

« *The End of the Asian Luxury Eldorado?* »

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Speakers:

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- Mrs. *Françoise Hernaez-Fourrier* – Strategic Planning Director – Ipsos
- M. *Olivier Abtan* – Managing Director & Partner – The Boston Consulting Group
- Mr. *Olivier Garnier* – Chief Economist – Société Générale Group
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- Mr. *Roth Lai* – Deputy Editorial Director – Elle China - Hearst Magazines China
- Mr. *Olivier Schaeffer* – Global COO – Sephora
- Mr. *Ivan Tong* – Chairman – Sparkle Roll
- Mr. *Franck Wu* – CEO – TTF Haute Joaillerie

PART ONE - A PROSPECTIVE VIEW OF THE REGION'S ECONOMY

Mr. Olivier Garnier - Chief Economist - Société Générale Group

There are a lot of statements about China, so Olivier Garnier introduced his presentation by informing the audience that it would represent SG's assessment on China.

1) CHINA'S TRANSITION FROM "OLD" TO "NEW" CHINA

In order to summarize the kind of statement that can be found on China, Olivier Garnier showed two covers of highly respected magazines:

- In 2009, The Times was stating that China would save the world, making it a bit scary in its representation.



- And last summer, after the financial turmoil and the fall of the Chinese currency, The Economist cover was entitled "The Great fall of China". Chinese officials were really upset about this cover, especially the bureaucrats.

Olivier Garnier's opinion is that, in both cases, these statements are very excessive and aimed at presenting a fair assessment of China.

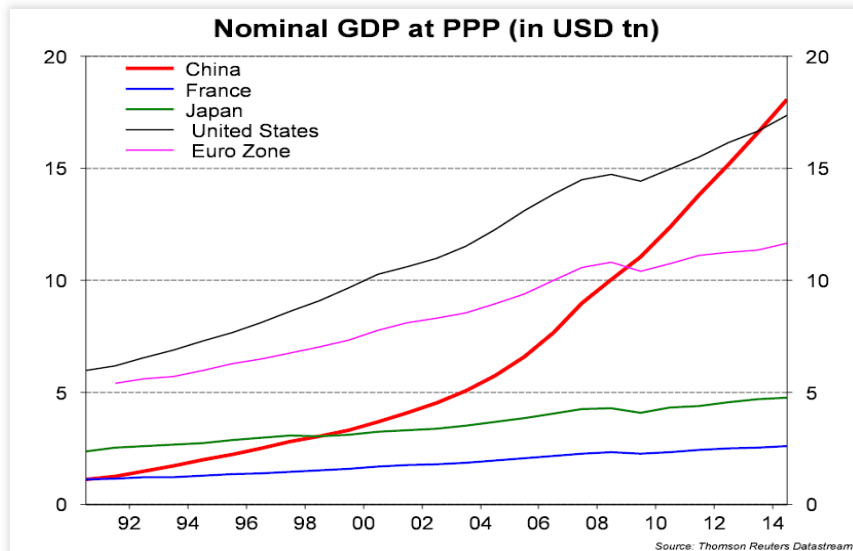
A/China's current situation

- 1 - Where does China stand after two decades of awesome growth?

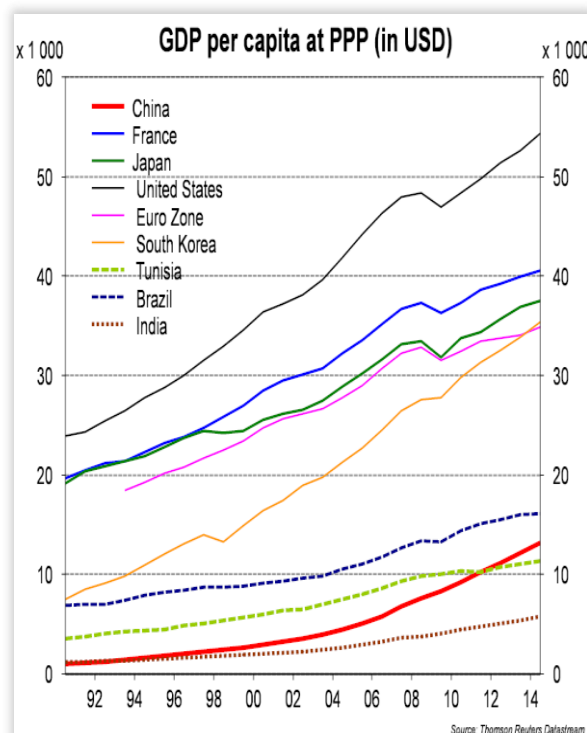
When talking about China, it is always good to remember what China really is. For the first time in history, the largest economy in the world is not a rich economy, it is still a poor economy. Viewed from the rest of the world (USA or EU), China can be seen as being very systemic, it is a large economy and it has a strong role to play in

the global economy. But, in the meantime, Chinese people consider, and rightly so, that China is still a developing economy and that they have a need to grow further.

In order to compare countries GDPs, economists use what they call “purchasing power parity”, with the famous example of the big mac index used by the Economist. In the US, a big mac costs about 5 dollars and in China, it is a bit less than 3 dollars (at current exchange rate): this over simplistic example would suggest that the PPP value of the renminbi against the US dollar is much above its current exchange rate. In order to assess PPP, economists define a basket of products/services, for which local prices are compared and weighed in order to adjust GDPs so that they are more consistent globally. According to this measure, China’s GDP has passed the US one in 2014.



But in terms of GDP per capita (at PPP), China is just above 10 000\$ compared to more than 50 000\$ in the US. On this indicator, China is barely over Tunisia and below Brazil. In the past, when the UK or US were the largest economies in the world, they were also the richest. Today, the largest economy is not the richest and this has to be kept in mind.



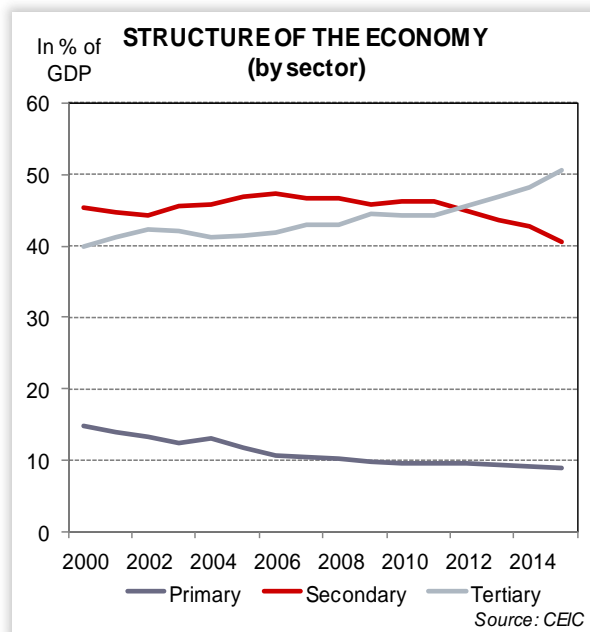
So, where is the Chinese economy going?

2- The need to rebalance

There is a debate between soft landing and hard landing and again, it is a little bit misleading, because in fact there are now “two Chinas”.

- **Old China:** the secondary sector (manufacturing and construction). Growth in ‘Old China’ is already close to zero. So, one could say that there is a hard landing in ‘Old China’ especially due to the fall in construction and manufacturing.

- **New China:** the tertiary sector. In nominal GDP, the growth in tertiary sector is still above 13%. So, there is no hard landing in the tertiary sector (services, financial services and all of what is related to consumption). The tertiary sector represents now 50% of the economy in China. It is close to 75% in France or USA so it is still low in China in comparison but the service sector has outpaced the secondary sector in terms of growth rate.



Depending on whether one looks at ‘New China’ or ‘Old China’, the perspective on the Chinese economy may seem very different. Today, the challenge for Chinese authorities is to rebalance the economy from the ‘Old China’ towards the ‘New China’.

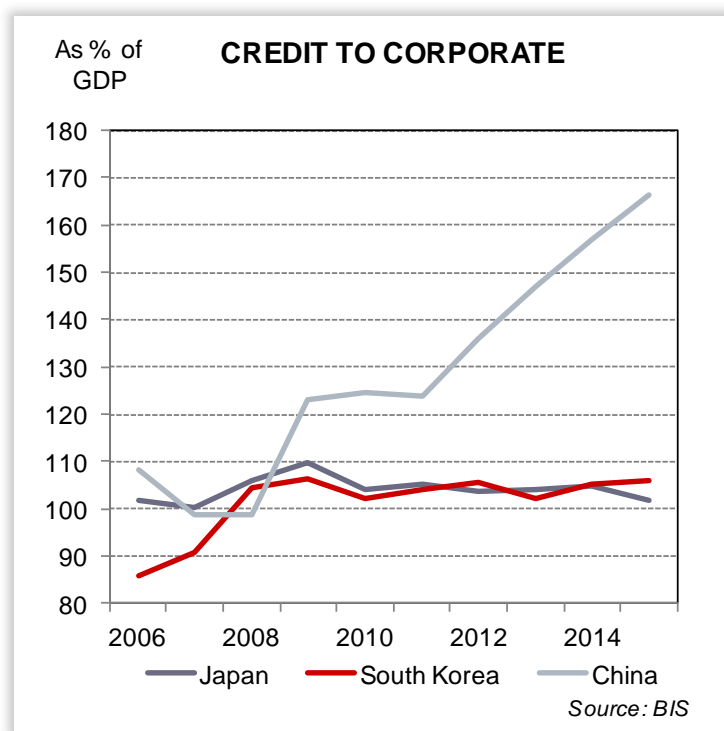
Indeed, what has been very specific to China during the past decade has been the very strong growth in investment spending, while consumption was lagging behind. But, of course, spending so much on investment cannot go on forever. Investing a lot over a significant period of time leads the return on investment to fall, and since this investment is financed by credit, there is also huge increase in debt which is not sustainable.

Now, China has to move from a growth model led by investment to a growth model led by private consumption. Compared to other countries, the share of consumption in the GDP of China is still low, Chinese households still save a lot. Rebalancing the economy is really challenging because, if investment falls and at the same time the saving rate remains high, this may lead to downturns during the transition period as consumption may not increase fast enough to offset the effects of the drop in investment.

3- Key risk for the Chinese economy: high debt in corporate sector

Bankers are still looking at the old economy because debts are primarily in the secondary sector. Even though from the Chinese standpoint the new economy (based on consumption) is more relevant, the remaining problem is that bad debts are in the old economy. This brings in some concerns. It is a challenge for the authorities.

Compared to some other Asian economies such as Japan and South Korea where the debt of the corporate sector is close to 100% of GDP, in China, it is still growing and it is at 170% of GDP. Clearly, authorities have to tackle this problem. This is also hurting the banks' balance sheets, and therefore the ability for banks to provide new loans especially to SME's and to the SME's in the 'New China'. But, at the same time, the companies where the larger debts are to be found are state owned enterprises and it is very difficult and delicate for political reasons to put these corporations into bankruptcy. So, this problem is addressed by authorities, but at a slow pace.



B/ What for the future?

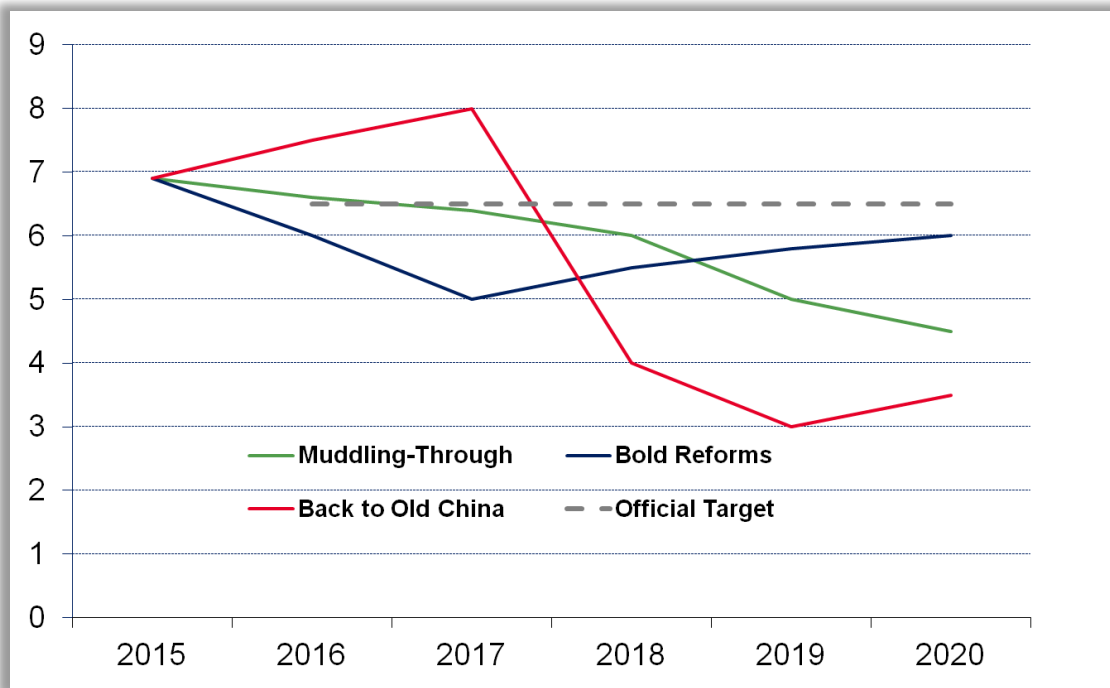
1- Alternative growth scenarios

Olivier Garnier presents 3 scenarios which are not forecasts but illustrate the alternative possible scenarios that Chinese authorities are facing.

Depending on the pace of reforms, there is clearly a tradeoff between short-term growth versus long-term growth. The kind of policy that would be recommended by international organizations would be the bold reform strategy (blue line on the scheme). In the short term (next 2 years), this could mean growth falling to 5% instead of the 6.5% (current target given by the Chinese authorities). So, this first scenario is to go for fast reforms meaning accepting slower growth initially and then growth coming back to about 6% in the longer term.

Long term expansion will not be as strong as previously but this is explained by the demographic situation of China.

The alternative strategy, which could be tempting especially for politicians who have shorter horizons than economists, would be trying to reflate the economy in the short term through a big boost to public spending on investment (red line on the scheme). But, at this stage, it seems that Chinese officials still have in mind what happened in 2008-2009, they are aware of the consequences especially in terms of debts; so, this scenario is unlikely to happen.

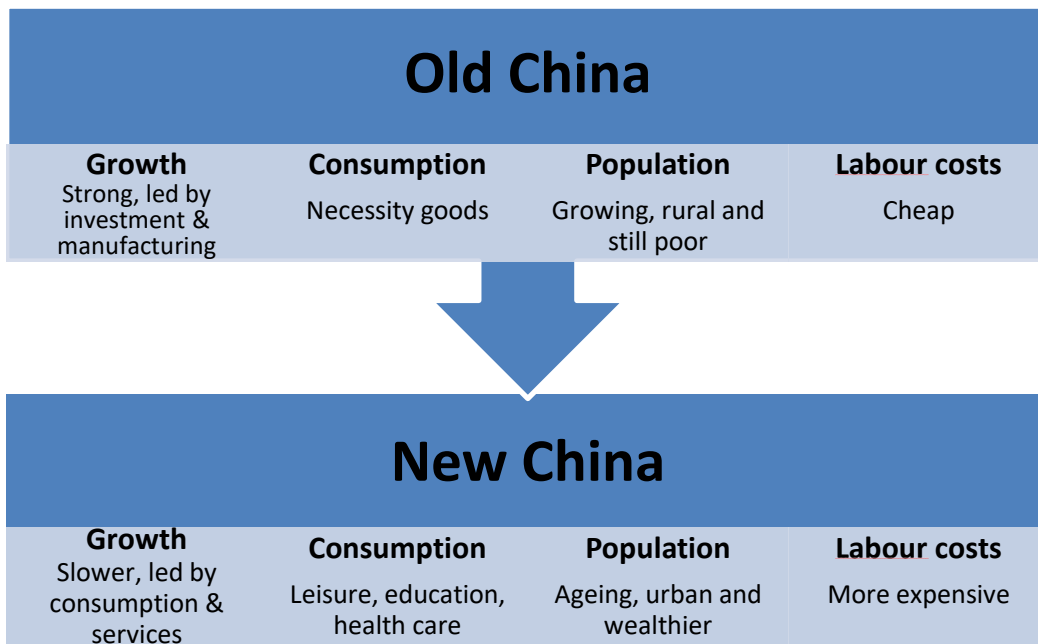


What could be a more likely compromise is what Olivier Garnier calls a 'muddling-though policy', a mix of the 2 latter. In the short term, authorities may provide some kind of additional fiscal stimulus to the economy in order to try to keep it growing at 6.5%. Then, the risk with such a policy would be a slow decline of growth over the long term.

There is this debate in China, and it is likely to persist in the future. To Olivier Garnier, the policy adopted will lead to a situation somewhere between the blue and the green lines.

2 - From 'Old China' to 'New China'

There is clearly a move from one model to another. Growth is now led by consumption and not by investment any longer. In the past decade, the majority of the population was poor and purchased primarily basic goods, but now as people's situation is improving they start buying more services, financial services, education, health care, tourism, leisure... The population, instead of growing, will start to decline, will become older but at the same time wealthier.



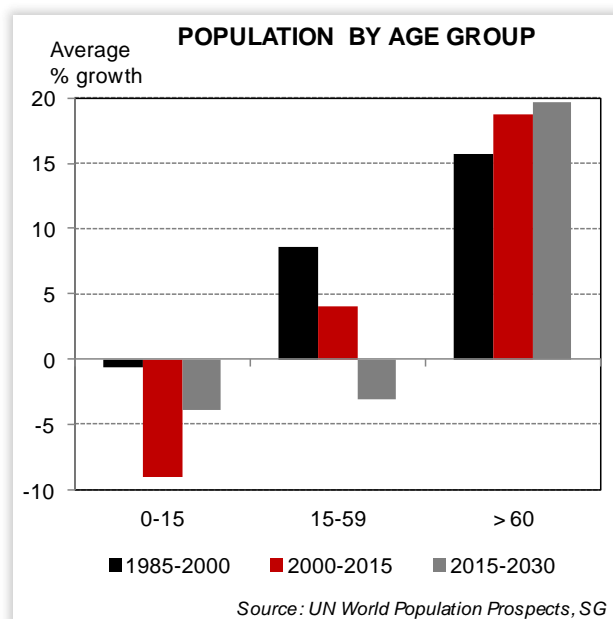
C/ Demographics

1 - Urbanization process is likely to slow

In the past decade, there was a huge pool of labor coming from China's rural areas. Now, that the urbanization process is slowing down, there is a shortage of labor so, of course, the labor cost is increasing, especially compared to the rest of Asia.

2 – Aging Population

The key message in terms of demography is that the population between 0 and 15 has been declining strongly for 2 decades. This means that within the next 2 decades, the population above 60 will grow a lot.



3 – Within less than a decade the population will start decreasing

In 2025, China will no longer be the largest economy in the world, it will be out-paced by India and later on by Africa. The dynamic is changing. Chinese population reached a peak in 2015 and will start declining from now on. This means that the long-term growth potential of China will be lower than it used to be. The boost coming from demography is no longer there.

4- Regional evolutions

Within China, the center of gravity of growth is moving. Up to now, coastal areas were the most dynamic ones and 15 years ago, the middle class was to be found mainly on the eastern coast. What can be predicted is that over the long run there will be shift with the center of gravity of the middle class population moving from the coast towards in-land China. It can already be observed that in-land China is starting to catch up: there is stronger growth there.

