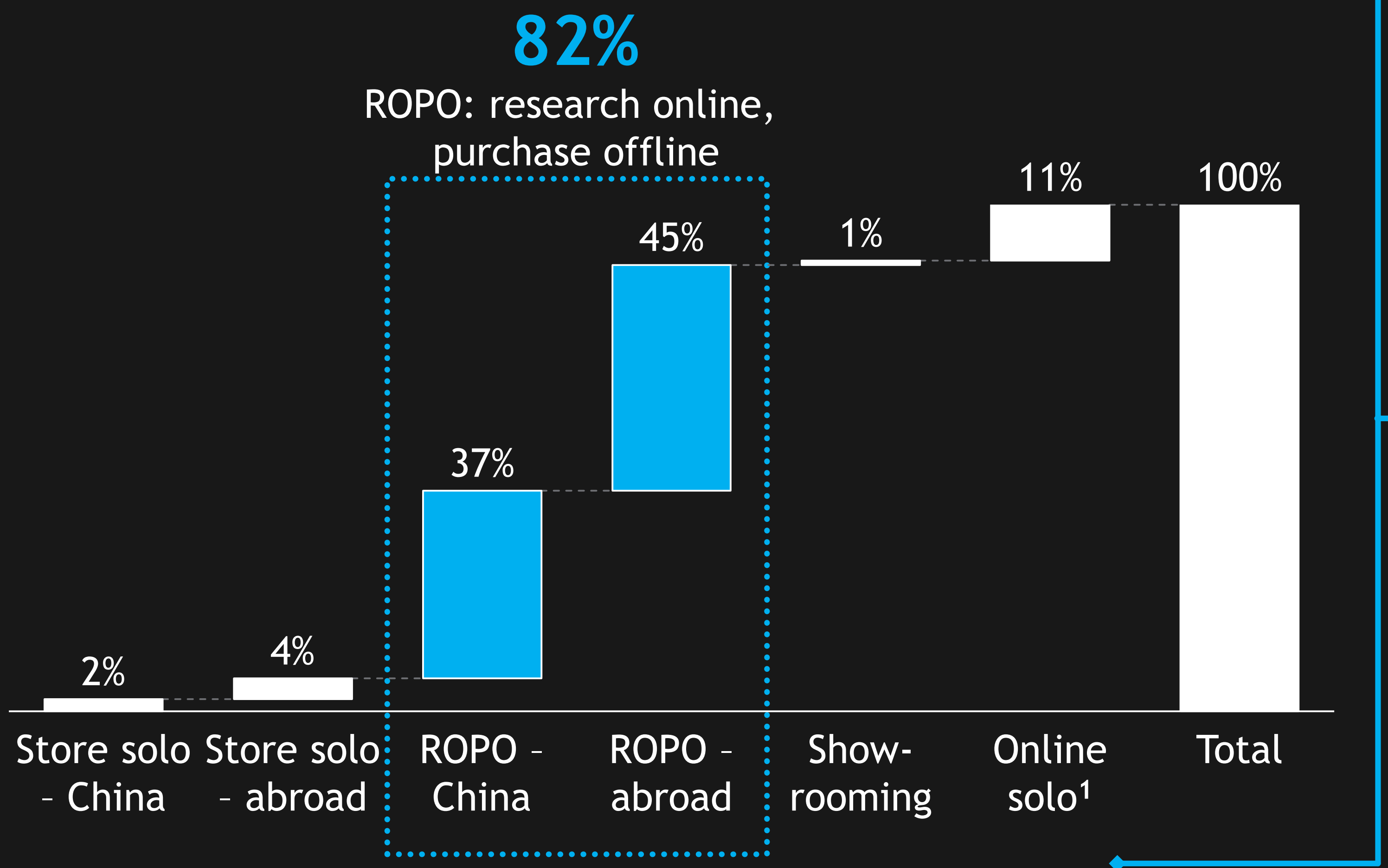
- Consumers involved in the creation of idols via talent show e.g. Produce 101
- Strong emotional bonding, hence higher willingness to pay

