

Study on Luxury Marketing Channel Innovation in Chinese Market

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Abstract Under the background of financial crisis and facing huge flourishing market in China, how should luxury enterprises cope with the essential differences between Chinese and western consumers in consumption behaviors and concepts? How do luxury enterprises launch marketing activities according to Chinese consumers' consumption psychology? Based on luxuries' definition in the minds of Chinese consumers, an analysis on existing luxury marketing strategies is done in combination with luxuries' characteristics through an analysis about luxury consumption purpose, what's more, the paper summarizes its advantages and disadvantages for existence and makes several feasible innovation suggestions including classified channel management, rational channel resource allocation and effective network marketing utilization based on disadvantages existing in luxury enterprises' existing marketing channels.

Key words Luxury; Marketing channel; Consumption behavior; Channel innovation

1 Introduction

Luxury is defined as "a consumer goods which is beyond people's living and development needs and characterized by uniqueness, scarcity and rareness etc." internationally. It refers to very expensive non-essential goods characterized by uniqueness, scarcity and rareness etc.

Some domestic scholars have studied problems concerning luxury marketing, from the study on the current situation of luxury enterprises' marketing channels, they draw a conclusion that most luxury enterprises choose to sell luxuries at stores built in hypermarkets and high-standard hotels etc., in most cases, their marketing channels need to be realized through middlemen. With regard to luxuries' marketing channels in China, Chinese scholars deem that, due to consumption concept difference between Chinese and western consumers, their consumption behaviors will be influenced by different factors inevitably, thus, luxury manufacturers should do a selective analysis based on the above point and carry out sales activities based on Chinese consumers' conspicuous consumption psychology. In the meantime, under the background of financial crisis, they should develop network marketing actively to minimize the cost. Though scholars have done analysis on luxury marketing channel innovation in China, they fail to give specific measures or other feasible suggestions. In the paper, the problem concerning how to innovate luxury manufacturers' marketing channels in China more effectively is analyzed, feasible suggestions and specific measures are proposed.

2 Analysis on Luxury Consumption Characteristics in Chinese Market

2.1 Consumption concept difference between Chinese and western consumers

Firstly, according to cultural origin, western theology accepts material while eastern theology is strong against material, which determines that Chinese and western consumers have entirely different attitudes to luxuries. Western consumers care about themselves, attach importance to brand culture and pursue for consilience between commodities and self-value. However, eastern consumers long to improve their self-value via luxury brands and they pursue for conspicuous value which can be provided by the commodity.

Secondly, Chinese and western consumers' personality traits formed in long cultural development have become different. Inheriting individualism for ages, most westerners behave independently and they are not easy to be affected by others' ideas, but easterners have been accustomed to self-relevant behavior manners and have formed mass-following psychology and they are eager to reduce the differences with others and them. Therefore, with regard to luxuries, eastern consumers prefer to buy well received brands or buy luxuries so as to be widely accepted.

2.2 Luxury consumption behavior characteristics in Chinese market

Affected by Confucian culture, Chinese incorporate self-affirmation obtained from their self-identity to social values and cultural values into their values. Affected by the values, Chinese consumers mainly show the following behavior characteristics in their luxury consumption: (1) Conspicuous consumption (2) mass-following consumption (3) consumption for relationship.

2.2.1 Conspicuous consumption

In consumption process, Chinese consumers are affected by crowds easily, they care about commodities' status symbol and how to utilize branded commodities to establish and consolidate their relationship with third party and their consumption purposes in most cases are conspicuous consumption.

2.2.2 Mass-following consumption

Not everyone has conspicuous psychology, however, in Chinese social groups, people with ideas different from others often seem unsocial. Therefore, in order to reduce the differences between themselves and others and keep their own status and dignity, they have to follow the masses' footsteps, as time passes, they have also stepped into the conspicuous consumption psychology circle gradually. This mass-following social orientation makes Chinese have to change themselves frequently to reduce the differences between themselves and others.

2.2.3 Consumption for relationship

Relationship orientation has become a main operating way for Chinese in social network and it possesses such characteristics as relationship formalization, relationship interdependency and relationship harmoniousness etc. Chinese way to identify status by relationship has become an unwritten regulation, people take different attitudes to different relationships, they provide mutual benefit to each other in interpersonal relationships with the aim to convert the relationship between them to a symbiotic relationship. Based on traditional Chinese values, interpersonal relationship has played a dominant role, so it becomes very important to establish intimate a relationship with "Important Person" and thus the behavior of "Gift Giving" is derived. In addition, Chinese consumers are sensitive about their reputation and like to show off themselves, so they prefer to give more precious gifts.