D/ Chinese policy new variables

1 – Labor shortages+ Stronger RMB = more expensive labor cost

China used to be the place where labor costs were among the lowest in the world. It is no longer the case, especially in Asia. Cheap labor costs are now to be found in Bangladesh, Pakistan or even Vietnam as opposed to China. In 15 years, wages in China have been multiplied by eight! This has a major impact on production: initially, China was specialized in basic and inexpensive products, importing some raw commodities and re-exporting to the rest of the world. Now China will move upwards in terms of product specialization due to more expensive cost of labor. This increase in wages has a cost in terms of competitiveness but it is positive in terms of consumption.



2- Towards increased exchange rate flexibility

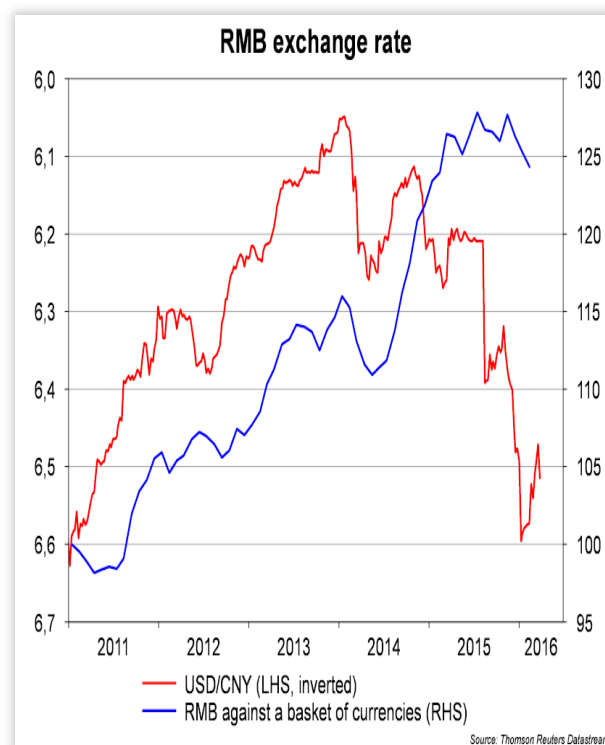
Until recently it was rather easy to predict the exchange rate of the RMB against the US dollar because the RMB was strongly pegged to the US Dollar. Since the summer of 2015, there has been a change in the policy which can be explained by two main reasons:

- When a currency is pegged to the US dollar, it means that if the FED is tightening monetary policy and is hiking interest rates, the country of origin of this currency needs to raise its own domestic interest rates. In the past, this was not too much a constraint for China, because the “capital account” was closed. That means that it was not easy for Chinese people or Chinese companies to invest abroad in order to take advantage of higher interest rates. But now, with the financial liberalization policy and the opening of the capital account, since 2014 there has been a strong increase in capital outflows.

- Previously, since the interest rate was higher in China than in the US, companies were borrowing in US dollars and holding deposits in Chinese RMBs. Now, interest rates are expected to become higher in the US than in China, so corporations do the opposite, reducing their debts in US dollar and borrowing in RMB.

There are large capital outflows. This puts more pressure on the currency. As China cannot increase interest rates, the currency can only go down. This is the reason why the PBOC in spending a lot of external reserves to try to stabilize the currency. What the authorities want to do now is to give more flexibility to the currency.

According to Olivier Garnier, in theory it would be wiser to have a one-off sharp drop of 10% in the currency and then it would no longer be a one-way bet because there would be also expectations of currency appreciation. However, in practice, policy makers are reluctant to let the currency fall because of the risk of triggering financial instability and “currency wars” with other Asian economies. What they try to do now, instead of pegging the Chinese currency to the US dollar only, is pegging the Chinese currency to a wider basket of currencies.



The blue line shows the exchange rate of the RMB against a basket of currencies with a weight for each proportional to its share in the Chinese trade. As the US\$ has been depreciating against most currencies, the RMB has been appreciating against other currencies. So when being pegged to the US dollar, China was losing competitiveness compared for instance to other Asian currencies. So now, there is a change of policy which leads to expect a

depreciation of the Chinese currency, even though the Chinese authorities could say that this policy stabilizes the currency but against a basket.

For Société Générale in the short term (12 months horizon) the risk is rather for further decline of the Chinese currency against the US dollar. SG market strategists expect the RMB going at the end of this year to 6.80 against the US dollar compared to about 6.5 right now. But over the long run, given the favorable growth outlooks in China, one should expect an appreciation of the currency.

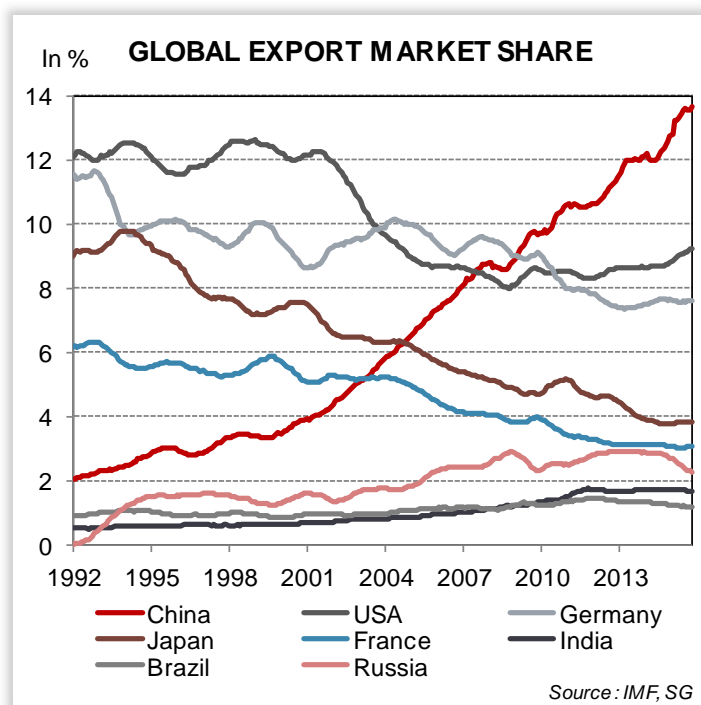
More volatility in the exchange rate of China is to be expected. One cannot fully rule out the risk that if the central bank had to spend a lot of money trying to stabilize the currency against the basket, they might let the currency drop quicker to slow capital outflows out of China.

II) IMPACT OF THE SLOWDOWN OF CHINA ON THE REST OF ASIA

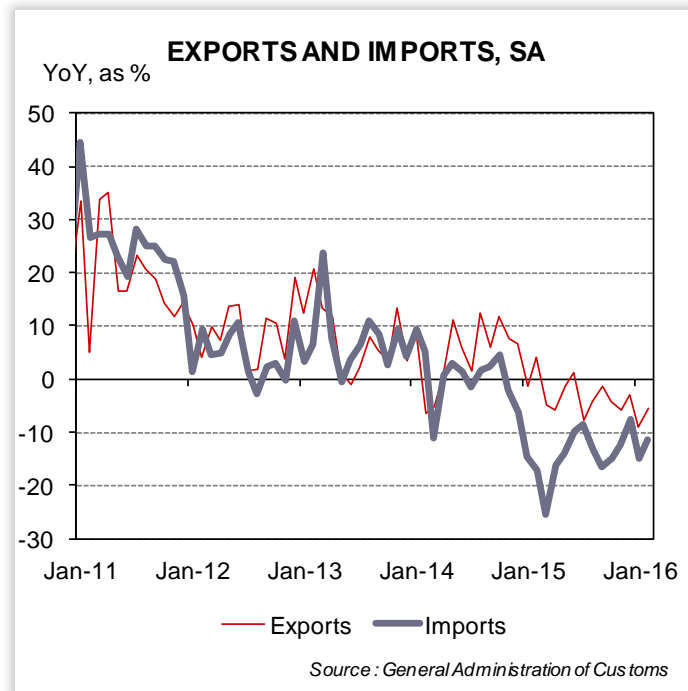
A/ Global Trade: When China sneezes, does the world catch a cold?

1- The fall in China's foreign trade

China is very systemic in terms of global trade, it has the largest export market share.

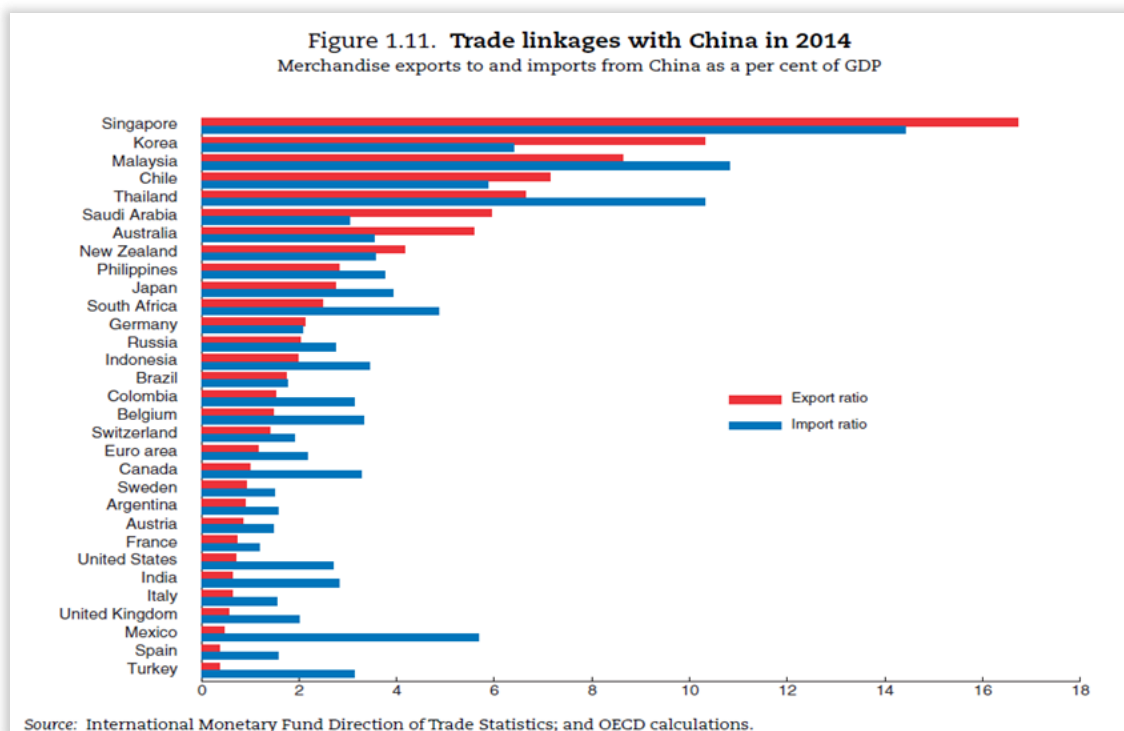


For the first time in 2015 global trade is growing at a slower pace than global GDP. Before, especially with globalization, global trade was growing at a stronger pace than global GDP and China was a key player in this phenomenon. But, since the beginning of 2014, and more significantly in 2015 Chinese exports and imports have been declining. As mentioned before, China is importing to re-export so there is a kind of multiplier effect of the slowdown in import and export closely linked to one another.



2- Consequences

Which economies are the most exposed to China? Singapore, Korea, Thailand are very much sensitive to demand in China. On the other hand, for instance, France and the US are not too much exposed to China.



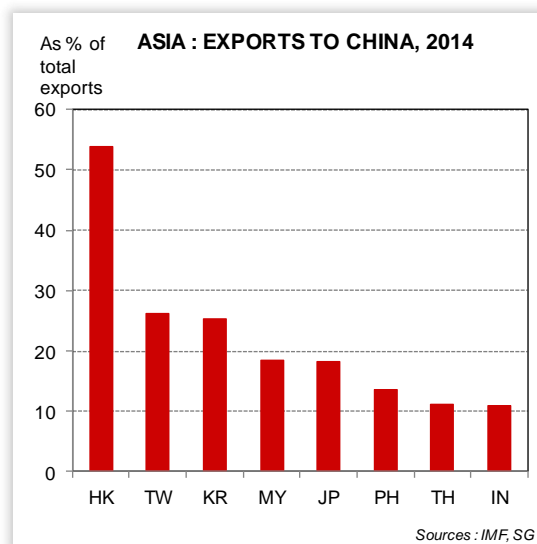
China now rather imports raw commodities, which is the reason why commodities prices have been falling. It is related to the decline of the “old economy” in China.

What is happening in China in terms of exchange rate policy has an impact on the rest of Asia. If the PBOC decided to suddenly let the Chinese currency drop, it would contaminate other currencies in Asia. One of the reasons why the Chinese authorities are not ready to fully let the currency fall in order to regain export growth is because they know that it would be a zero-sum game, because currencies in the rest of Asia would also fall. So far, the other currencies have gained in terms of competitiveness against China. Of course, some currencies have fallen more than others, especially currencies of countries where commodity exports are rather important like Malaysia. On the other hand, right now with the appreciation of the Yen in Japan, Japan is losing competitiveness against the rest of Asia.

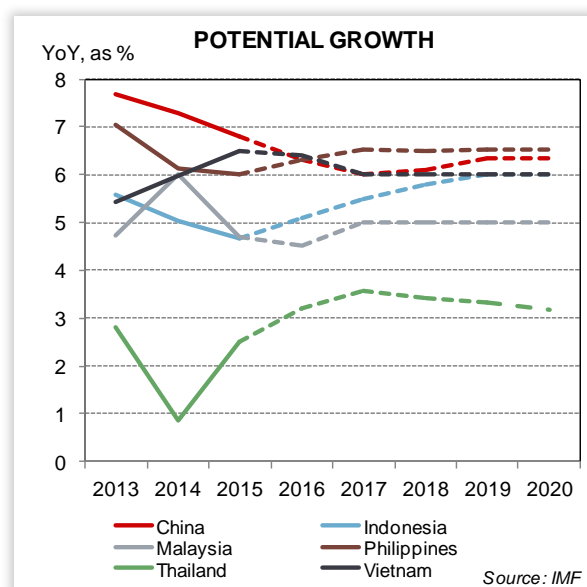
B/ Growth prospects in Asia

1- Growth prospects in Asia

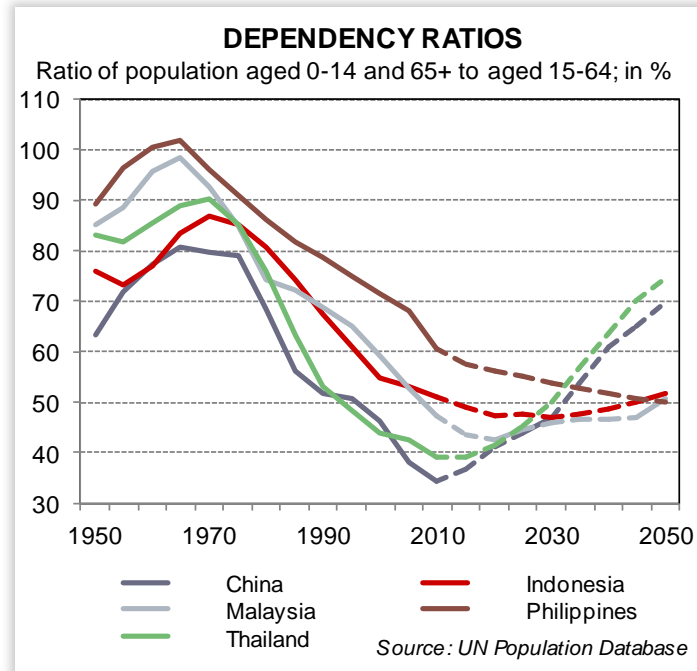
The economies in the north of Asia (Korea, Japan) are more sensitive to the situation in China.



On the other hand, some economies like Indonesia or Vietnam still have some catch up potential.



The demography configuration is more favorable in South East Asia, especially when compared to China. In China, the dependency ratio (share of the “non-working age” population) will increase a lot. In the past, this share was high, but just because there was a huge pool of young people. Now, it will increase again but because of a huge pool of old people. Demography is more favorable in South East Asia.



2 – Country Risk Assessment

Below is a mapping of Société Générale’s assessment on short term country risk across the rest of Asia:

External Vulnerabilities			
Domestic Weaknesses		High	Low
	High	Malaysia	Philippines Thailand
	Low	Korea Taiwan Hong Kong	Indonesia Vietnam

- A country like Malaysia, is externally vulnerable because of its dependency upon commodity exports and also its dependency upon trade with China.
- Countries like Indonesia or Vietnam have growth led essentially by domestic demand. That's why we say that their external vulnerability is low.

There are 4 categories:

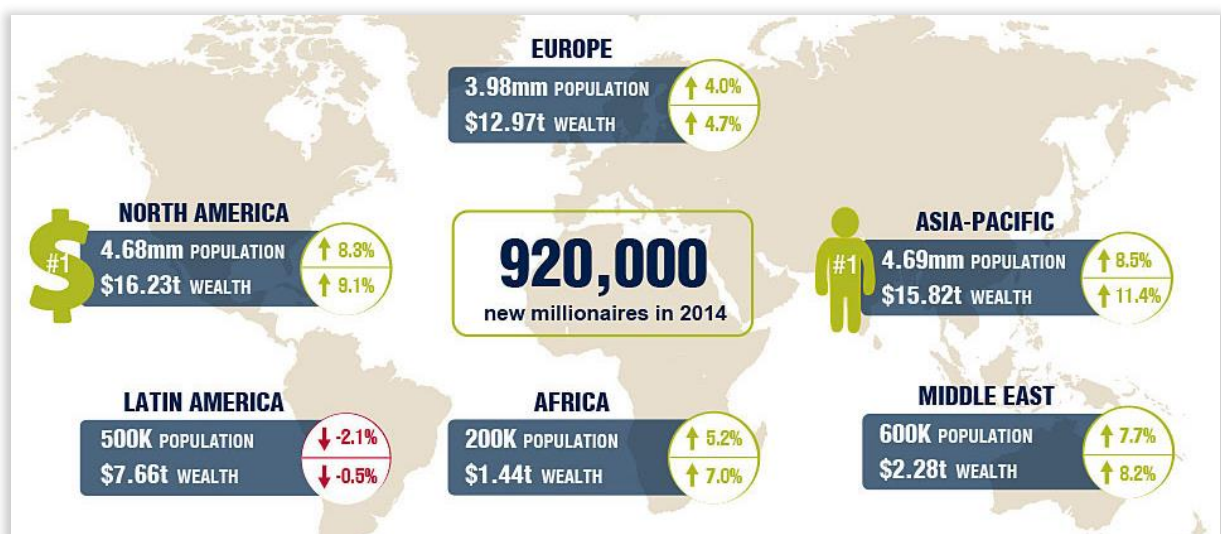
- Malaysia is combining a domestic and an external vulnerability plus some political problems right now;
- Philippines and Thailand have a rather low external vulnerability but more vulnerability in terms of domestic outlook;
- It is the opposite in South-Korea, Taiwan and Hong-Kong;
- Indonesia and Vietnam so far are also considered as less vulnerable.

Of course this is a photo at this stage of the cycle. It is the current risk outlook.

C/ Focus on the wealthiest populations

1- APAC has overtaken North America HNWI population

Today, the number of high net worth individuals in Pacific Asia is at about the same level North America. It should be even higher in 2025. There are about 4.7 Million people having financial assets (ex real-estate) above 1 million USD.