Immersive virtual experience

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

Source: Desk research, BCG analysis

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



Purchase pathway of China luxury consumers is highly digitalized

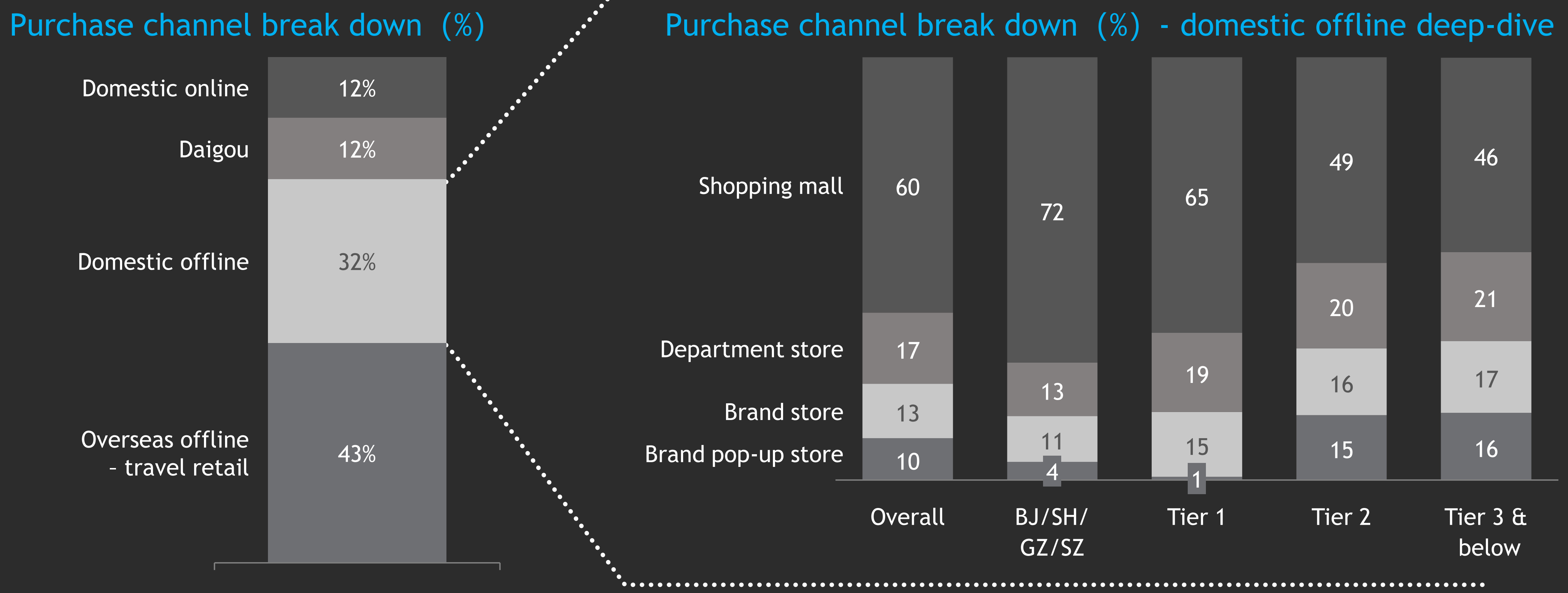
- Proportion of ROPO is 30% higher than global average
- And ~20% higher than in 2018

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

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

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

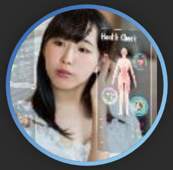
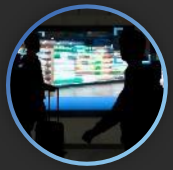
? Through which channel did you purchase your most recent luxury product? (Single choice)