3 Analysis on Luxury Marketing Channels in China

3.1 Existing marketing channels' status

Firstly, in most cases, luxury manufacturers choose to build flagship stores at five-star grand hotels, hypermarkets or high-class business districts, then they select customer groups indirectly and enable products to be displayed to target customer groups specially. However, such stores fail to bring about satisfactory effects in Mainland China, their sales volume is far below that in Hong Kong, moreover, huge storefront cost and inventory cost make them maintain revenue & expenditure balance with difficulty.

Secondly, most luxury manufacturers choose to conduct discount promotion activities at airport duty-free stores or special brand discount stores (such as outlets etc.). In the meantime, due to luxuries' features, they need to create a sense of distance with consumers in marketing process, so manufacturers tend to control products' sales volume intentionally to make products fail to cover marketing channels completely, so as to attract consumers' attention.

In addition, some luxury enterprises have begun to do research & development on network sales platforms, extend market shares and reduce inventory and transportation costs actively, but the channel has not been expanded to Chinese market.

3.2 Analysis on existing marketing channels' advantages and disadvantages

Table 1 Advantage and Disadvantage Comparison of Existing Luxury Marketing Channels

Luxury Marketing Channels	Advantages	Disadvantages
Full-price Sales at Stores	.Face target customer groups directly .Keep brands' high-end image	.Huge inventory and transportation costs .Huge price difference between mainland China and Hong Kong
Sales at Discount Stores/Duty-free Stores	.Direct at target customer groups .Price is a little popular with the broad masses	.Lower brand image . Full-price styles' price reduction will impact consumers' loyalty to the brand .There is still price difference between stores in mainland China and Hong Kong
Sales on Network	.Convenient and prompt shopping platform .Lower transportation and inventory costs .Broaden consumers' understanding	.Be unable to provide chances to touch and experience commodities .Network services are not popularized in Chinese market

3.2.1 Sales at stores

When enterprises select the sales mode at stores, they ensure selling activities conducted specific to target customer groups, which reduces unnecessary resource waste virtually. At the same time, commodities' full-price sales keeps brands' high-end image and attracts high-end consumers. However, due to huge price difference between mainland China and Hong Kong, many consumers prefer to buy luxuries in Hong Kong or foreign countries. Sales at stores provides consumers with an opportunity to touch commodities really, but such sales tends to make consumers just go window shopping, it results in most luxury stores' poor sales performance in mainland China and makes these stores maintain revenue & expenditure balance with difficulty under huge inventory and transportation costs.

3.2.2 Sales at discount stores/duty-free stores

No matter at flagship stores or outlets, existing luxury marketing channels have conducted customized sales activities geared to target customer groups' needs specially, which saves unnecessary resources. The customized mode of sales keeps stable product sales volume as it ensures stable customer groups. However, in discount stores, sellers can see price reduction in contrast with full-price stores, but there is still price difference between these stores and those in Hong Kong. Moreover, though there are many very rich and powerful person in China, affected by thousands years of Confucian culture, Chinese always expect to buy commodities with the most excellent quality and the most reasonable price during consumption. Therefore, if a commodity in some style is sold at a discount after full-price sales, Chinese luxury consumers' consumption enthusiasm will be dampened greatly and their loyalty to the brand will be lowered.

3.2.3 Sales on network

The implementation of network sales makes more people care about luxuries, stimulates more consumption desires and promotes sales volume increase virtually, in the meantime, it also provides target customers with a more convenient & fast and more detailed shopping channel, reduces inventory and transportation costs and increases enterprises' profits. Quite a few luxury enterprises have launched network marketing actively, but the marketing mode is not expanded to Chinese market, which makes many consumers inconvenient to go out for a long journey can only choose to buy luxuries at stores, what's more, huge price difference between stores in mainland China and Hong Kong also dampens consumers' purchasing enthusiasm, so it reduces enterprises' sales volume virtually. Besides, network marketing provides enterprises with numerous benefits, but it can not provide consumers with chances to experience these luxuries by themselves, so it also makes many consumers expect to purchase luxuries on network after experiencing them at stores.

4 Marketing Channel Innovation Scheme

Through analysis on existing luxury marketing channels in China, it can be seen that single channel is difficult to meet consumers' needs to the full, therefore, I make the following suggestions on luxury marketing channels:

4.1 Classified channel management

Chinese consumers' consumption concept is different from that of western consumers, so they pursue for tangible benefits from the most excellent quality and the most reasonable price as they think more of commodities' added value, they dislike valuable commodities' sales at a discount and they long for commodities' valuableness. Therefore, in Chinese market, luxury manufacturers should carry out commodities' classified-channel sales policy which is to classify commodities into two categories including sales at a discount and value-keeping sales actively.

Value-keeping commodities are intended for those wellborn high-end consumer groups who go after individual taste and status and dislike commodities sold at a discount, sales at luxury flagship stores or franchised stores ensures that these styles of commodities will never be sold at a discount and even there will be appreciation possibility for these commodities. What's more, it makes target consumer groups have a good impression on the commodity and take up positive attitude to buy the commodity. Meanwhile, manufacturers should ensure commodities' quota production, that is, manufacturers should ensure products' incomplete coverage of sales channels and keep supply unable to meet the demand. With regard to store construction, enterprises should make great efforts to maintain their high-end images, select high-caliber and highly qualified high-end service workers and have reached the best service level so as to bring the greatest mental satisfaction to clients.