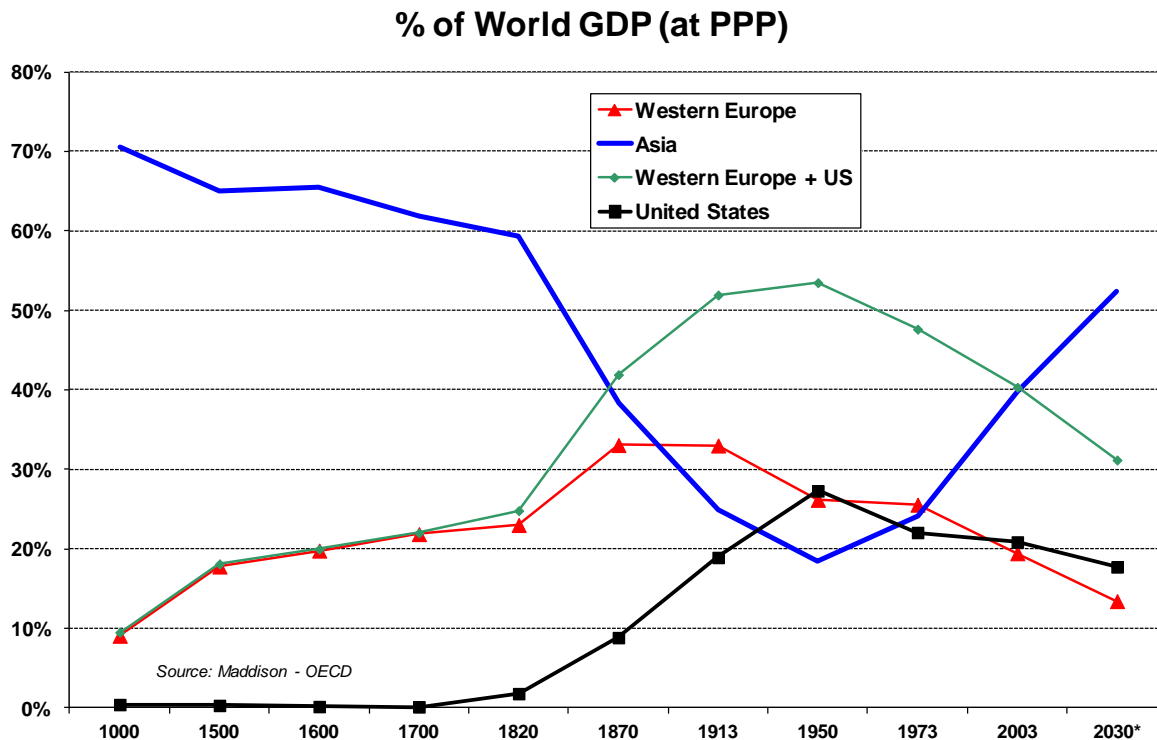


In China, there are now nearly 1 million millionaires. This figure is expected to double in the next five years.

2 – APAC also records the largest middle class population

Figures for Asia- Pacific and China, add up to nearly 300 million of middle class adults which is far ahead of Europe and North America. Asia is the place where the middle class is growing at the fastest pace. The share of poor people will keep declining while middle classes will keep expanding.

D/ Asia in the world economy: back to the future?



Until the beginning of the 19th century, Asia was by far the largest economy in the world. Of course, the size of the US economy was negligible at that time. Asia's weight was much heavier than Europe's. During the following century, there was a dramatic drop in China, the emergence of the US plus the growth in Europe and the weight of these regions in the world economy were totally reversed. Today, looking at a long term outlook, the share of Asia is coming back to what it was initially. Given the size of the Asian population, it is not a surprise. We have to keep in mind that there is nothing unusual about Asia being the largest economy in the world.

CONCLUSION : Key Take Aways

- China is transitioning from a traditional manufacturing-investment led growth model towards a new services consumption driven economy. It is readjusting between its "Old economy" and its "New economy".
 - Economic rebalancing requires supply-side reforms, which involve a trade-off between short-term and long-term growth
 - The risk of a hard landing is limited but the transition period involves risks:
 - High and rising debt in the corporate sector
 - Capital outflows / Increased exchange rate volatility
 - Demographic transition towards an ageing, declining and more urbanized population
- The more export-oriented and/or commodity-dependent economies (Korea, Taiwan, Hong Kong, and Malaysia) are more impacted by China's economic slowdown.
- More domestic driven economies (Indonesia, Philippines, and Vietnam) are likely to prove more resilient.
- Longer term, emerging Asia will continue to benefit from a substantial expansion of the middle-class population and high net worth individuals

PART TWO - CHINA : MAIN ISSUES FOR LUXURY IN 2016

Olivier Abtan - Partner & Managing Director - The Boston Consulting Group)

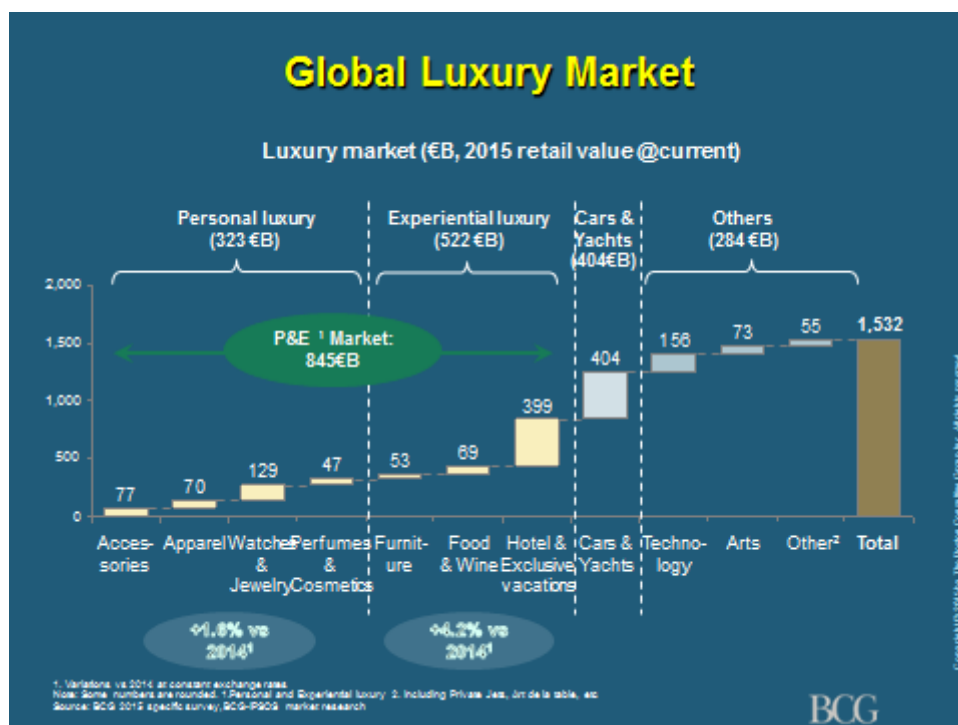
Olivier Abtan presented the latest results of the Boston Consulting Group True-Luxury Global Consumer Insight Survey. It is a yearly survey conducted in 10 countries, with more than 10 000 consumers.

I/ GLOBAL LUXURY MARKET & EVOLUTIONS

Luxury is a 1.5 trillion euro market around the world. How is luxury defined by the BCG? It is an important question since everyone has his/her own definition of luxury. Market as described by BCG is derived from the definition that luxury consumers themselves gave.

The personal luxury goods market is about 320 billion euros. The experiential luxury market (food, wine, home equipment, restaurants, traveling etc.) is above 500 billion euros. Cars and yachts are a specific part, the car market is a huge market, especially in the US, China and Germany. It is a market of about 400 billion euros. 'Others' category is aggregating other products/services considered as luxury such as technology or arts.

If a specific 'Maison' is concerned by only one segment, its clients may buy on all these segments.



As mentioned previously, there have been turmoil on financial markets and instability of exchange rates in 2015, so in order to assess the real growth of the global luxury market it is necessary to look at it at constant exchange rates, the personal luxury goods and experiential luxury market together showed only a ~3% growth last year which is an historically low figure. The personal luxury goods market alone only grew by ~1.6% at constant exchange rate last year. In the past recent years, the luxury groups had been used to double-digit growths on this market. This period is over since 2015 and it is unlikely to turn around in the upcoming years. What is interesting

is that the experiential luxury market, which is a big market, is still growing a bit faster than the personal luxury goods market. This trend leading consumers to be increasingly seeking for luxury experiences rather than buying luxury products is not really new. It was first witnessed on mature markets but it is also developing on emerging markets.

The personal luxury goods market is less dynamic than it used to be and the Chinese clients played a role here.

II/ WEIGHT OF CHINESE CLIENTS IN THE GLOBAL LUXURY BUSINESS

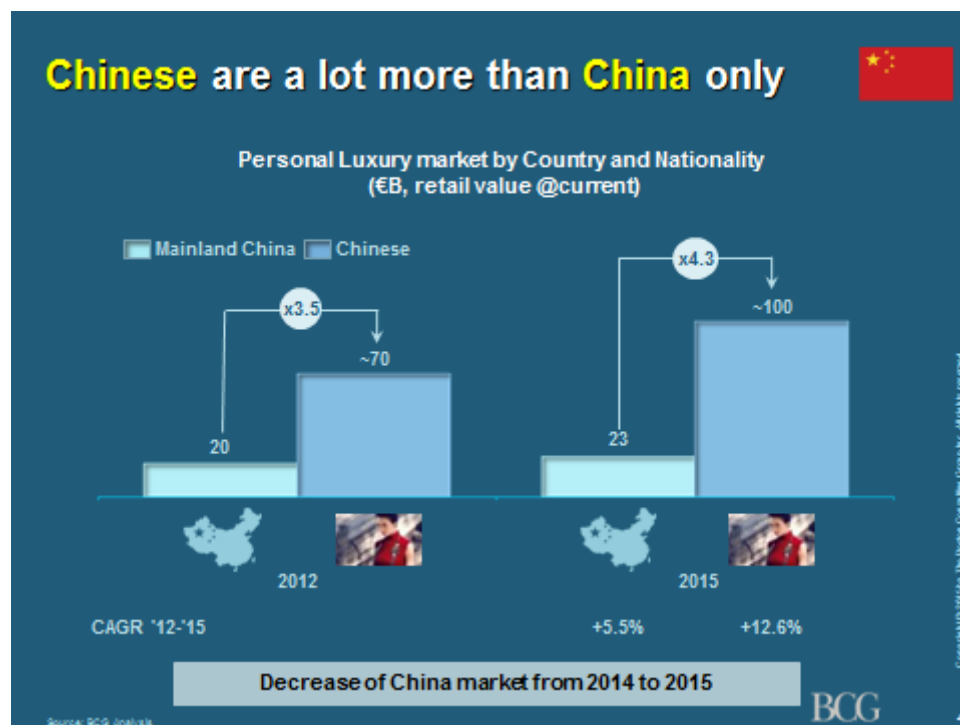
1- Chinese are the main clientele in the Luxury market

The first reason is that the consumption of Chinese clients alone (whether domestically or abroad) represents 30% of the global luxury goods market. It means that 1 product out of 3 is bought by a Chinese consumer today. The Americans represent 23% and their share is still growing (from 19% in 2010). Europe as a whole still represents 20% of personal luxury goods market. Japanese who used to represent over 20% of personal luxury consumption are now down to 8%. Chinese today are really representing the largest group of clients for this market.

2 - Chinese are a lot more than China only

How do they spend?

Out of around 100 billion euros worth of personal luxury goods purchased by Chinese clients, only 23% were bought in China and 77% remaining were bought outside china in 2015. The difference between consumption in mainland China and outside China has grown from a multiplier of 3.5 in 2012 to one of 4.3 today despite the government efforts to reverse this trend and develop in-land consumption.



When looking at growth rates one has to be very careful since the growth rate for China is a real growth while the growth rate outside China is impacted by currencies/exchanges rates fluctuations. What is certain is that if the last decade has seen impressive growth rates in the Chinese personal luxury purchases, it has slowed down dramatically last year. Personal luxury consumption in China decreased last year for the first time. Overall Chinese personal luxury consumption (in China and abroad combined) is still increasing, but the growth slowed down significantly last year.

3 - Where are Chinese purchasing?

When Chinese consumers are buying abroad, where do they buy?

- Mainland China : 23%
- Hong Kong and Macau: 15% (going down)
- Europe : 35%
- US :15%
- Rest of the world (13%)

So Europe is a key destination for Chinese consumers.

4 - Paris, #1 Luxury shopping destination

For the first time last year, Paris was the number one.

The survey was conducted by the BCG just before November's terrorist attacks in Paris, so they are not taken into account. Before these events, Paris had become the number one destination in the world for Chinese consumers who wanted to buy luxury goods. It used to be Hong Kong all the years prior to 2015. In this ranking some new cities appear such as New York and Milan entering the top 5 while Macau and Seoul exit. Hong-Kong is still number 2. Tokyo is number 3, the weakness of the Yen does play an important role in this ranking.



5 - How to capture Chinese consumers abroad?

The reason why consumption in Europe has been increasing while it was decreasing in Hong-Kong is primarily the exchange rate. The price at which Chinese clients find a product in Europe is by far more advantageous than the price at which they find the same product in Hong-Kong. But it is not only a question of price.

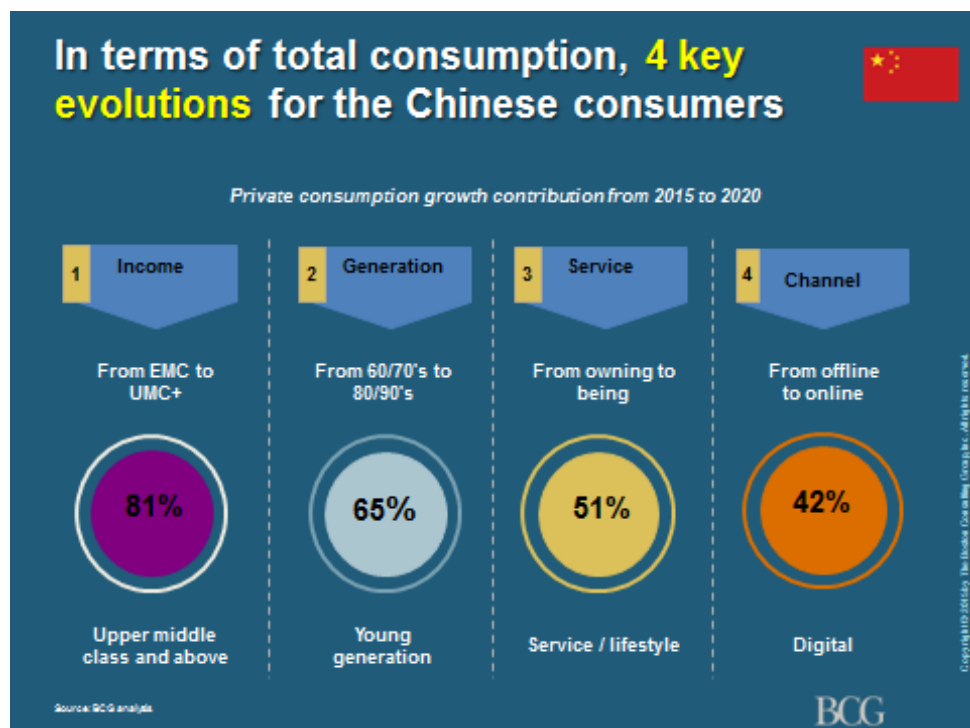
When consumers are asked why they buy abroad, they mention that beside price, they are sensitive to the origin of the brand. They like to buy in the country where the brand comes from. As there are a lot of very nice luxury French brands, people come to France in order to experience the real “maison” in the flagship stores in Paris. It is the same in Milan for Italian brands. Obviously, the experience for them is not the same in Hong-Kong or in other cities. This is a clear indication that Chinese clients are getting more sophisticated as this is the kind of answer that would not appear 5 years ago because they would care more about the brand itself.

They also look for a broader selection of products and it is indeed for them the first reason to shop in Europe. They sometimes get the impression (which might be right) that they will find a broader range of products available in Europe (in Paris and Milan for the French and Italian brands) than in China.

And finally, they find a superior customer experience in the stores in Europe than the one they could find in Asia (which may seem surprising to some regarding Paris but this is their perception).

To sum up, brands can't focus only on price if they want to attract Chinese clients, even though it is an important dimension.

III/ KEY TRENDS IN CHINA



In order to look at possible evolutions for luxury Olivier Abtan presented 4 key trends that may impact consumption in China (but not only luxury consumption). There are 4 key evolutions for Chinese consumers:

1. Income

What type of population leads the consumption in China?

In the past it was really the emerging middle class that was accessing mass consumption. Today and tomorrow 81% of the consumption growth will be led by the upper middle class and above (by 2020 the upper middle class will exceed the emerging middle class). It is important to understand it because this target is clearly more sophisticated and does not buy the same way the EMC does.

2. Generation

The people born in the 60's or 70's were those who consumed the most in the past years. It is changing and people born in the 80's and 90's are the ones driving luxury consumption today. This new group is very different from their parents and they will account for 65% of consumption growth in the 5 years ahead.

3. Service

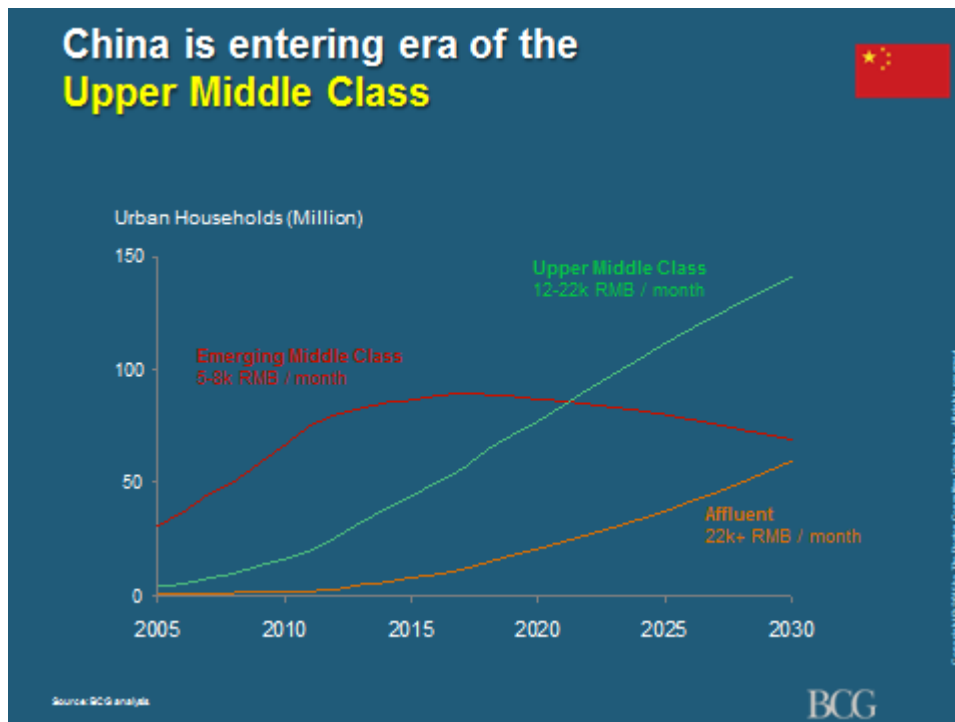
If in the luxury sector, there is a shift between owning a luxury good product and experiencing luxury services, it is also true in Chinese consumption overall. There is a clear shift between owning a product and being able to spend on instant pleasure. It took a long time for occidentals to change their consumption behavior from ownership to experience, while in China it went very fast. Services will drive 51% of consumption growth in the next 5 years in China.

4. Channel

Of course for the Chinese digital plays a strong role as media and distribution network and will continue to do so. It is very important to keep this in mind when doing business with China. It is a general trend that applies to general consumption as well as luxury consumption. On-line sales will drive 42% of consumption growth in the 5 coming years.

1- Income : China is entering the era of Upper Middle Class

The graph below clearly shows a shift: until 2014/2015 the emerging middle class was growing and was representing the largest share of households and consumption in China. The emerging middle class growth is over, upper-middle class and affluent are taking over and will account for most of the consumption in the future.