Source: BCG X Tencent Luxury Study, 2019

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

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

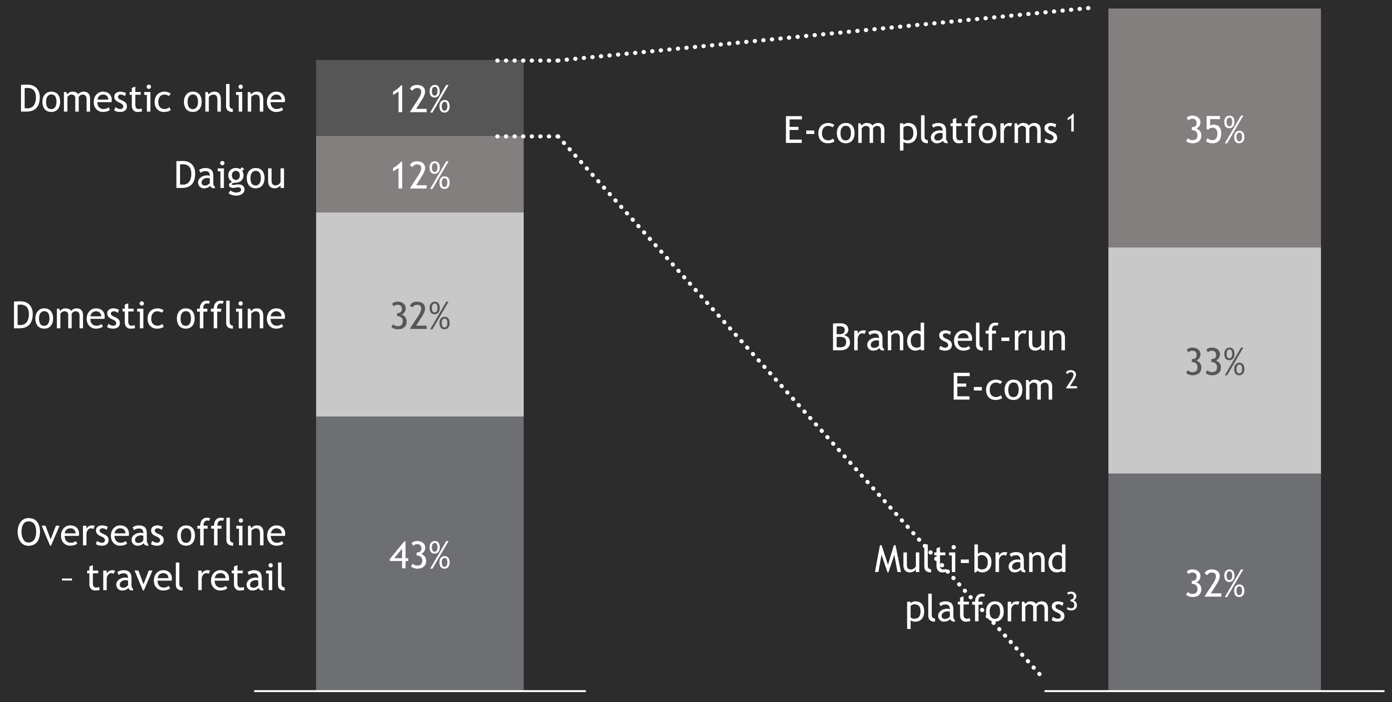
Smart fitting	VR/AR experience	Smart interactive screen	Self-service browsing	Self-service order	Intelligent robot service	Face recognition payment	QR code shopping	Fingerprint recognition payment	Electronic posters/ads
43%	36%	33%	30%	30%	27%	16%	16%	15%	14%

Source: BCG X Tencent Luxury Study, 2019

12% of purchases are pure online; brand own E-com (e.g. through Mini Program) is on the rise, currently 1/3 of total online

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

Purchase channel break down (%)



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

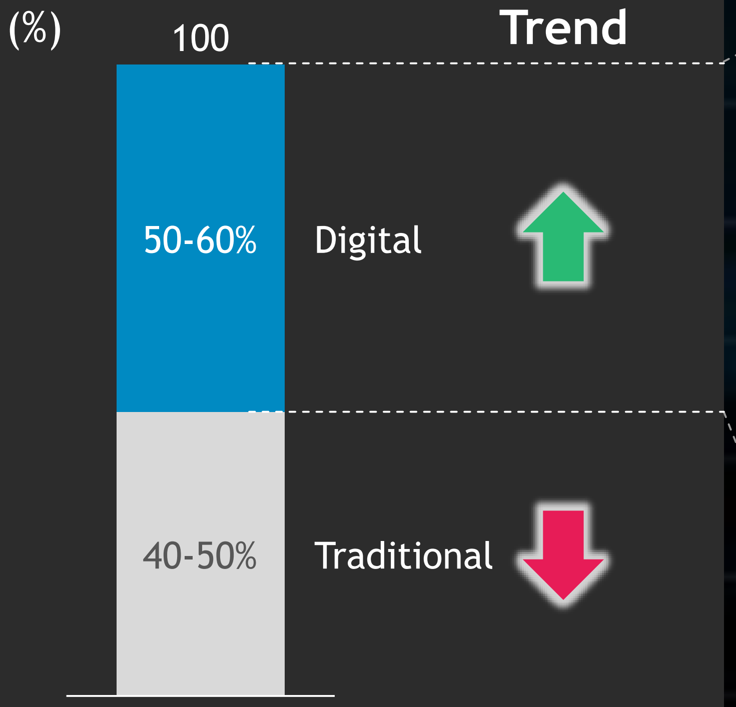
Brand-owned online channels growing fast, driven by the rise of brand WeChat Mini Program and Official Account

