

## Growth in Uncertain Times: China's Share of Global Luxury Market Reaches New High Despite Covid-19

*Research report jointly published by Bain & Company and Tmall Luxury Division finds China's market share of global luxury market nearly doubles in 2020*

**Shanghai, China, December 16, 2020** – Following a slow start to luxury sales in China due to Covid-19 lockdowns, spending on luxury in the country has rebounded strongly as restrictions to global travel have pushed Chinese consumers to make luxury purchases domestically rather than abroad. Growth for the mainland China luxury market is expected to climb by 48 percent to reach almost RMB 346 billion by year-end. This growth has driven China to double its overall share of the global luxury market in 2020, with further growth expected through 2025. These findings, among others, are included in [China's Unstoppable 2020 Luxury Market](#), the first joint research report by Bain & Company and Tmall Luxury Division, published today.

The global luxury market shrank by 23 percent in 2020, however mainland China's market share nearly doubled, growing from about 11 percent last year to 20 percent in 2020. This growth is likely to continue, putting the country on track to claim the biggest share of the global luxury market by 2025—even after the world economy returns to pre-pandemic levels.

“Through the Covid-19 pandemic, we have seen the global luxury goods market shrink, as economic and social considerations have limited access. However, the mainland China market has rebounded post-lockdowns due to four engines: further repatriation, Millennial and Gen Z shoppers, continuing digitalization and the Hainan duty-free stores – a new factor with a key role in this year's growth.” commented **Bruno Lannes, a Bain & Company senior partner based in Shanghai and one of the report's co-authors.**

“One of the most exciting trends to come out of the luxury market in 2020 has been the ways that brands have actively developed and strengthened their connections to consumers both online and offline,” said **Chris Tung, Chief Marketing Officer of Alibaba Group.** “Chinese luxury consumers are digitally native, highly sophisticated and expect an elevated shopping experience. Global luxury brands have embraced new digital tools such as livestreaming for consumer education or product presentation. During this year's 11.11 Global Shopping Festival, luxury brands attracted millions of views and interactions in a matter of hours as consumers looked for new, digitally-enabled ways to connect with their favorite brands.”

The report describes the following four main drivers of growth:

**Repatriation:** China's luxury market has been seeing an increase in repatriation since 2015, due to a reduction in import duties, stricter controls over gray markets and brands' price harmonization. With the addition of Covid-19-related travel restrictions, mainland China's portion of Chinese global luxury purchases this year reached a peak of about 70 percent to 75 percent. There were variations in growth across categories, with leather goods and jewelry leading the way at a rate of about 70 percent to 80 percent, ready-to-wear clothing and shoes growing about 40 percent to 50 percent and high-end watch purchases increasing by about 20 percent.

**Millennials and Gen Z:** China's millennials (born between 1980 and 1995) and Gen Z consumers (born after 1995) are fueling growth in the luxury sector and exert powerful influence over brands' increased digitization. These groups contribute significantly to the growth of China's luxury market; they put greater emphasis on the "pursuit of fashion" and they prefer designers' editions. Meanwhile, Millennials continue to form the core of a rapidly expanding online luxury consumer base.

**Digitalization:** In terms of e-commerce, China's annual luxury online penetration increased from about 13 percent in 2019 to 23 percent in 2020, as the pandemic drove up online luxury sales by about 150 percent. The luxury fashion and lifestyle category, which started from a small base, has grown by more than 100 percent in the first 10 months of 2020, and online penetration will increase from about 5 percent in 2019 to about 7 percent in 2020.

**Hainan Island:** Hainan has allowed duty-free purchases for a decade. But that business boomed in 2020, driven by Covid-19 travel restrictions and attractive shopping policy changes. Total Hainan duty-free sales reached RMB 21 billion by the end of October 2020. Sales were up 98 percent vs. 2019.

Global conditions are unlikely to return to normal before 2022 or even 2023. Chinese consumers are also likely to remain cautious about international travel even after borders reopen. As a result, most luxury brands believe that domestic growth will continue in 2021 at about a 30 percent level.

"Many brands are showing a stronger commitment to a comprehensive digital strategy, including a presence on all key digital channels," said **Carrie Zhang, a Bain & Company partner based in Shanghai and one of the report's co-authors**. "Moreover, luxury brands are now instilling sophistication, quality and attention to detail—core components of luxury players' engagement strategies that did not fully transfer when brands first rushed to digital—into these new engagements."

"Luxury brands view e-commerce not just as a sales channel but increasingly and more importantly as a marketing channel—one that can raise consumer awareness, enhance brand equity and recruit new consumers," said **Luna Wang, Head of Tmall Luxury Division, Alibaba Group**. "Brands have a range of online tools to tell their story and delight luxury consumers including product customization, limited-edition products, consumer insights, livestreams, and the connection of online and offline marketing."

Looking at the luxury market in China, we expect to see a number of key trends:

- The dividends of lockdown-driven repatriation will slowly diminish as consumers resume overseas travel. However, brands will have at least one year to convince consumers to shop domestically rather than abroad.
- Gen Z and millennial consumers will continue to spend on luxury. Nearly three-quarters of existing consumers in those cohorts have said they would increase or maintain their luxury spending in 2021.
- Chinese luxury consumers' online shopping behavior has permanently changed. Nearly 40 percent of those surveyed said they plan to increase their share of online luxury shopping while another 40 percent said they plan to maintain their current share

- Hainan duty-free shopping is the first step in the development of a domestic duty-free channel with the new licenses being granted. This will contribute even further to the repatriation trend discussed above. As for Hainan Island, the evolution of its retailing model and shopping environment will determine whether it can compete effectively with other holiday destinations.

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Across 59 offices in 37 countries, we work alongside our clients as one team with a shared ambition to achieve extraordinary results, outperform the competition and redefine industries. We complement our tailored, integrated expertise with a vibrant ecosystem of digital innovators to deliver better, faster and more enduring outcomes. Our 10-year commitment to invest more than \$1 billion in pro bono services brings our talent, expertise and insight to organizations tackling today's urgent challenges in education, racial equity, social justice, economic development and the environment. Since our founding in 1973, we have measured our success by the success of our clients, and we proudly maintain the highest level of client advocacy in the industry.

### **About Tmall**

Launched in 2008, Tmall ([www.tmall.com](http://www.tmall.com)) caters to consumers' ever-growing demand for high-quality products and premium shopping experiences. It serves as a platform for consumers in China and overseas to buy both homegrown and international branded products as well as products not available in traditional retail outlets. A large number of international and Chinese brands and retailers have established storefronts on Tmall. In the 12 months ended March 31, 2020, Tmall was the largest third-party online and mobile commerce platform for brands and retailers in the world in terms of GMV, according to Analysys, and continues to grow quickly. Tmall is a business of Alibaba Group.

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