2 – Generation :

a. Sugar Generation - a typical consumer profile

In China, the Boston Consulting Group calls the new generation the Sugar generation. They are the people who were born in a single child family, with 2 parents and 4 grandparents.

1. Studies show that this population is materialist, consumerist and more sophisticated than their parents.
2. Regarding fashion and luxury for example, they understand the differences between brands, they don't only buy brands to show off but also for themselves in order to feel better, to feel valued. Their level of sophistication is closer to the level of Europeans than to their parents' level.
3. Owning is important for them, but no more than for any millennium around the world. What is important is their appetite for experiences, the fact that they want to get everything instantly, and that they are able to spend a lot for instant pleasure.
4. Their smartphone is everything to them. They live with it, they use all the social networks they can access in China, they buy online, they compare online and they prepare their purchases online. This generation is highly digital and mobile-centric.

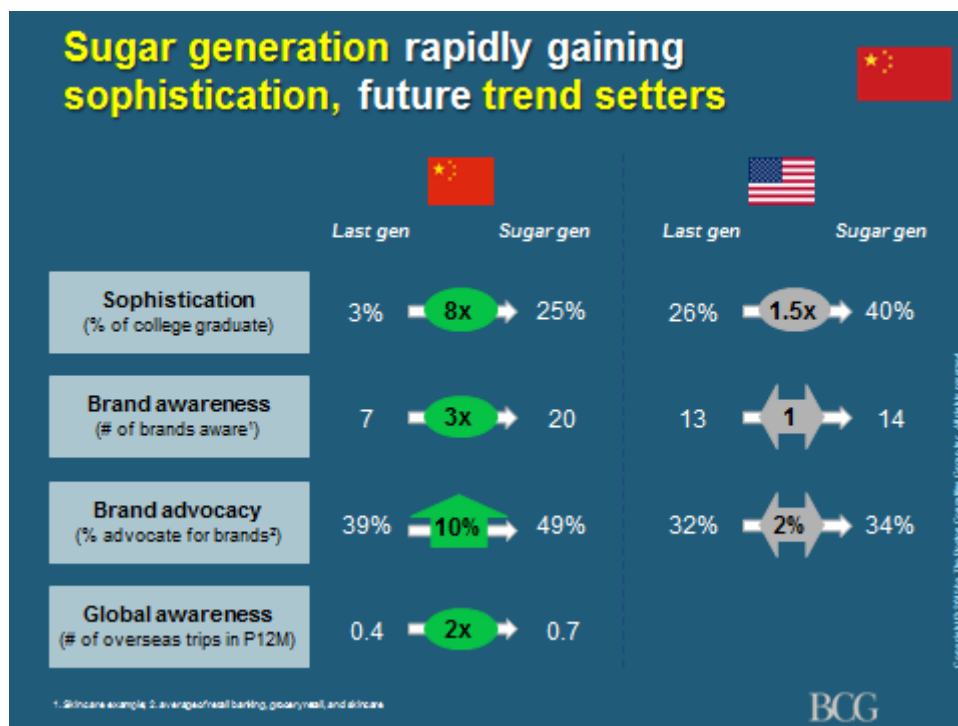
This generation is very different from the older one. Referring to the first presentation and the concept of Old China and New China in economy Olivier Abtan made a parallel with Old Chinese consumers and New Chinese consumers, clearly different from one another, and underlined that the switch between these two generations has been very rapid.

b. Sugar generation - future trendsetters

How different is this generation from the previous?

1. Education: there are 8 times more college graduates in the younger generation than in their parents' generation.
2. Brand awareness: they know 3 times as many brands as their parents do.
3. Brand advocacy: not only do they know brands, but they like brands, they talk about them more than their parents do.
4. Global awareness: they travel twice as much as their parents do.

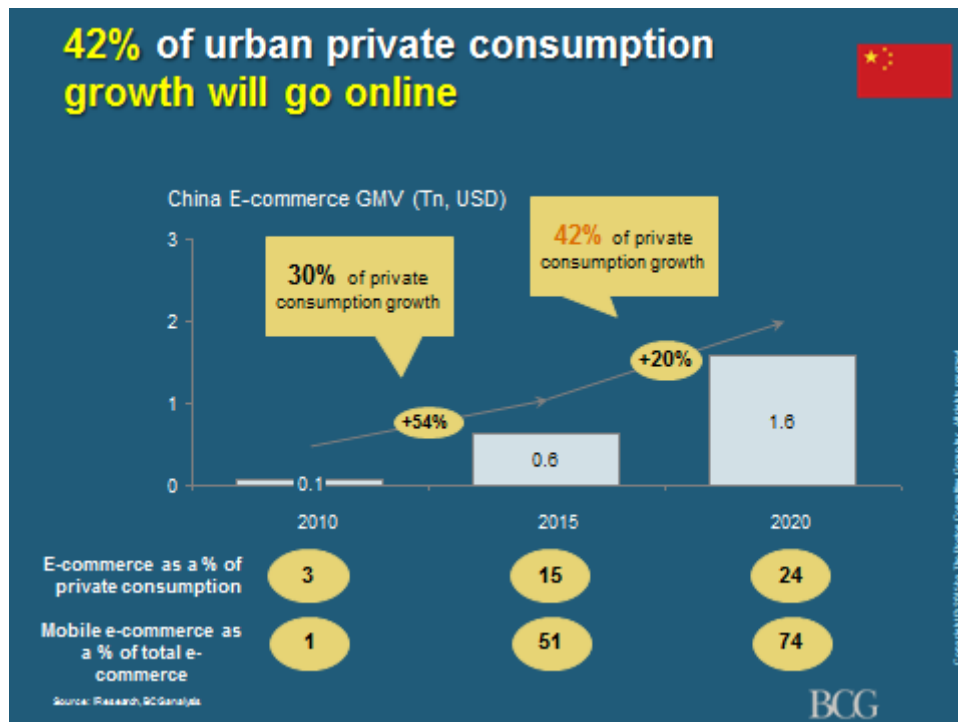
Of course, these numbers are impressive, but it is very important to compare them with what they are in other countries (see below), indeed what makes this group so significant is that the generation gap seems to be much wider in China than anywhere else.



3- Channel

It is often said that digital is playing a crucial role in China: from 2010 to 2015, 30% of the consumption growth was due to online. In the future BCG believes that 42% of private consumption growth will be due to online. So, online takes a critical role, it is growing very fast and represents nearly a majority of the growth in the whole private consumption sector in China.

E-commerce should represent 24% of private consumption in China by 2020 which is impressive.



Again, for luxury brands which may not be there in terms of online sales relative to their total sales, it is something to think about and to work on. It is important to develop online presence and digital relevance.

CONCLUSION : 6 KEY TAKE AWAYS

- **Chinese representing 30% of global Personal Luxury Goods market.**
 - Being now used to seeing see many Chinese shoppers in department stores and luxury stores in Europe and in all major cities around the world it may seem normal, but 20 years ago this share was close to zero.
- **3/4 of Chinese Luxury consumption outside mainland China**
- **Paris now as the new #1 Luxury shopping destination for Chinese**
 - ... before the terror attacks that have had an effect on inbound tourist in Paris. Chinese tourists went to Milan and London more than Paris at the end of last year. After recent terrorist attacks in Brussels, it will be a challenge for Paris to stay N°1 in 2016.
- **Attracting Chinese abroad is not only about price anymore**
- **Chinese Luxury consumption will be driven mainly by UMC and affluent class with Sugar generation imposing views**
- **Digital continuing to grow fast**

PART THREE - TRAVELERS

I / TRAVELERS — EXPECTATIONS AND BEHAVIORS

Françoise Hernaez Fourier - Strategic Planning Director - Ipsos

Françoise Hernaez Fourier's presentation originated both in the World Luxury Tracking data, a study launched in partnership with the International Luxury Business Association in 2007 covering a total of 15 countries, and by the market watch conducted by her team.

The WLT surveys every year, the highest incomes and those who are just below them called the HENRYS (High earners riched not yet). Samples are of 1,000 people in each country. Françoise Hernaez Fourier's presentation is based on the 2014/2015 results. The insights added value lies in duration which allows isolating trends between 2007 and 2015. Regarding China, the intention is to strengthen the sample in 2016 in order to reach 2000 people on the top 5 income and to refine the analysis on this country (fieldwork will be held in July in China).

Before entering the heart of the day's topic, the 'Travelers', Françoise Hernaez-Fourrier provides an overview of the context in which it occurs.

A - MOVING FACES OF LUXURY

1 – The challenge of an ever more diversified luxury offer

Firstly it is important to remember that luxury is challenged by a number of initiatives, many of which coming from the development of digital, creating premium brands and services, or even new luxury segments/brands. One can mention for example the success of the Apple watch (and also the co-branding with Hermes), many mass brands premiumisation (eg Stan Smith Leather Pack made out of precious leathers). The C to C economy through services like 'The Collectionnist' which allows to rent wonderful houses from private owners; and finally the whole economy of sharing (initially carried out by some less favored classes) develops its own luxury segments with such offers as private jets, yachts sharing ...



2- Fast changing Chinese consumers

The presentation includes data on Chinese consumers as a whole and then specific analysis on travelers who are at the heart of the topic.

The challenge raised by the slowdown of the Chinese economy is real, but Chinese consumers have always and will continue to count even if they become more informed about prices. How they buy abroad will be more opportunistic. They will compare more.

3 – Chinese Consumers at the heart of the 'Travel Boom'

109 million Chinese traveled abroad in 2015 as compared to 100 million in 2014. In 2020, they will probably be 200 million. This shows the weight of the phenomenon. There is also strong growth in luxury goods purchases abroad: 60% of luxury purchases by Chinese clients were made abroad rather than in China in 2011 and today it is almost 80 %. All these figures are extremely important and should be seen in a context where travel and tourism are developing strongly at a global level. Tourism in Europe contributes to about 50% of luxury goods purchases. The 'travel' phenomenon is also a source of inspiration for luxury brands and this theme is increasingly present in their collections and the brands communication, although for some like Louis Vuitton 'the art of travel' is not a novelty.



It is interesting to note the weight of Millennials travelers in China who are now representing 35% of travelers and it is crucial to understand what will impact the way they travel and buy (to be noted that the generation of 15-24 year olds represents already 27% of travelers). The BCG highlighted their passion for experiences, for everything that is related to the art of living but what also characterizes them is the desire they have to share it.

4- Digital is disrupting brands communication

All consulting firms announce an explosion of e-commerce, and obviously this channel will keep developing, but what Françoise Hernaes Fourrier wishes to emphasize at the socio-cultural level is the importance taken by the social networks muses in brands' communication. The 'instagram girls' took over bloggers, often starting 'light' partnerships with luxury brands, to sometimes become their muses which for instance is the case of Kendall Jenner for Estée Lauder.

MOVING FACES OF LUXURY, WITH ONLINE SRATEGIES

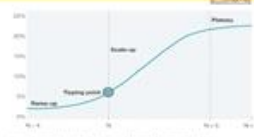
Luxury online sales are growing at a rate of 25-30% a year.

Bain

Luxury Brands Must Innovate or Die in the Digital Age

Online sales of luxury goods may triple in the next decade.

McKinsey



Irene Kim Korean Instagram girl – Estée Lauder icon



Margaret Zhang Australian Instagram icon – Clinique



Angela Baby- Coach icon



12

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5- Today luxury needs to address multiple targets

If Millennials are important in China, they are not less important from a global standpoint. Chinese aged from 18 to 34 years will represent the majority of luxury goods clients in 2026. There will be age effects. As the Millennials will grow older their consumption will evolve, however cohort effects will remain: they will remain hyper connected, maintain ethical requirements, and will always be very attentive to the quality. In short what defines them today will remain true.

Major phenomenon in the United States but little studied in China yet, the 'Henrys' are an interesting target. Indeed the young Henrys' spend far more than their elders. However, they do not have the same expectations as wealthier clients, but it is important to understand them since they are more numerous, their potential is not negligible. Finally the expectations of heavy buyers (people who bought more than 9 luxury goods in the last 10 months) are very different and their views are not the same as those of occasional buyers, and it also important to consider this type of attitude.

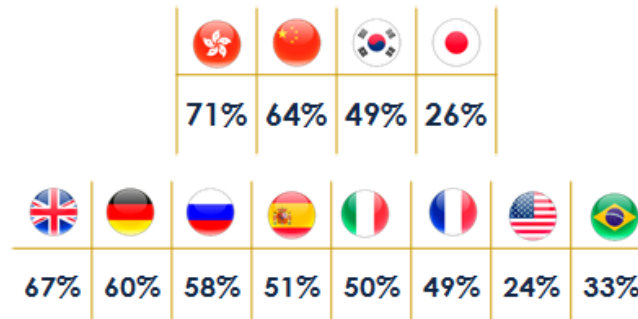
B - THE TRAVEL CHALLENGE

1 - HongKongese & Chinese consumers are heavy travelers

AMONG ALL TRAVELERS, THEY ARE HEAVY TRAVELERS

Q. D26: Have you traveled abroad...?
C36: Have you ever traveled abroad?

HAVE TRAVELED ABROAD WITHIN THE PAST YEAR



Basis: Travelers within the past year

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Are called travelers those who have traveled in the past 12 months. Chinese consumers (Hong Kong and mainland China) are heavy travelers compared to other nationalities. Only the British reach their level, the Germans being leaders in Europe as well on this dimension.

2 - Chinese travelers are spenders





In recent studies, when asked what they will spend in the coming months, the only ones who answer "indulge yourself by spending a little more" are Chinese travelers while overall in 2015 results the English, American and Brazilian consumers were more cautious. Chinese consumers emerge clearly as the ones willing to spend more.

CHINESE ARE THE ONLY TRAVELERS WHO INTEND TO SPEND MORE MONEY IN THE UPCOMING MONTHS

Q. C5/B5: Over the upcoming months, do you think you are going to...?

AMONG TRAVELERS								
Try to save, put money aside	33	51	36	22	25	55	15	52
Indulge yourself by spending a little more	16	14	15	20	24	14	21	25
Change none of your habits	47	30	46	56	44	27	53	21
You don't know	4	4	3	2	7	4	11	3

AMONG ASIAN TRAVELERS

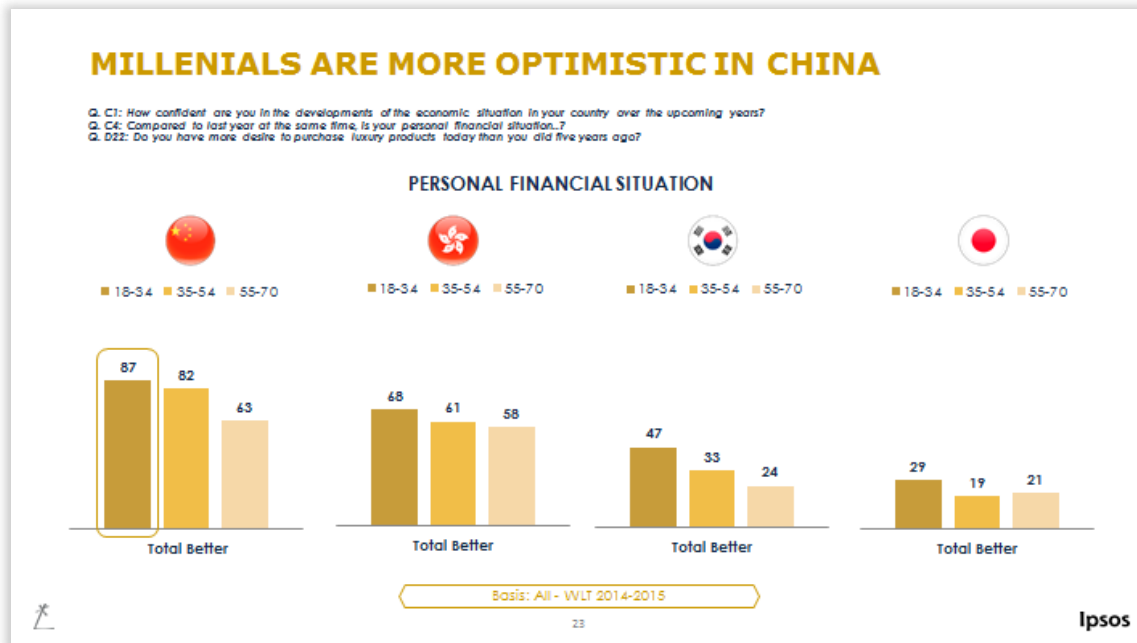
				
Try to save, put money aside	37	30	43	56
Indulge yourself by spending a little more	14	53	34	15
Change none of your habits	48	17	23	27
You don't know	1	1	1	2

Basis: Travelers in the past year

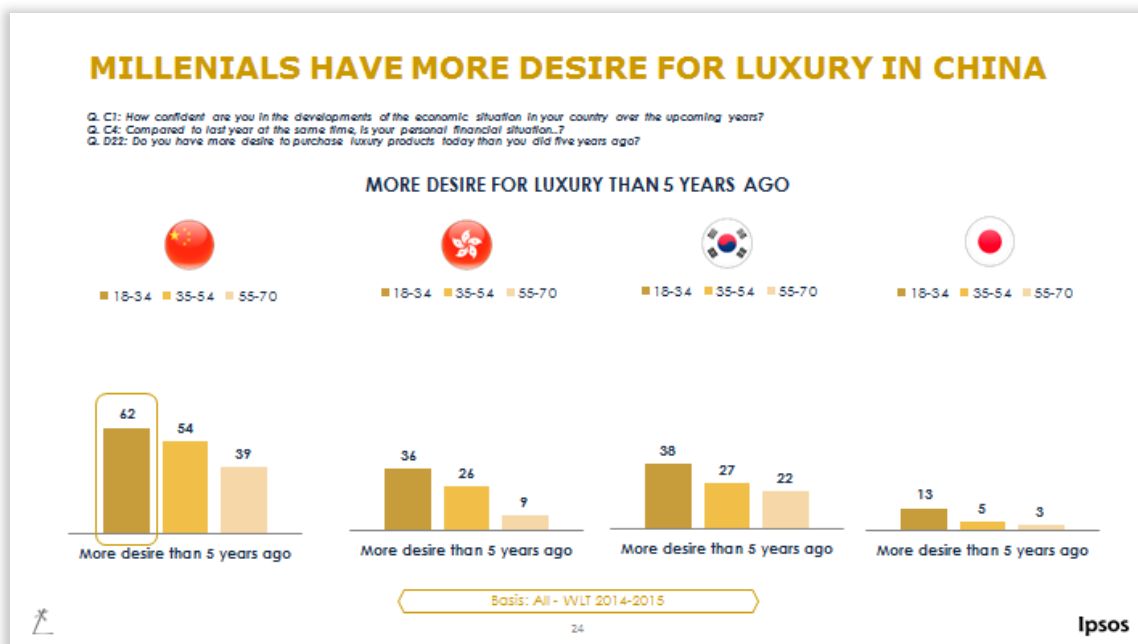
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3 – Chinese are optimistic

The previous phenomenon reflects the optimism of the Chinese who are globally much more confident in the future of their country's economy than other nationalities. On the whole sample interviewed 90% of the Chinese are confident against 29% of the French. The Japanese were 40% to be confident in 2015 (against 24% in 2013), approaching and the Koreans and HongKongese. Millennials are even more optimistic than average:



Generally speaking the Millennials are more optimistic than their elders and young Chinese are overwhelmingly optimistic about their personal financial situation (87% of them considering it has improved compared to the previous year).



This translates into an increased desire for luxury, whatever the nationality, the Chinese Millennials being 62% to say they have more desire for luxury compared to the past 5 years.

Overall, although the situation is difficult in Europe and the US, there is the same intensified confidence in the economy and personal situation as well as a greater desire for luxury among Millennials internationally. Françoise Hernaez Fourier emphasizes the importance of this trend that shows that the characteristics of an age group as the Millennials may be at least as important to consider as the geographical origin.