Source: BCG X Tencent Luxury Study, 2019

Contents

Continued increase in digital marketing spend

2018 luxury marketing spend breakdown



Increase of digital marking spend driven by social media and e-commerce platforms

Key observations

Spend on social media marketing keeps rising
- Diverse social media platforms
- Rich and visualized media format

Noticeable spend on e-commerce platform
- Mainly for brands with e-commerce on platform

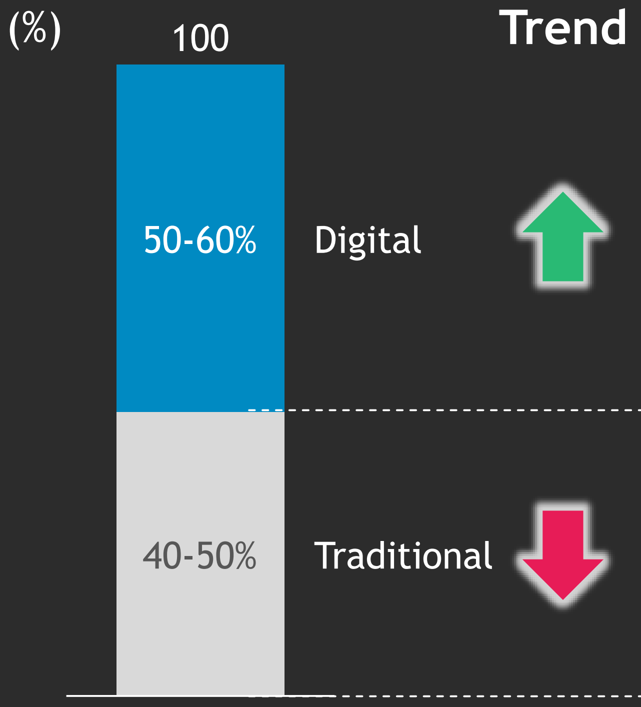
Stable investment in brand.com
- More in WeChat ecosystem, i.e. Official Account and Mini Program

Minimal spend on search engines or other digital media

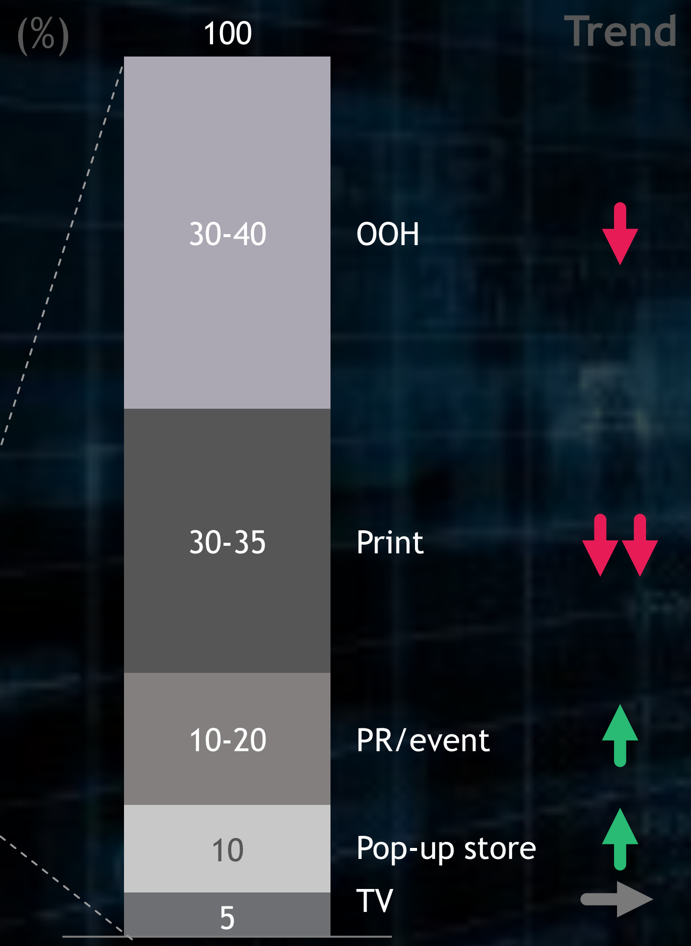
Note: More than 10 luxury brands covered
Source: Expert interviews, BCG analysis