With regard to discounted commodities, manufacturers can consider designing them as several special commodities which refer to nominal discounted commodities never sold at flagship stores at full

price. Discounted commodities' target consumer group is white collar class, that is, the group in need of luxuries to improve self-image and self status but without ability to buy lots of luxuries. Their demands are just limited to pursuit of well-known brands and have no expectation for commodities' valuableness. Therefore, commodities' price plays an important role to stimulate their desires to purchase. Furthermore, discounted commodities are sold at outlets etc., the standards for store layout and salesman allocation can be lowered appropriately so as to minimize costs.

By contrast, commodities' sales by classified channels, which is more helpful to sell commodities to target groups specially, reduces cost further and eliminates negative impact exerted by full-price commodities' price reduction on consumers, expands consumption market and creates more increasing space for enterprise profits.

4.2 Rational channel resource allocation

Since from Hong Kong's Return to China in 1997, travels to Hong Kong have become more and more convenient for residents in mainland China, in the meantime, Hong Kong is the gathering place for duty-free commodities, the prices of many commodities (especially luxuries) are even lower than those in their countries of origin, which makes consumers in mainland China are captivated by it naturally. Therefore, numerous consumers in mainland China give priority to going to Hong Kong for buying luxuries when they intend to purchase luxuries. Then luxuries' sales turnover in mainland China is subjected to huge impact unavoidably. After luxury manufacturers find the huge market in China, they invest in setting up flagship stores and franchised stores in mainland China one after another, however, in comparison with Hong Kong, its huge price difference makes consumers give up purchasing luxuries in mainland China unavoidably, which causes commonly occurring "Window Shopping" phenomenon in luxury stores in mainland China.

For the phenomenon, luxury manufacturers may consider reducing luxury flagship store construction in mainland China or appropriately lowering storefronts' building cost, changing their purposes to set up stores into providing consumers with a place mainly for real touch and experience supplemented by shopping place, displaying samples in stores and retaining no or fewer commodity stocks as well. Thus, manufactures' cost for setting up stores in mainland China can be minimized, manufactures' main investments can be used in brand image construction in mainland China and storefront construction in Hong Kong and sales can be combined with network marketing more fully in the meantime.

4.3 Network marketing channel's effective utilization

In the 21st century which is a network era, all major luxury manufacturers are devoted to network marketing activities in succession, all brands have got their own sales networks ready, however, sales areas covered by most websites are just limited to areas in the native country and overseas sales are excluded, which perplexes Chinese consumers to some extent. Many consumers have the ability and desire to buy luxuries, but they do not have enough time to go to Hong Kong or foreign countries to purchase luxuries and they do not want to spend unnecessary money to buy luxuries in flagship stores either, so they give up their thoughts to buy luxuries gradually. Thus, a part of sales volume is lost virtually.

Therefore, luxury manufacturers can considering extending network construction to Chinese market, they can place inventory in Hong Kong and provide network sales for consumers in mainland China, then it increases consumers' good impression on commodity price as it improves manufacturers' commodity page views which can make more people get detailed commodity information and develop more potential consumers. In the meantime, network also provides a more convenient and more detailed shopping platform, extends commodities' marketing channels and improves manufacturers' profit space. In addition, sales stores built under lowered cost also provide a good platform to get in touch with commodities for network marketing.

5 Conclusion

For luxuries symbolizing uniqueness, scarcity, rareness, expensiveness and unnecessary etc., Chinese consumers pay more attention to added value which can be brought by commodities and they are easy to be affected by crowds when buying luxuries. Therefore, based on consumer groups' peculiar consumption psychology and consumption behaviors in Chinese market, luxury enterprises should take special and customized strategies, expand network services in China actively and effectively, adopt classified channel management, adopt classified sales mode to value-keeping commodities and discounted commodities, improve pertinence to target groups during sales and strive to meet consumers'

needs to the full. In the meantime, they should see Chinese consumption market's special status clearly, that is, see commodities' huge price difference between Hong Kong and mainland China clearly, deallocate channel resources, make efforts to lower cost and change brand flagships' and franchised stores' existence purposes into providing chances to touch and experience commodities. In luxury marketing process, though they do not go in for enabling consumers from all walks of life to purchase their commodities, they should strive to make all consumers with ability to buy luxuries to purchase their commodities. In order to minimize costs, improve sales volume and maximize enterprise profits, luxury enterprises should always keep alert to consumer psychology, meet their needs timely, adjust marketing channels constantly and improve enterprise marketing channels' profitability.

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