4- Shopping preferences

a- For Chinese France and Italy at the top

Françoise Hernaez Fourier's analysis confirms that of the Boston Consulting Group: The Chinese have a real appetite and attraction for French and Italian luxury. The question is where they intend to buy when buying abroad. By combining all the WLT questions, it always falls on Italy and France.

Except for the HongKongese and the Koreans on all other markets studied by the WLT, consumers say they prefer to buy in their own country. If the 'Made in France' and / or 'Made in Italy' always are always well ahead in of preferences for the country of manufacture, but Swiss and German quality are increasingly acclaimed.

b- Expectations when shopping abroad



To this question, answers are quite similar to those presented by the BCG with a slightly different hierarchy:

1. Authenticity
2. Prices
3. Choice
4. Discovery / curiosity which are increasingly important

Generally speaking, the main expectations are quite similar for all consumers only their hierarchy may vary from country to country.

c- Top expectations from stores abroad



Overall, clients expect very rational and simple things: expert advice from sales attendant, things that make shopping easier such as extended opening hours. Customers in mature markets have more demands regarding languages spoken in the stores; they expect proficiency in their own language.

d- Quality is more than ever what first defines luxury for consumers

The main expectation regarding luxury across countries is quality and it is a growing one. It is particularly true in China where it is number one (as on many other markets).

Recognizing this requirement brands have been developing some strong brand content on the importance of craftsmanship (the hand). For fragrance brands 'the nose' is staged. Communication is not only about stars or muses but about all that is involved to deliver a product that meets clients' expectations.

e- Where do they buy?

Purchases are mainly done in downtown luxury shops and department stores. There is also some catching-up shopping done at the airport on the way back (forgotten gifts, remaining currency ...). On beauty, the specificity is that consumers tend to buy more the products that they already know and use, than to discover new ones.

TRAVELERS MASSIVELY PREFER TO BUY LUXURY PRODUCTS AT THE LOCAL SHOPS, BUT THE AIRPORTS PLAY A STRATEGIC ROLE AS WELL

C25C – When traveling abroad, when do you or would you prefer to buy luxury products?



Basis: Travelers in the past year

37

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In order to stimulate airport purchase and disconnect it from the issue price, there is a rise of experiential propositions (eg the private Moët & Chandon cellars at Charles de Gaulle) with the idea to make the traveler benefit from the available time and allow him to discover new dimensions of the brands/products, another way to strengthen the message on the brand image and quality.

f – What do they buy?

TOP 3 CATEGORIES BOUGHT ABROAD VS AT HOME:

Q. D31/C27: For each of the following categories of luxury products, where do you prefer to buy a product: in your country or in a foreign country?



1. Perfume
2. Watches
3. Luxury clothes & accessories



1. Luxury brand automobiles
2. Gastronomy/Gourmet food
3. Luxury haircare products



1. Whisky
2. Cognac
3. Champagne / Gourmet food

1. Technology products*
2. Luxury brand automobiles
3. Luxury home decoration/equipment

*Item only in the list of mature countries

Basis: Travelers in the past year, buyers of each product category

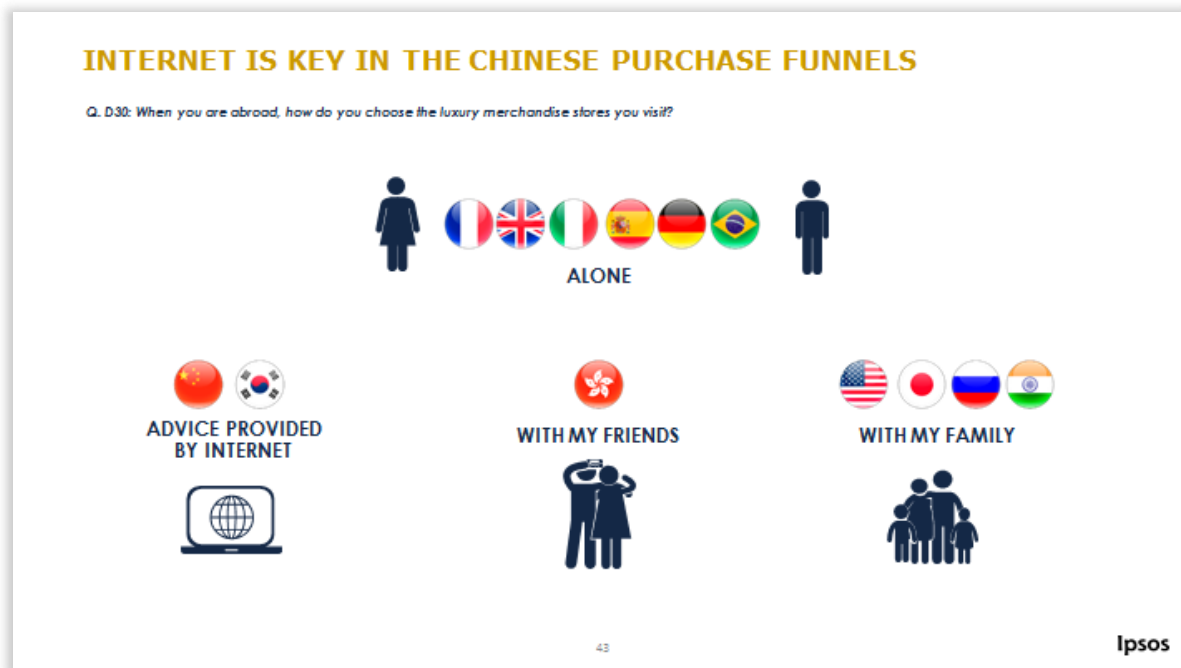
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A bit of a caricature but always true, all luxury purchases of travelers from emerging countries remain much related to fashion. So the top 3 are "perfume, watches, fashion/ accessories". While for travelers from mature markets the art of living and gastronomy dominate. It must be underlined that Champagne comes in 3rd position for the Chinese travelers.

5- The key role of internet in the purchase funnel

The Chinese travels are extremely prepared. When asked how they make their decisions before they go shopping, behaviors are quite different depending on nationalities and the Chinese are quite methodical and doing extensive research on the internet before traveling.



When going into more details one finds that:

- a- Chinese consumers pay attention to brand websites and stores

While being influenced by family and friends, they turn to internet and particularly to brand websites to seek information, their local stores being also a reliable source. Digital and traditional sources are somewhat hard to distinguish as, for example, family and friends advices may also be found on social networks as well as in a non-digital way.

- b- Hongkongese tend to pay more attention to stores and social networks

HongKongese have a slightly different attitude and are still very much linked to stores and and social networks, the luxury brand websites being only slightly less influential.

- c- For South Koreans, blogs and celebrities are particularly influential

No one can be surprised by the influence of celebrities in South Korea as South-Korean stars (whether K-pop or movie stars) are overall very influential and very much used by brands for their campaigns. The first digital

source of influence is blog and newsgroup, while traditional sources such as family and friends, stores and catalogs are also very important.

d- For Japanese clients, stores remain far ahead from other sources and are even increasing

The Japanese sources of influences are close to that one may find in Europe: less digital sources than for Chinese. There is a wider gap between traditional sources that come first (family and friends, stores) and the brand web site which is somewhat lagging behind.

6- In the future more experiential luxury

a- Qualitative ethno-studies

Ipsos produces what they call qualitative ethno-studies. They follow and film some consumers while they prepare their trip, during and after the journey. This allows them to determine some profiles and make some kind of cluster analysis in order to go beyond 'clichés' one may have on Chinese travelers, as some different profiles may be identified.



b- Exclusive collections' strategy

Brands are starting to implement more specific strategies such as destination exclusivities (Penhaligon's Paris exclusive collection, teas exclusive to Heathrow's airport shops, cookies that can only be found in Zurich...) which allows them to enhance the uniqueness of various destinations and create more desire; or they offer airport exclusivities (Hermès had created a watch that could only be purchased at their airport shops), a way to develop a unique relationship with travelers.

c- Reaching travelers : pop up stores

A number of destinations are highly seasonal and draw the most affluent clients. Brands such as Rolls Royce have understood the value of these locations at times when clients are available and created summer studios where they could invite their clients (Porto Cervo). This type of strategy could probably be implemented in other locations aiming at somewhat wider targets.

REACHING TRAVELERS : POP UP STORES

A growing number of luxury brands are reaching out to their customers differently with **pop up boutiques** opening exclusively during a **limited amount of time** : in winter season in Courchevel, or during summer in Portofino, **increasing interest with limited collections and products**. This vacation time is also an opportunity to approach consumers in a **more informal and relaxed way**, when they are less sought by everyday worries.

In order to enhance the uniqueness of various



Throughout July 2016, Dolce & Gabbana has opened a pop-up shop in the scenic Italian hot spot of Portofino for one month only. A limited edition collection bearing scenes from the Liguria port was available.



Chanel opened a pop-up store in Courchevel, a ski resort in the French Alps, for the sixth consecutive year.



Buccellati opened a 215 square foot pop-up in L'Apogee (Courchevel). The boutique was open for four months total, and was selling ornaments and other accessories.



With the idea of meeting their customers when they are the most relaxed, Rolls Royce launched the Summer Studio, an informal club in Porto Cervo.

Ipsos

d- Creating immersive experiences

Emmanuel Lincot a specialist of China and Chinese culture met last year at one of the Association's meetings had mentioned how Africa seemed very attractive in the Chinese wealthy consumers' eyes. They are literally fascinated by vast and untouched natural landscapes, which can be understood given the level of pollution in some of the largest Chinese cities. While looking at travelers, luxury products are not the only ones that matter, experiences will be more and more sought after and marketers need to keep this in mind.

CREATING IMMERSIVE EXPERIENCES

Affluent travelers are **seeking exceptionality** in their destinations : they want to live unique experiences in breathtaking surroundings, but they also want to live something true. « **I hate feeling like a tourist. Here, you don't feel like a tourist.** » says the owner of Ol Jogi luxury ranch in Kenya : **connection to nature and local culture are expected to be direct, unaltered**, allowed by luxury exclusiveness.



The year old Mahali Muri features 12 accommodations and offers visits to the Maasai villages, thanks to Richard Branson's commitment to nearby communities.



Songtsam Lodges Shangri-La offers a spirited journey of discovery, the 11 Songtsam Circuits, which showcases scenery and culture of Tibet.



The Ol Jogi ranch in Kenya : a safari experience for 210 000 dollars a week, with private access to one of Africa's most wildlife-rich area.

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e- Gastronomic experiences

Very much like in many other countries, there is strong interest in food in China. It goes along with the interest in foreign cultures and 'art of living'.

GASTRONOMIC EXPERIENCES

Luxury consumers are caught in the « foodista wave » like the rest of the world : they are expressing this new love with travels organized around culinary experiences. Shangri-La Hotels and Resorts launched the first International Festival of Gastronomy. For the festival, Shangri-La has tapped eight Michelin-starred chefs to prepare meals at six hotels in five cities – which took place in Hong Kong, Bangkok, Singapore, Shanghai and Paris – for five exclusive days.



5 LUXURY RESORTS FOR FOODIES



SHANGRI-LA INTERNATIONAL FESTIVAL OF GASTRONOMY 2015

HONG KONG
SINGAPORE SHANGHAI
PARIS BANGKOK

8 MICHELIN STARRED CHEFS 5 HUNDRED CHEFS
27-31 OCTOBER

OUR 8 CHEFS

ENRICO BARTOLINI
BARTOLINI IN BANGKOK

lpsos

II/ ANOTHER WAY OF ANALYZING TRAVELERS

Mr. Philippe Périé Chief Data Officer - Ipsos

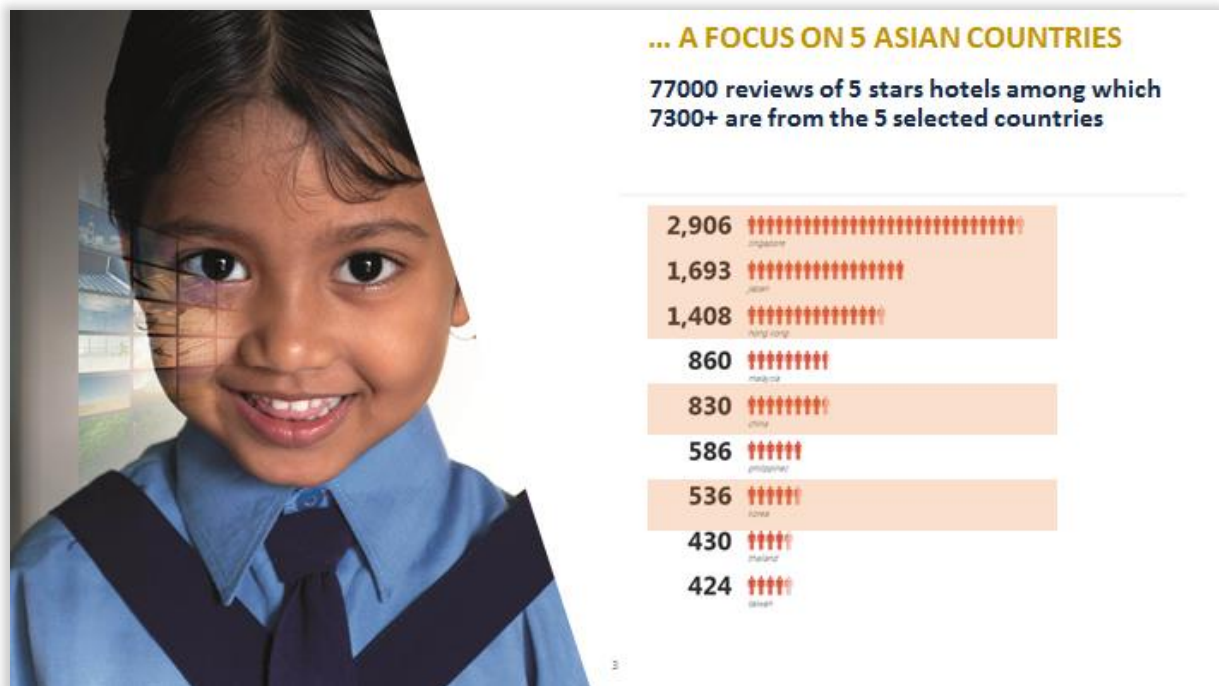
Another way of seeking information regarding consumers which brings a major change to the market surveys' job is, instead of analyzing data produced internally, to bring intelligence to data that has not been produced or controlled internally but gathered from outside and to transform it into operational recommendations for corporations.

What Philippe Périé presented was not meant originally to a presentation relevant to the luxury industry. Ipsos worked on a multi-countries survey aiming at gathering what travelers were saying about their travel experience. 4 million feedbacks from 1.7 million people were collected and 200 countries were involved in the survey. Feedbacks came from reviews sites such as Tripadvisor, Google+, Yelp, ... For Chinese consumers some specific sites such as China's trip were added, there were a total of 19 sources. Data was collected in September 2015 and goes back 5 years. This study was aimed at the hospitality industry, and it does not analyze the way trips are prepared, but only the comments after the trips.

A - METHODOLOGY

1 - A Focus on 5 Asian countries

Philippe Périé presented a few elements on 5 countries: China, South-Korea, Japan, Hong Kong and Singapore. In order to capture people who might be described as 'Luxury Travelers' only results regarding 5* hotels were kept, then only some destinations were kept, so in the end the sample was much smaller.



2 - Beyond CLASSIC web 'listening'

This type of analysis is very different of that of 'web listening' on two major aspects:

- First, the emphasis is less on social networks (like Facebook, twitter, ...) and more on UGC (User generated Contents) websites, there is more control on the blend of websites used for the analysis, this is to limit biases and get a broader view (like a sampling design in market research).
- Then the analysis is less done 'by hand' at first step: it involves Machine Learning and Natural Language Processing on much bigger corpuses, extraction of semantics fields, quantifications, mappings, ... Thanks to this preprocessing, the analyst's work is much more efficient, even on large corpuses.

3 - Topics models

The methodology is called topics modeling. All the words cited by consumers are grouped by topic relating to the same kind of experience (as an example front desk, helpful, ... give an indication of the 'welcome experience'). By doing so, a number of semantic field are defined, which are then looked upon as would questions be in a survey. In this survey there were 50 semantic fields. As they are considered as questions they are quantified.

For example a single comment will include 30% on the welcome service, 20% on the hotel cleanliness, 10% on transfers, and so on.

TOPICS MODELS

Uncovering the main topics in a corpus

Topic models are algorithms for discovering the main themes that pervade a large and otherwise unstructured collection of documents.

Topic models can organize the collection (corpus) according to the discovered themes. The method was developed in Berkeley to create natural taxonomies from collections of books

- Each topic is quantified according to how frequently it appears (importance in the corpus of data)
- Each document can be characterized by how it 'weight' on each topic (e.g. this review is 30% about staff, 20% about comfort, 15% about transfers from airport)

We can measure how the topics discriminate the different countries, and position them against each other

Clusters of countries are created based on how they are described by the topics, and positioned on a map

Drivers of liking can be created



5

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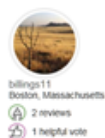
Main topics are staff, location, experience, service. The semantic fields that appear to be the most important are rather linked to transactional elements: opinion on the location, the quality, the staff and so on. Experiential elements are less discussed, (We will see that they are playing an important role in the overall satisfaction).

4 – Aspect Level Sentimentalisation

Each comment is analyzed element by element, not only at the global level. A positive opinion about an entity does not mean that the author is positive about each aspect of the entity. Positive and negative elements in the different comments are pooled and weighted.

ASPECT LEVEL SENTIMENTALISATION

We run aspect level extractions to get the desired levels of fine-grained results (in the example here, from the short review of the Paris Shangri-La, 13 extracted features have been sentimentalized)



"The best place to stay in Paris"

Reviewed 4 days ago

This hotel has the best view of the Eiffel Tower in Paris. It is very pricey, but very beautiful and luxurious. But the real reason you need to stay here is the view. Make sure you get a room with an Eiffel view. On our first trip to Paris the view from the absolutely beautiful room as nothing short of spectacular. We didn't even leave the room for dinner. Just ordered room service and watched Paris all night.