Traditional marketing spend shifts to digital

2018 luxury marketing spend breakdown



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



Key observations

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

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

Investment in pop-up stores seems to drive both higher traffic and sales conversion

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

Other traditional channels stagnant

- Print continues to decline
- OOH requires more innovation in media format and interactive experiences

Note: More than 10 luxury brands covered
Source: Expert interviews, BCG analysis

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

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

Business data integration

Integrate business data across online and offline touch points, holistically manage business data along the pathway (from discovery to purchase and after sales)

Integrate domestic and overseas sales data for Chinese consumers to do better CRM

Real-time monitoring

Advertising data monitoring, i.e. conduct A/B test together with marketing activities, to monitor marketing efficiencies

Leverage data results to adjust marketing spend in an agile manner

Result quantification

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

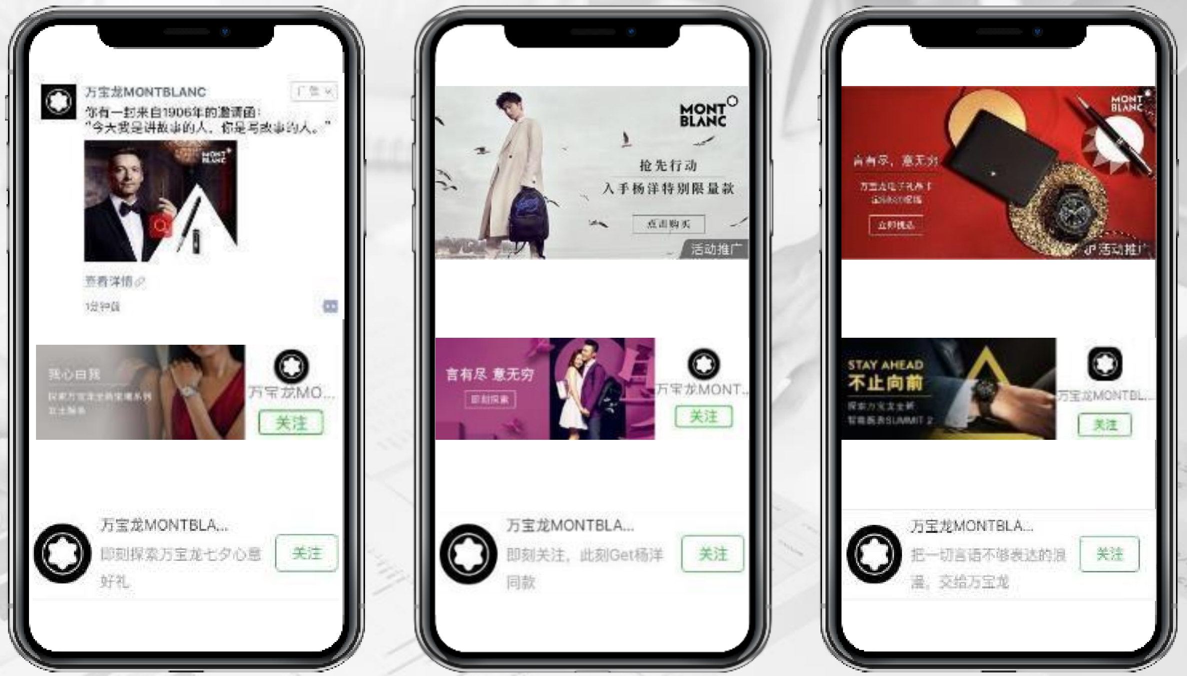
Montblanc: utilized oCPA to improve WeChat followers recruitment efficiency

oCPA for followers

Montblanc continuously uses oCPA to recruit WeChat followers, and modify creative content.

Cost for fans is MUCH LESS THAN industry average

- For more Click
- For more WeChat Followers
- For more Sales Conversion



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

Accurate consumer group targeting

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

The right media partner/KOL

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

Consumer touch points expansion

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

Content creation optimization

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

Source: BCG analysis

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

Customized silk mix

Customize interaction with branded product

Generated 15,000+ songs, 43s staying per person

Close-loop experience

Retargeting based on phase 1 engagement
1st practice leveraging mini-program data

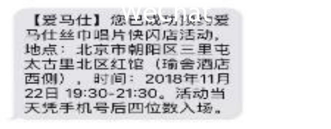
Target on potential groups

Triple engagement rate of phase 1, engagement rate of mini-program group reaches 28%

Ads retargeting

WeChat close-loop service enables O2O traffic driven

Automatically push reminder to users via SMS or service message on



87% mini-program traffics are driven by WeChat ads; 3500+ persons reserved event, 60% are from online

Tiffany: pop-up store for limited edition drives business effectively

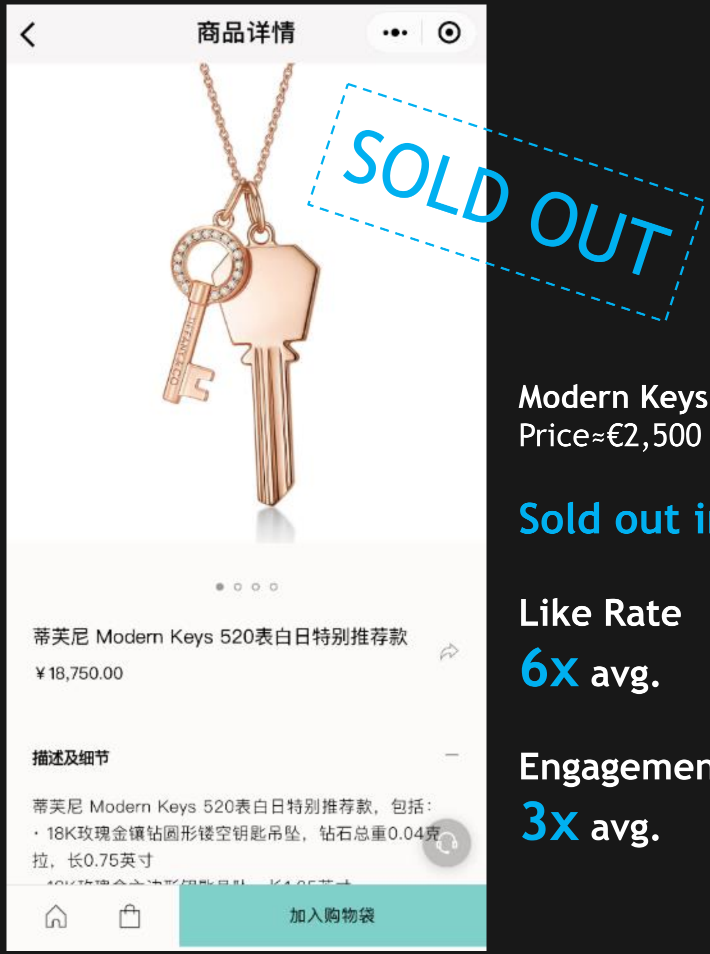
"520"
I LoveYou

Chinese
Internet Valentine's Day

Mini Program
Pop-up Store

Haoran Liu
Fans Economy

Limited Edition
Gifting Occasion



Modern Keys
Price≈€2,500

Sold out in 6 days

Like Rate
6x avg.