Room Tip: Get the Eiffel view king suite!
See more room tips

Stayed May 2015, travelled as a couple

Sleep Quality: 5/5, Cleanliness: 5/5, Service: 5/5

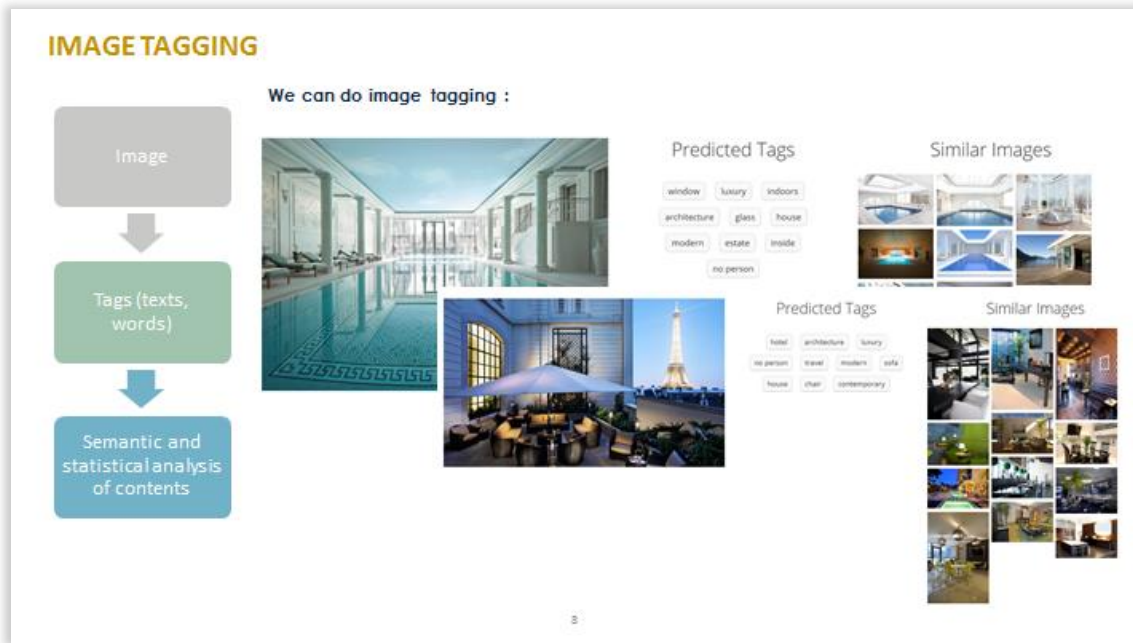


	relevance	sentiment.score	sentiment.type	text
●	0.959	0.397	positive	Eiffel view king
●	0.923	0.262	positive	absolutely beautiful room
●	0.810	0.848	positive	Eiffel Tower
●	0.696	0.652	positive	real reason
●	0.686	0.778	positive	best place
●	0.608	0.307	positive	Room Tip
●	0.593	0.848	positive	best view
●	0.577	0.330	positive	room service
●	0.574	0.554	positive	Paris
●	0.383	-0.496	negative	dinner
●	0.372	0.848	positive	hotel
●	0.366	0.262	positive	trip
●	0.364	0.397	positive	suite

7

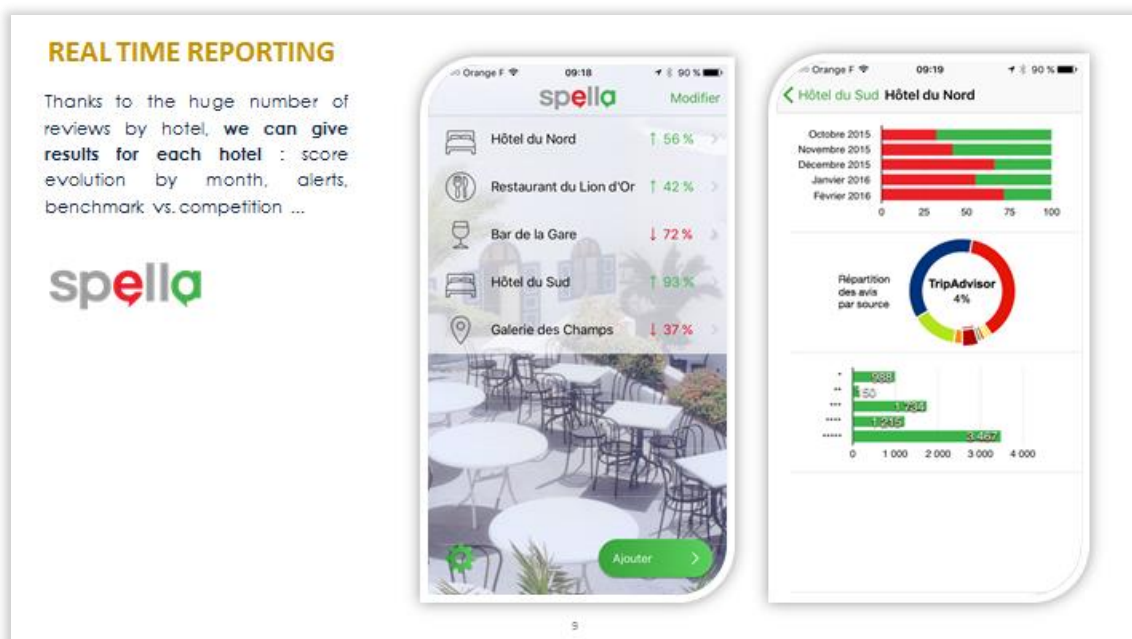
5 - Image tagging

Clients leave a trace on social networks with messages but also with images. The analysis includes image tagging, transforming images posted by consumers into text which will be included into the textmining analysis. In this example, beyond semantic fields, the analysis of images posted by consumers can be compared with the ones posted by the hotel itself.



6 - Real Time Reporting

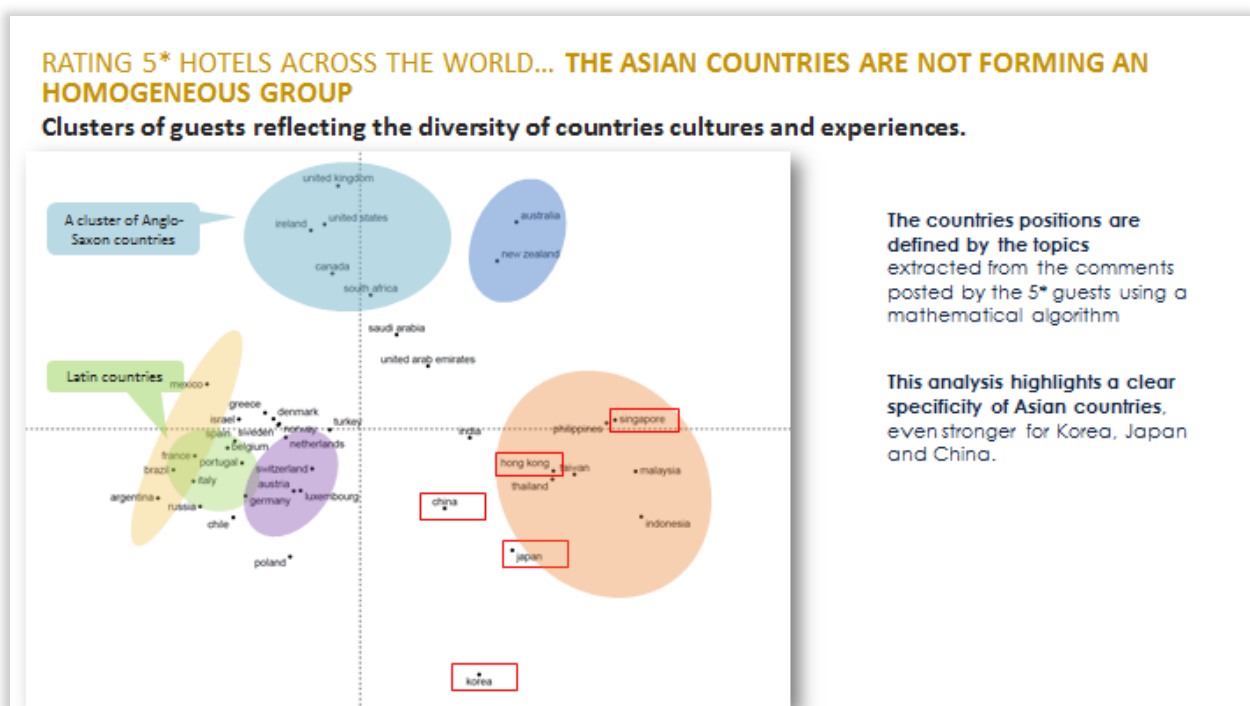
Lastly what is a significant change from traditional consumers' surveys is that this type of survey allows real time reporting. Below is an example of a site that aggregates scores in real time and allows seeing the evolutions of comments source by source.



B - RESULTS

1 - The Asian countries are not forming a homogeneous group

This analysis allows defining clusters according to the comments made, the position of countries relative to one another being calculated according to the semantic fields they show. Two countries are close to each other because they show similar semantic fields but also because their intensity is similar. The scheme below shows that culture impacts the comments that are made and clusters group Anglo-Saxons countries on one side, European countries, with a strong proximity of the Latin part to with Latin America. Asian countries are on the same side of the mapping but much more scattered. So Asia cannot be looked upon as a zone, it is needed to look at each country.



2 - They are also different according to their tags

When working on data coming from travelling site and/or social networks, sociodemographic does not appear, but people define themselves according to their preferences : they might for instance define themselves as “Art and architecture lover” “night life seeker” “foodie” and so on.

Within Asian Countries

Asian Countries - v/s others

	china	hong kong	japan	korea	singapore
Art.and.Architecture.Lover	0,47	1,31	2,19	-2,40	-1,57
Beach.Goer	-0,29	-0,99	-0,01	0,49	0,79
Eco.tourist	1,30	1,18	0,31	-1,91	-0,88
Family.Vacationer	-0,46	-1,65	0,70	2,40	-0,98
Foodie	-1,48	0,24	0,16	1,31	-0,22
History.Buff	-0,38	0,47	0,30	-1,04	0,65
Like.a.Local	-1,14	-1,02	5,25	-1,47	-1,61
Luxury.Traveler	-0,22	4,71	-0,77	-4,75	1,03
Nightlife.Seeker	-1,41	-0,54	-0,07	2,59	-0,57
Peace.and.Quiet.Seeker	-3,14	-3,00	4,13	4,00	-1,99
Shopping.Fanatic	-1,06	-1,14	-0,63	2,36	0,48
Thrifty.Traveler	-1,27	-2,20	0,87	2,25	0,35
Thrill.Seeker	-0,23	0,67	-1,76	0,14	1,18
Trendsetter	-0,33	0,89	-1,35	0,71	0,08
Urban.Explorer	1,64	1,28	0,94	-3,72	-0,14
Vegetarian	0,72	1,20	-1,61	-1,15	0,84

	china	hong kong	japan	korea	singapore
Art.and.Architecture.Lover	-2,27	-1,85	-0,72	-2,11	-8,30
Beach.Goer	-2,73	-4,47	-3,53	-0,79	-3,16
Eco.tourist	2,16	2,62	1,32	-0,74	-1,04
Family.Vacationer	1,44	-0,10	4,17	2,04	1,45
Foodie	-5,16	-4,30	-4,85	-0,86	-7,20
History.Buff	-4,15	-4,39	-5,05	-1,92	-6,05
Like.a.Local	-2,30	-2,83	7,01	-1,08	-5,36
Luxury.Traveler	-4,79	-0,02	-7,64	-3,70	-6,78
Nightlife.Seeker	-1,29	-0,31	0,47	1,42	-0,52
Peace.and.Quiet.Seeker	-1,70	-2,00	10,88	2,99	-0,45
Shopping.Fanatic	-1,16	-1,63	-0,94	1,14	1,21
Thrifty.Traveler	-0,03	-1,71	4,16	1,93	4,13
Thrill.Seeker	-2,04	-1,46	-5,18	-0,67	-1,13
Trendsetter	-0,29	1,50	-2,13	0,38	0,37
Urban.Explorer	-1,27	-2,15	-2,88	-2,78	-5,94
Vegetarian	-1,17	-0,98	-4,65	-1,14	-2,03

Japanese and South Koreans tend to look for peace and quiet locations, while the Chinese are seeking action. Two indicators clearly position the Hongkongese as being the luxury travelers among Asians (luxury traveler, thrifty traveler).

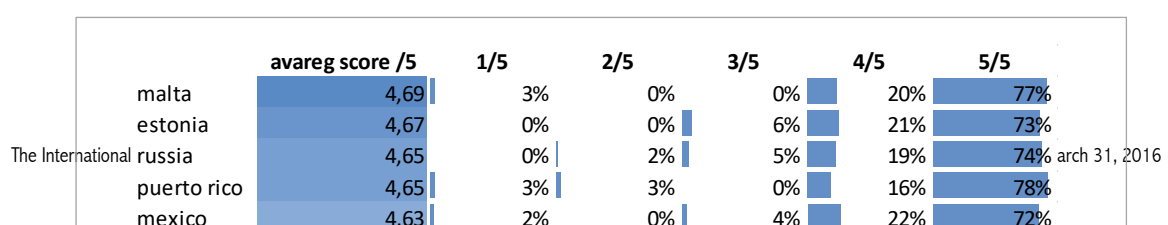
3 - Overall hierarchy of criteria is similar across countries

Criteria used to evaluate a 5 * hotels are quite similar across nationalities and Asians do not stand apart. First criterion is on the global quality of the place (space, cleanliness, breakfast, service,...) that clients expect to be excellent. Following is a group of criteria linked to the experience... Then there is a third group which is rather linked to details, specific attention from the staff, refinement in the decoration,... The hierarchy of these criteria is the same for all nationalities.

4 - The Asian guests are the most severe among the 197 nationalities analyzed

If the hierarchy is the same, the Asians are the most severe when it comes to rating 5* Hotels, on the 197 countries they appear in the bottom 20. Hong-Kong, Singapore and Japan are the harshest: less than 1 guest to 2 gives the best rating.

Philippe Périé underlines that this is not valid when looking at ratings for 4* hotels for which South Koreans and Chinese appear at the top, among the 15 first nationalities in terms



5 - Overall: The disparities between the Asian countries are confirmed

Among the 5 Asians nationalities, the Chinese are less severe (or they are the ones having the best experience of 5*). Japanese and South- Koreans are more severe with the staff and the quality of service.

THE DISPARITY BETWEEN THE ASIAN COUNTRIES ARE CONFIRMED

Among the Asian scope, Chinese are most likely to describe and share their (memorable) experience.

The relations with the staff is not yet delightful for Japanese and Korean guests : important criteria but not often quoted, there is still a room for improvement.

The same applies for topic 39 (luxurious, amazing, ...) among Hong-Kong travelers : it's important for them, but not often quoted by this target which identify itself as 'luxury travelers'.



CONCLUSION

Where are we ?

- First, all the 5 Asian nationalities surveyed have the least positive experience of 5* hotels on all the dimensions that matters to them: there is clearly something to be done about it.
- When looking at what needs to be done, one has to keep in mind that Asians are not a homogenous group and that there are cultural differences among them, so they cannot be all treated the same way.
- Before taking any action 3 questions may be addressed:
 - Is there a bias in the selection, in other words are the populations going to 5* very different from country to country which may impact on the relevance of comparisons and explain the difference in expectations.
 - Are there strong cultural bias as the notion of service differs from one country to another?
 - Do we face a benchmarking problem? Indeed it is true that infrastructures and service in Asia is of higher quality than in many other places, so clients may be used to higher levels and therefore their expectations are much higher.

In the end, Philippe Périé thinks there is a combination of all three elements and there is currently work being done taking into account larger samples and looking at the comments more closely in order to fine tune the analysis. Further analyses will include Qual and Quant, deep dives on some destinations, more emphasis on websites in which travel preparation is mentioned ...

PART FOUR - THE BIRTH OF NEW LUXURY

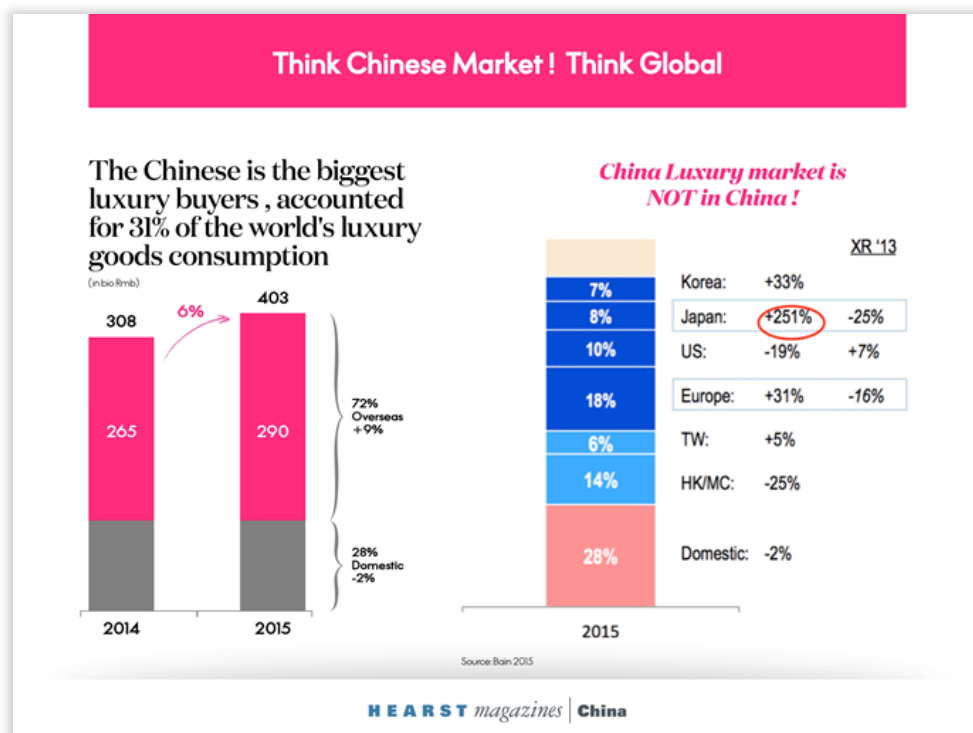
Mr. Roth Lai Deputy Editorial Director— Elle China - Hearst Magazines China

When Roth Lai heard that the topic was “the End of the Asian Luxury Eldorado?”, the first thing he thought was “what is the meaning of Eldorado?” because it was such a foreign word to him. And when he actually googled it he saw that it was defined as being a mythical gold kingdom. With much humor he mentioned that his interpretation of the title was that Europeans were still seeing China as a mythical kingdom!

But if he thinks Asia has always been a little bit mystical, what he chose to underline as an introduction is that in our digital age, no other country has such unique digital communication tools as China has. Almost everything is different. For example, to communicate with a Japanese one can use what's app, YouTube, Google+, but China has its own system: Weibo, We Chat, Youku, Souhu... So this introduction already stresses how different China is, and if the industry seems to be quite optimistic about the future of luxury in China, professionals need to realize that Chinese luxury is very different. It will be more diversified, dynamic and definitely different from what it has been up to now.

I/THE CHINESE MARKET. THINK GLOBAL!

Roth Lai based his assessment of the Chinese market by figures published by Bain for 2015. The Chinese are the heaviest luxury buyers, accounting for 31% of the world's luxury goods consumption. For him a set fact is that Chinese luxury market is not in China: the domestic market accounts for 28% of the Chinese luxury consumption. Europe is one of the favorite destinations out of Asia accounting for 18% (with a growth of 31% of Chinese purchases there). Despite the fall of Chinese luxury consumption in Hong-Kong, HK as a city remains a very top destination since Hong Kong, just as a city, accounts for 14%. Japan really benefits of these overseas buying trips taken by the mainland Chinese shoppers. Now, for the first Asia trip they take overseas, the most preferred destination for the Chinese would be Tokyo.