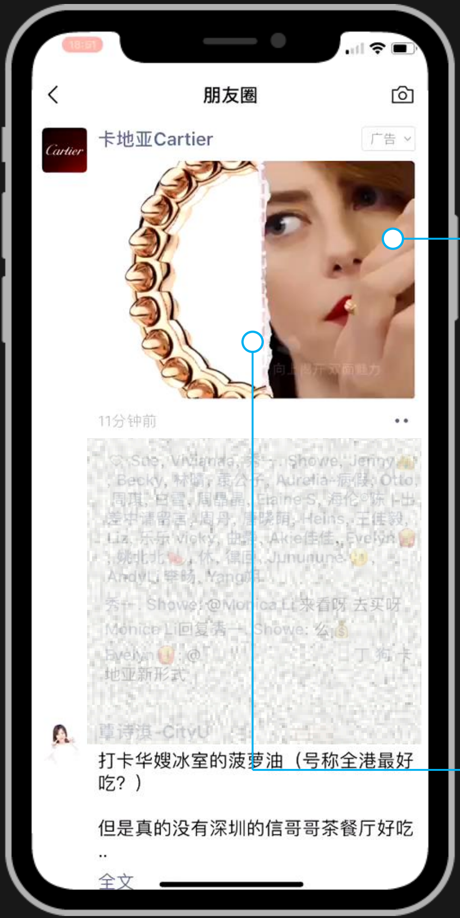
Engagement Rate
3x avg.

Cartier: leveraged interactive methods to maximize big day campaign impact

CTR is 6.0x industry average

CTR is 3.0x Cartier historical average

2,000,000+ times of "Clash" gesture



Click

Canvas Campaign Page
Deliver Brand Spirit

Interactive Gesture

Hidden Pop-up Page
Feel the charm of "Clash"

Lead to
Official EC

Omni-channel: Brands need to provide personalized & holistic brand experience across increasingly complex touchpoints

Potential challenges for omnichannel marketing		Brand strategies
Lack of differentiated roles per touchpoint	Consumer touchpoints are complex with different roles, requiring more precise targeting and content distribution • I.e. media impact might not increase significantly if the same content is distributed across touchpoints	• Target different segments via different platforms with customized content • Identify use cases to formulate interactive communication strategy – I.e. launch online video ads and Moments ads together to boost awareness and sales conversion
Inconsistent brand image across touchpoints	Different sources of content, with different teams in charge, result in inconsistent quality and image • I.e. Offline store display and communication are inconsistent with digital media communication	• Centralize content creation capabilities and distribution of content across touchpoints managed by digital content expert, to ensure brand image consistency in terms of content format, visual display style and ways of communication
Isolation of online/ offline touchpoints	Separation between digital audience and offline customers/existing CRM data, decreasing traffic and sales uplift • I.e. digital marketing efficiency is still measured by publicity, rather than quantifiable results	• Experiment diverse methods to drive traffic from online to offline, i.e. use social-linked business data to identify potential consumers and push customized offline store events and invites/gifts

Source: BCG analysis

Louis Vuitton: WeChat ecosystem facilitated smooth journey of O2O event

Reach
Online and offline to Mini-Program

Differentiated Online Exposure by Different Timing

1st Run
Fans economy for celebrities triggered social buzz for exhibition

2nd Run
Linkage between brand and travel/city culture convey brand spirit

3rd Run
Evoke resonance through celebrity's deep interpretation

Offline exposure leads to mini-program

VOGUE ELLE

Convert
From Brand Interaction and Mini Program to Offline Events

Brand Zone

Multi-functional Mini-Program for Experience

Reservation

Virtual Guide

Social Stickers

Vacheron Constantin: O2O luxury shopping experience shortens the journey from interest to buy

VACHERON CONSTANTIN

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

Consumer journey

Step 1 LBS Targeting → Step 2 Limited edition in WeChat → Step 3 Prepayment in WeChat

Step 4 Brand CRM → Step 5 1-on-1 prestige service → Step 6 Store experience → Purchase

Contents

Luxury players need to build capabilities in 3 dimensions to drive digital transformation

Centralized data integration and analytics

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

More flexible organization and ways of working

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

Enablement with cutting-edge IT tools

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

Source: BCG analysis

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2019 CHINA TRUE- LUXURY PLAYBOOK

Thank you