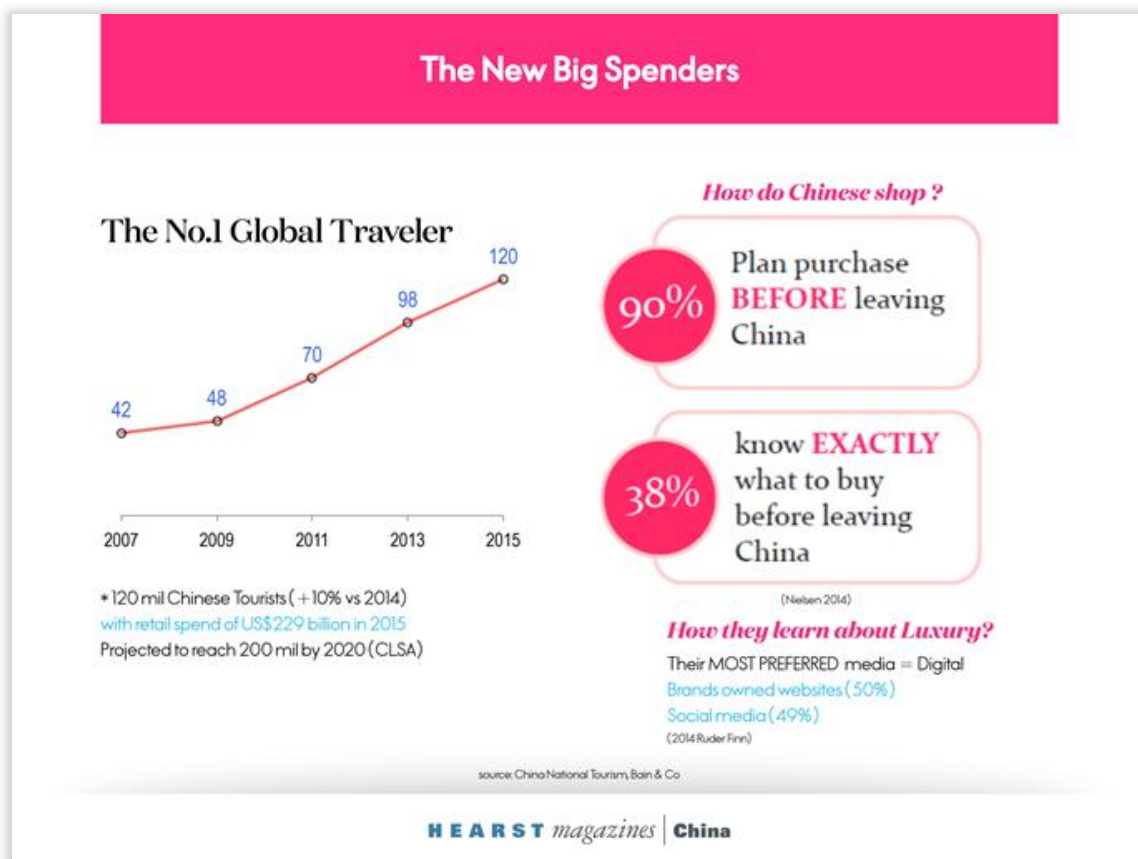
II/ CHINESE TRAVELERS

1 - The new big spenders

Chinese are the number one global travelers. In 2015 there were 120 million Chinese tourists travelling overseas. It grew from 98 million in 2013 and it is expected to reach 200 million by the year 2020.

How do Chinese shop? 90% of them plan their purchase before leaving the country. They research through Baidu (the local Google). The brand's website is very important. Social media are also very important tools for the Chinese to find information before they go overseas to buy luxury goods. 38% say that they know exactly what to buy before leaving China.

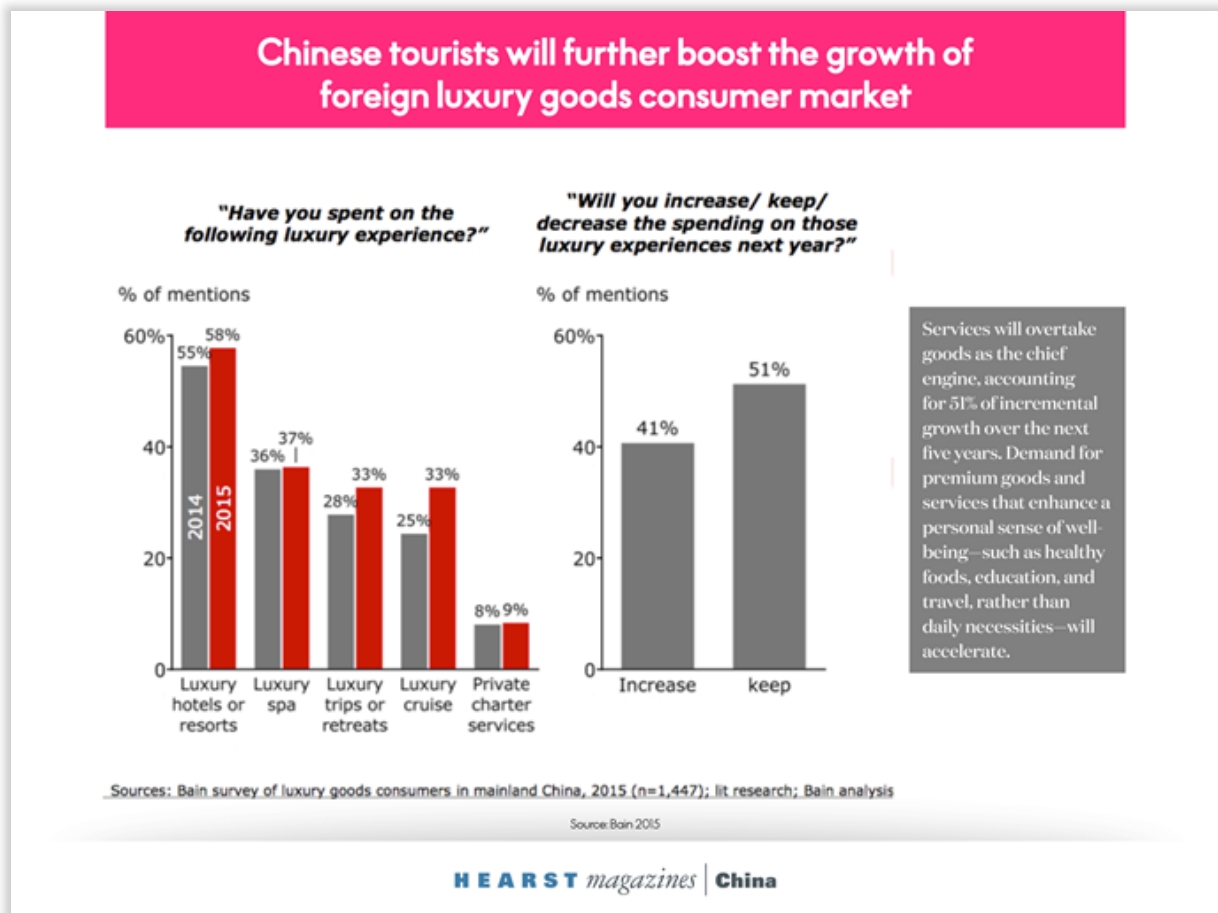
They are very different from other clients because of the language barrier. A Singaporean or a HongKongese shopper may go to the UK or America to shop and would go on to the local website upon arrival and check more information. But for Chinese, because of the language barrier the research is done home, on the Chinese website. They place their trust in the Chinese local site and also on wechat, a major social platform on which they can share information.



2 - Chinese tourists will further boost the growth of foreign luxury goods consumer market

In the years to come, Chinese luxury consumers will go more for experience rather than products. As an editor of a major magazine, this what Roth Lai sees. For example the luxury hotels market is one of the largest components of 'experiential luxury' along with spas, retreats, cruise, charter services, and transportation. When asked "will you

increase/keep/decrease the spending on those luxury experiences next year?" 51% actually say they will keep it and 41% will increase the spending.



Roth Lai's conclusion is that services will overtake goods as the chief engine accounting for 51% of incremental growth over the next 5 years.

3 - China New Jet Set

The Chinese are not just tourists but travelers. There is a difference between tourists and travelers. Travelers travel for experience; they are looking for life style travel. Tourists on the other hand go overseas to buy luxury goods mainly. According to GFK data, China's outbound travelers are:

- 50% of 15 to 29 years olds.
- 37% of 30 to 44 years olds.
- 10% of 45 to 59 years olds.

2/3rd of Chinese Millenials belong to the high-income bracket. Their financial standing is expected to increase as their career advance since 70% of the Millenials hold "white collar" executive or professional jobs.

The Chinese Millenials are those who were actually born post 85, and those born post 90 are called the Me Generation. If we compare the new generation of America and China, we have a difference of about 10 years. Time

magazine has done a special issue on China new generation which they see as the post 90 generation. As opposed to the American new generation who are those born post 80's.

III/THE MILLENNIALS: THE NEXT CONSUMER POWERHOUSE

1.Size

Post 90's Me generation actually now accounts for 10% of China's total population which is roughly a 135 million people. Those born after 85 are 250 million, which is quite close to the total American population (312 million in 2015).

2. Digital Natives

Everybody knows that this millennial generation is digital native. They spend a lot more time on digital than on all traditional media combined (TV, Newspapers, magazines, radio...). It is the first time that in China time spent on digital platforms overtakes time spent on traditional media.. They spend 4 hours a day on digital media against 2 hours a day on classic media. They use social media to chat, exchange information, listen to music, watch videos, shop (e-commerce). Why do they love so much to go on digital platforms and social media? Roth Lai thinks one of the reasons is that they come from the one child policy. They need to be online a lot to feel connected to the rest of the society, to other young people their age. In that sense, it is different from the rest of the Asian countries or European countries.

3. Consumption

They have high-level assets, especially the Millennials who live in Shanghai, Beijing or other first and second tiered cities. They will definitely inherit some houses, properties from their parents or grandparents as they are the only child in the family. And we all know that the property prices in Beijing or Shanghai have gone extremely high, so they will have very high levels of assets because of this inheritance.

They are very interested in fashion. They are luxury savvy. They shop with taste, they are less loyal to brands than their parents used to be and they don't shop for status. So the way of luxury brands operate in China has been affected a lot by this new generation.

4. Life Style: live for now

The "Me Generation" craves for experience; they travel and they have a global network. A lot of them have friends from overseas, they often times have studied there. Their preferred entertainment is to watch TV drama, movies, hang outdoors. Interestingly, the big screen is becoming more and more popular in China. China has become the second cinema audience after America. By the year 2020 it will surpass America by becoming the largest moviegoers' population.

IV/ LUXURY GROWTH DRIVERS

1 - The rise of the upper middle class and affluent households as the drivers of consumption growth.

By 2020 Chinese consumption will have grown by \$2.3 trillion even if GDP growth slows to 5.5%. A quick look at the Millennials shoppers shows that personality is now one of the most important factors.

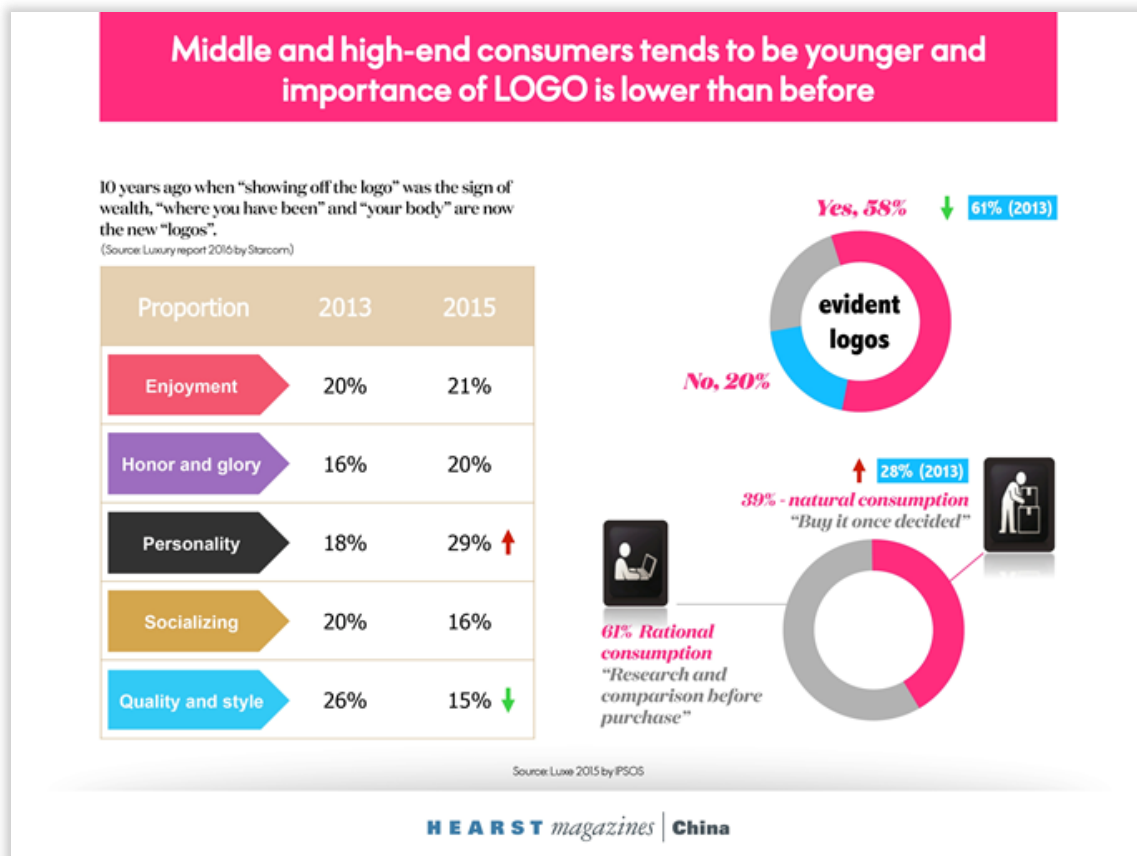
2 – Less logos

Middle and High-end consumers tend to be younger and importance of LOGO is lower than before

Quality and style, used to be the main purchase motivation for 26% in 2013, it fell to 15%, while the main motivation has become to express one's personality

58% still want some logo(down from 61%) but 20% say no.

Chinese love to shop and quite a number of them are impulsive buyers. They tend to do more impulse purchases than they used to (39% against 28% in 2013).



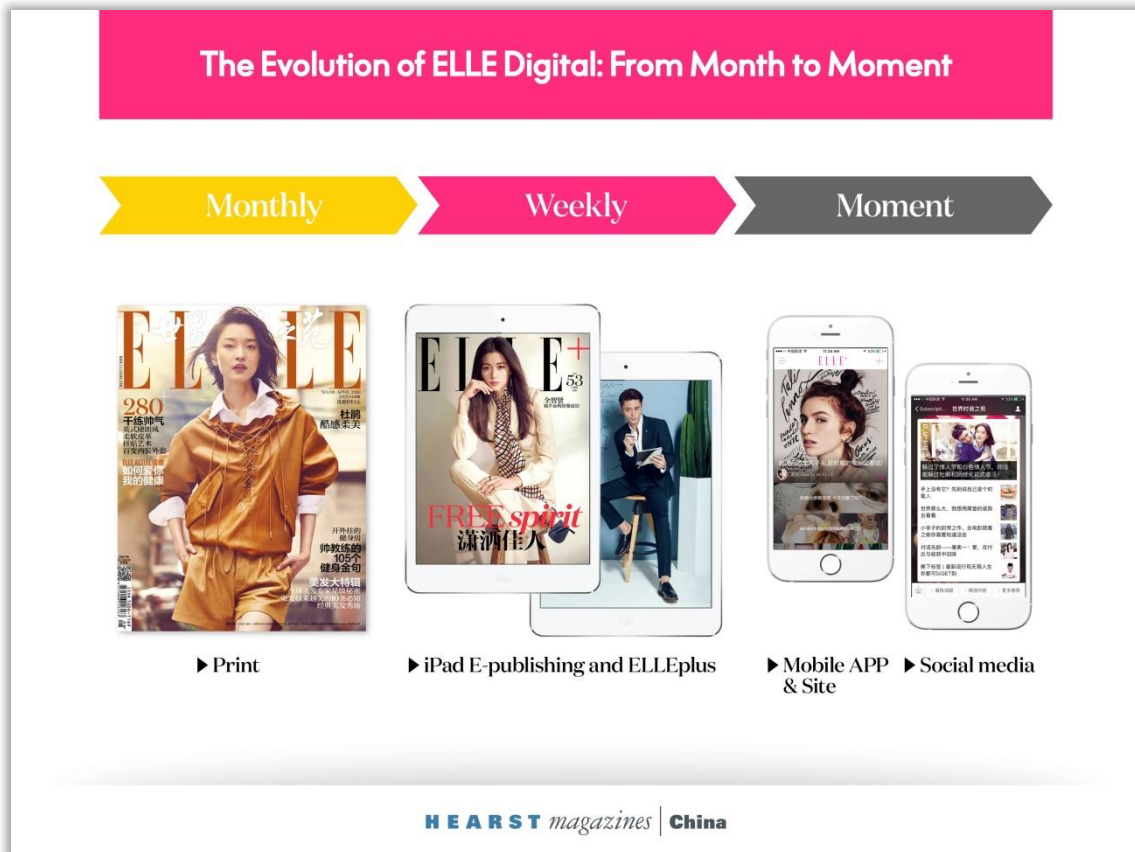
3 - E-commerce

Because of the rise of the Millennials generation that uses a lot of internet and mobile phone, E-commerce has become one of the main driving forces of luxury growth in China. A lot of top luxury brands in China deal with T-Mall which belongs to Alibaba one of the largest e-commerce players in China. E-commerce drives consumption growth by helping companies overcome distribution challenges associated with reaching a national market. Online consumers also buy on a more global basis. Cross-border purchases are projected to account for 15% of the total e-commerce in China by 2020 and they will be more varied.

Mobile e-commerce, accounting already for 51% of on-line sales in China will grow even faster and is expected to reach 70% of e-commerce sale by 2020.

V/ CONSEQUENCES FOR MEDIA

The evolution of digital and e-commerce is one of the aspects that is impacting the most media houses in China. For example, Elle China has had its own e-commerce portal, Elle Shop for many years now. Definitely, e-commerce is what media owner have to be looking at now.



Media and magazines evolved because of the rise of the new generation in China.

Elle magazine used to be a monthly print magazine and it became a bi-monthly magazine. After that, Hearst produced a weekly I-pad version of Elle and also launched a mobile version that is called Elleplus, but right now in China because of the dynamics, information can't be just weekly and mobile apps need to provide instant information.

The hottest topic in China now among the media owners and magazine players is actually the live streaming. The Americans developed Periscope, which is a live streaming app used as a model by Chinese apps operators and will be the main model for most live streaming apps for media, which among other thing, will be used for brands launching or events.

Things change very fast in China. There are a lot of challenges to keep up with the growth of the audience as well as the market changes.

Dawn of the NEW Era: ELLE LIVE!



- ELLE China has pioneered yet another breakthrough in the history of Chinese media, introducing ELLE LIVE!

- Live streaming has become the most talked about medium when ELLE China first launched it in Feb 2016 New York Fashion Week

- From New York, London, Milan to Paris, ELLE LIVE! has altogether broadcasted almost 50 live streaming show, reaching out to tens of millions of audience.

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CONCLUSION

Opportunities in 2016



- On the assumption that currency and investment markets find a point of stability, many luxury categories should return to small levels growth by the end of 2016.
- Two industries that will continue to be defined by this upscale shift will be travel (particularly experiential travel as consumers look to display their achievements through experiences rather than destination and shopping), and health & fitness.
- Latest study showed a clear trend towards a desire for distinctiveness and customization.
- As a key means of reaching consumers, Luxury brands should be embracing the creativity and depth offered by mobile device as an essential branding platform in 2016
- Another focus area for 2016 will be content and video content in particular. The top 3 branded entertainment elements to drive awareness, preference and desire to find out more are (1) having the brand or logo shown in the content, (2) having the host / actor interact with the brand and (3) have the host / actor wear the brand.

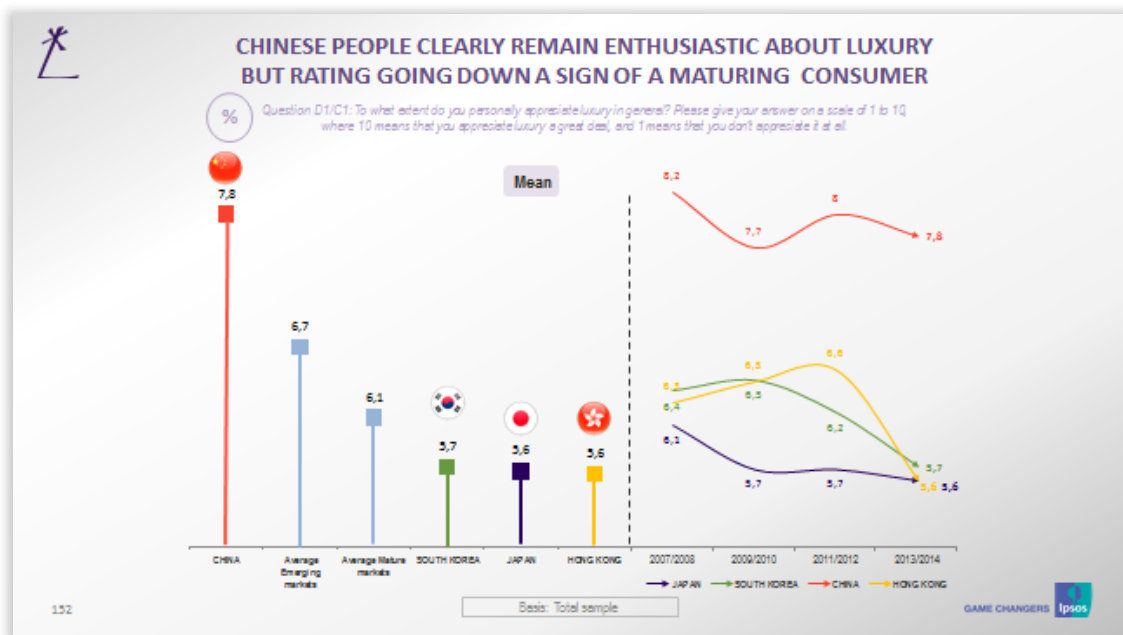
Source: Luxury report 2016 by Statcom

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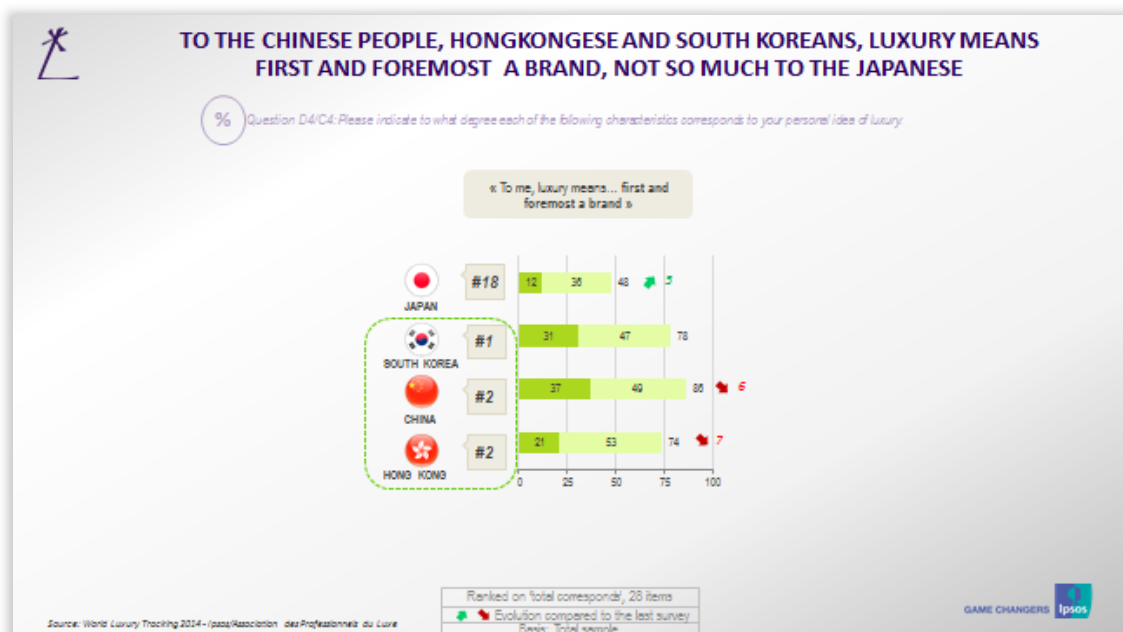
PART FIVE — IS THERE A LUXURY FATIGUE?

In order to introduce the panel, **Catherine Jubin** presented a few slides derived from the 'World Luxury Tracking' survey and depicting briefly the relationship of Asian with luxury and luxury brands.

- Chinese remains clearly the most enthusiastic people about luxury and even though their enthusiasm seems to be decreasing, this only shows that they are becoming more mature consumers.



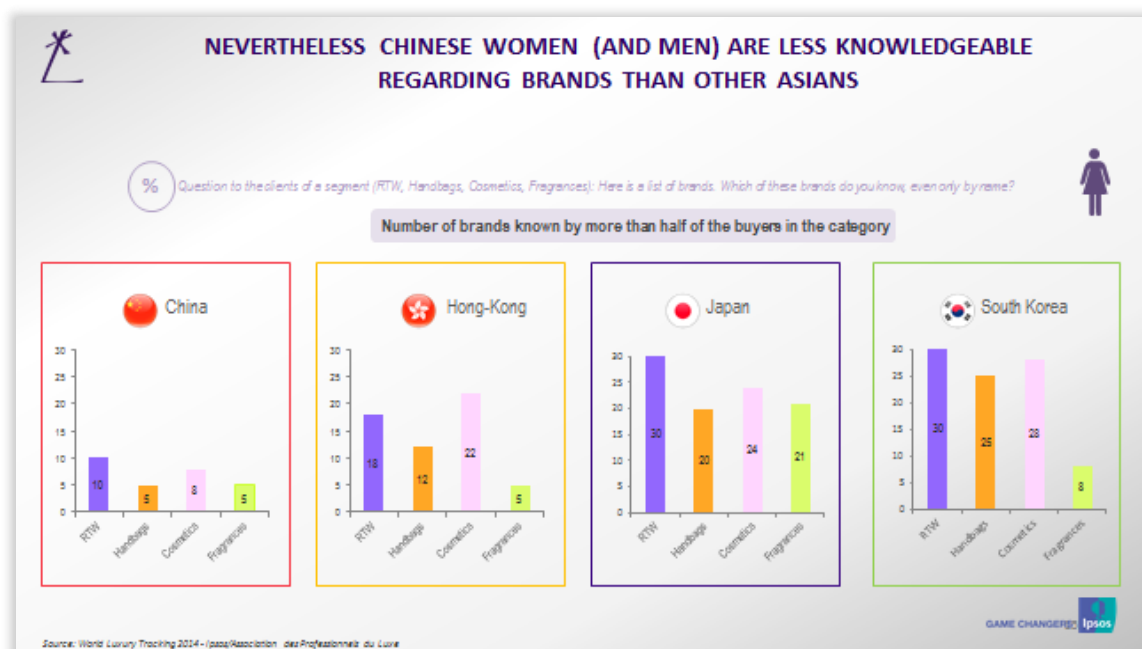
- In China, South- Korea and Hong-Kong, the notion of brand is closely associated to luxury. If you ask people what does luxury mean to you? "Brand" comes really high in the given answers. Luxury means, before anything else, a brand.



- When asked “what are the 3 first brands that come to your mind when thinking about luxury?”, in Asia, consumers first refer to western personal luxury brands while in mature markets (Europe and USA) car brands would be mentioned first in the top 3 (as well as Chanel in Europe).



- So they love brands, for them luxury is a brand, and primarily a European one but, when the buyers of different categories are asked about the brands they know in this category (out of a list provided to them), results show that Japanese and South Koreans are experts while in China (even in Hong-Kong where they have been exposed to luxury for a much longer time) luxury clients know much fewer brands.



Why do they know fewer brands? Is it because they are less interested by brands nowadays, a bit tired of luxury? Is it because they are less loyal and therefore forget about brands very quickly? In another words, where do Chinese stand in their relationship with luxury and luxury brands?

To discuss these matters, the International Luxury Business Association gathered 5 professionals representing different segments and also different level of prices (from affordable luxury to very high end luxury) to a discussion which was moderated by the BBC journalist Mrs. Zeinab Badawi. Panel members were:

- Mrs. **Isabelle Capron** – Vice President – Icicle Shanghai Fashion Group
- Mr. **Roth Lai** – Deputy Editorial Director – Elle China - Hearst Magazines China
- Mr. **Olivier Schaeffer** – Global COO – Sephora
- Mr. **Ivan Tong** – Chairman - Sparkle Roll
- Mr. **Franck Wu** – CEO – TTF Haute Joaillerie

In your experience, do you feel that there is still a strong appetite for luxury goods in China?

Isabelle Capron:

To answer this question, Isabelle Capron says that if China has definitely been an Eldorado for western luxury brands for the past 30 years, she feels, and the figures show it, that we are at a turning point. This is very much driven by China's dynamism because despite what can be said in Europe about the slowdown of the Chinese economy, there is still an amazing dynamism inland. Her assumption is that the new generation becoming the driving force behind consumption is experiencing a kind of overdose of western brands and aspires to something new. In large cities there are so many malls, so many stores featuring all the same brands with Louis Vuitton, Chanel, Hermes and such, it has become a bit too much may be. Nevertheless, she thinks the traditional western brands will reinvent themselves because they have always been doing so and there will be new forms of luxury which will be more affordable. There is a very strong trend which leads to the end of clichés about China and many new local brands are coming up pushed by the Chinese pride and a new generation of entrepreneurs.

Olivier Schaeffer:

At Sephora people definitely think that there is still a consistent and sustainable appetite for luxury in China and this is not new. Meanwhile, China is undergoing many profound changes: it started with the 2005 crisis, followed by a real-estate crisis, a stock-exchange crisis, anti-corruption actions until what has been largely described previously, so it gives an overall image that blurs what is really happening at consumers' level; and to Olivier Schaeffer there is a constant and sustainable appetite for luxury in China.

Ivan Tong:

The answer to this question for Ivan Tong is just some simple mathematics. In 2015, Sparkle Roll was still able to sell around 500 units of Bentley, Lamborghini and Rolls Royce. In the last 2 to 3 years the company still found big spenders who could pay a few millions for watches or jewelry. So, in that sense he would say that luxury appetite in China is still strong. Even though compared to 2014 figures have dropped by about 20 %, they are still remarkable figures; ultra-Luxury Cars sales overall dropped sharply in China in 2015 (-53% for Rolls Royce, around -30% for Bentley) and Sparkle Roll suffered much less than other distributors. To Ivan Tong, China is going through an adjustment period. More mainland Chinese go abroad to buy hard luxury, meanwhile the upper middle class is growing and some of them becoming wealthier, possibly millionaires, will be seeking the finest luxury goods.

Frank Wu:

To Frank Wu, China and Chinese clients still represent a large potential for luxury consumption but probably more in European countries and Japan and America than in mainland China.

Is Luxury consumption in China shifting towards experiential luxury and what would be then the segments developing? Wine tasting, cheese tasting...?

Roth Lai:

What the Chinese luxury consumers really like are hotels, resorts, restaurants, fine dining and health care. By health care Roth Lai means mainly cosmetic surgery as it is considered as such in China and it is actually a very big market. Millions of Chinese spend on minor facial corrections surgery. Chinese women love to go to Japan and Korea to do a “week-end quick fix”. Alternatively, some clinics in the big cities (the ones that are more centrally located in China, not on the coastal area) invite foreign doctors (Japanese or Koreans), to come over to their premises for two weeks period and perform surgery for local clients.

Is there a Chinese pride?

Isabelle Capron:

What is behind the ‘Chinese pride’ is the result of the Chinese miracle which started 30 years ago. There is a new generation of customers of course but it all started with a new generation of entrepreneurs. These people, who are numerous on many different segments, want to be the ambassadors of a new China. This new China will be the contrary of the clichés that are in western minds. It will be ultra-qualitative, even more so than some western manufactures. It will be ultra-stylish, really creative. The Chinese are rediscovering their culture and creativity in many areas. Moreover, this new China will be caring, environmentally conscious.

Ivan Tong:

As the head of a corporation importing mainly European brands in China, Ivan Tong does not feel he is entitled to answer this question. Nevertheless he is observing that the Chinese are more and more talented and since they are more hard working than Europeans they may chase them up just like Koreans wanted to chase up the Japanese some years ago. What he thinks is that both Chinese and Europeans will work harder and harder to win the international luxury market in the future.

Roth Lai:

Roth Lai sees the ‘Chinese pride’ from two different angles. On fashion, there are some local brands that are actually on the rise and are becoming quite influential. This was actually led by the President’s wife, Mrs Peng Liyuan who is almost a fashion icon in China (a bit like the Michelle Obama of China!). She would not do magazines covers like Michelle Obama does, but on their digital platforms, magazines may mention her on their articles about fashion and style. And whenever Elle actually posts something about her, it gets many hits. She only wears a local Chinese designer brand ‘Exception’ designed by *Ma Ke*. It has become an iconic brand and is part of the Chinese Pride. This phenomenon actually led the Chinese government to realize that instead of having the Chinese spending so much money on foreign fashion, it might be better to have local designer brands.

The second angle to look at Chinese Pride is to look at the local beauty brands. There are some local brands like *Chando* or *Maysu* that are government owned companies are doing their own R&D using a lot of so called Chinese special methodology. These brands sell very well in China and in fact their growth rate is higher than that of European or American brands. What they seem to do, according to Roth Lai, is to watch closely what western brands are doing, and implementing the same kind of strategy but executed the ‘Chinese way’.

In order to gain the image and the credibility they need, brands do not hesitate to bring foreign expertise on board and make it an element of their story telling. Roth Lai mentions *Maysu*, as an example. The brand hired the whole Shiseido scientists’ team, moving them from Japan to Shanghai in order to build their own research lab. He also knows some fashion brands in Guangzhou that hired French and Italian designers and craftsmen to come over. Chinese brands clearly import talents from Europe or Japan in order to give to the local made products the prestige that the Chinese consumers are seeking.

Are premium brands, be them Chinese, American, Korean and so on, beginning to compete with traditional European luxury brands?

Olivier Schaeffer:

Yes of course. For a long time now American brands have come to the scene, especially on the make-up segment. Now, on the star category in the Chinese cosmetics market that is the skin care segment, many Chinese brands have already been launched. Some of them have a high end positioning, others are more mass, but more and more Chinese clients are asking for these brands in Sephora stores, which is the reason why they are brought in. There is clearly a growing demand for Chinese skin care brands, and some of them will be coming to Europe.

Frank Wu:

To Frank Wu a lot can be learned from European luxury brands. But regarding the segment he operates on, he underlines the competitiveness of Japanese jewelry brands: in the past two years the purchase of Japanese luxury jewelry by Chinese clients have raised by 40% mainly thanks to Chinese travelers to Japan. The behavior of Chinese consumers shifted from being “bling bling/show off” to being personal and culture related. The Jewelry market in China goes from some very affordable products to some extremely expensive ones so there are different kinds of clients. The one at the very top are very interested in the emergence of the Chinese culture. The middle class consumers still loves logos. As for the question of the European brands being too expensive relatively to local brands, he does not want to comment as his products sell, in most cases, for over a million Euros and, at this level, price is not an issue.

Will European brands need to customize more their products for the Chinese market?

Ivan Tong:

Sometimes there are some limited editions models especially made for the Chinese market but as a whole, the heritage, the DNA of the product is what counts and what communication should be based upon, then the question of pricing strategy remains an important one. Meanwhile, Ivan Tong thinks it is a clever strategy to bring some western elements into a Chinese brand to enable it to grow faster. As Chinese brands develop, what he feels Western brands may suffer from is the fact that creation processes are much slower in Europe while the Chinese market is a fast moving one, where brands should grab opportunities when they arise.

Is it necessary to have creative teams in Europe in order to be seen as a legitimate luxury brand in china?

Roth Lai:

To Roth Lai it is not a matter of geography, as long as Chinese brands bring some highly recognized professionals on board and make this part of their story telling they will achieve the same level of recognition, whether the creative team is based in Europe or China.

Isabelle Capron:

Isabelle Capron explains why Icicle chose to have a design center in Paris. One of the objectives is to source the best talents in fashion. There is a fashion studio and a real workshop with people coming from the nicest “maisons”. The first mission of the Paris Office is to source talent in order to improve the level of fashion in China, so it is all about know-how. The second mission is the strategy branding and image building. Creation is an area where France is seen as a good doer. The strategy and branding elements will be then applied on the Chinese market. But it goes both ways and the vision of the founders is that they believe that blending talents will produce something new.

Are the designs blended as well?

Isabelle Capron:

Is is more subtle than that. There is an Icicle line entirely designed in Paris, by the Paris team. What is interesting about it is that if the design is French, the vision of fashion is oriental. The Chinese vision of fashion is quite different from the French one which gives a priority to style (the style of the garment is what enhances the woman's beauty, regardless how difficult it might be to wear it), while in China it is the opposite. It is because the garment is comfortable, far from the body, not too tight, that the one wearing it feels better and consequently looks good. This notion of wellbeing is very important. What Icicle adds to this is that it is also well behaving, because the fashion industry generates much pollution, so the brand strives at being as sustainable as possible. It is wellbeing and well doing.

How important is sustainability? Would you say that Chinese luxury clients are concerned about the sustainability of the business of the brands that they buy?

Isabelle Capron:

Chinese clients are more and more concerned of course. And Isabelle Capron thinks that are ahead of western countries on this, especially regarding fashion. First because they are confronted to strong environmental issues, but also because they are health conscious and need to be sure that what they're wearing is good for their skin.

Most raw materials used by Icicle are natural but sustainability is not only about material. It is also about supply chain (transportation, culture of the fabrics, how the workers are treated, storage, nature of the fabrics, dying etc) and retail. Being a retailer means having hundreds of stores. The materials and technologies used at store level are equally important. So it's a huge matter. It will grow with the new generation who will accept to pay more for this. Isabelle Capron thinks the sustainable sensitiveness is very strong in China and that it will challenge the western brands.

Olivier Schaeffer:

Yes, sustainability is very important for Sephora, of course for the brands sold by the retailer in its stores but also in terms of designing the stores. Isabelle Capron mentioned supply chain. As some may know Sephora have started to deliver all of its stores with electric vans trying not to add to the existing pollution in the city. The company also works hard on stores design, putting led lights everywhere in order to reduce the electricity consumption and many other things that are being worked on.

CLOSING COMMENTS

Frank Wu:

Leadership in China may undergo some changes by late 2017/2018, until then the Chinese economy will stay under pressure and this will impact the luxury market. The luxury brands should reform themselves.

Ivan Tong:

Ivan Tong does not want to use the expression 'Luxury Fatigue' in China though the country is facing challenging years ahead. There is a logical or natural adjustment. Three or four years ago there was a crazy market, very hot, people were rushing in, asking for more. Life has changed. On the other hand the huge population and the growing emerging middle class will be another driving force. He agrees with Frank Wu to say that China is facing a challenging period ahead, but he does not want to be too pessimistic.

Olivier Schaeffer:

Olivier Schaeffer is in agreement with the previous comments. There are very strong demographics that sustain the idea that luxury will keep growing in the future decades. It's true that the long quiet journey has turned into a rollercoaster ride in the past two or three years but he remains very optimistic about it. The landscape is going to change very much but if brands stay focused on what the consumers want, if they keep being agile and flexible, they will keep growing.

Isabelle Capron:

Isabelle Capron thinks the notion of luxury will diversify. The new brands coming from Asia with the new generation of entrepreneurs will challenge the western luxury brands which will also, in most cases, be able to re-invent themselves. This will lead to a new luxury landscape.

Roth Lai:

Roth Lai thinks the Chinese will continue to purchase mainly outside of China, until certain things are done. But he does not see changes happening in a one or two years' time. It is also true that China's economy and social structures are going through a major shift. Regarding luxury, the emergence of the millennials as luxury buyers' next powerhouse in China will become a real challenge for brand owners, brand operators and media owners in China as their habits and expectations are very different from that of their parents.

To Roth Lai the Chinese luxury market from the ten previous years was non-sensible because it did not reflect clients' consumption but it was mainly driven by the gifting culture. Thanks to anti-graft measures, the situation is going back to a new normal, it is good and healthy. From now on, the Chinese luxury market growth will be healthier.