



THE NEW ERA OF *LUXURY* *DIGITALIZATION.*

How **China** is leading the Way



**“This trajectory,
presently leading
in China,
is forecasted
to set the standard
globally in the future.”**

Sophie Coulon,
Co-founder of VO2 Asia Pacific

Edito

by **Sophie Coulon,**
Co-founder of VO2 Asia Pacific

In recent years, China's luxury market has undergone a transformative shift driven by technology, innovation, and a shift in consumer mindset. A digital transformation, amplified by the pandemic, has become a lifeline for luxury brands seeking to navigate an evolving landscape. This shift towards innovation is particularly pronounced in China - a country boasting the world's most sophisticated digital ecosystem.

Central to this change is **China's Gen Z**, the digital natives comprising half of the nation's luxury goods buyers¹. These consumers seek meaningful, personalized engagement with luxury brands that transcends the standard retail experience, creating a need for technology-infused luxury at their fingertips. A growing trend of Chinese consumers embracing new brands also points to an increasing desire for unique and exclusive expressions of individuality.

In this white paper, we dive into **three main trends** shaping the Chinese market: Elevating Online Shopping, Exploring the Metaverse, Digital Collectibles and Virtual Influencers, and Live Streaming for Story-telling.



In this journey, the timeless values of luxury are not forgotten. Instead, they are harmoniously integrated with innovative technological trends, underscoring a future where tradition coexists with innovation, elegance is paired with technology, and exclusivity meets accessibility.

VO2 GROUP is at the forefront of these trends, acting as both strategists and operational consultants. Our creation of VO2 Asia Pacific reflects our belief in the future of luxury, where tradition coexists with innovation. This white paper represents **our commitment to help luxury brands flourish in this new era**, maintaining the inherent values of luxury while democratizing digitalization in China.

¹ Boston Consulting Group & Tencent: A New Generation of Chinese Consumers Reshaping the Luxury Market

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TREND 1

Elevating Online Shopping: Amplifying Exclusivity & Convenience



Transitioning to e-commerce, luxury brands grapple with replicating their exclusive, in-store experience online.

Joined by e-commerce platforms, their goal is clear: infuse digital luxury shopping with prestige, exclusivity, and convenience, effectively bridging the divide between the physical and digital realms.

Expressing Identity:

Personalization and Customization

Since the early 2000s, personalization and customization have been a defining trend in global consumer behavior, particularly resonant among Chinese Millennials. A 2018 survey by Luxe.co already showed this to be one of the most sought-after services in China, as it serves as a unique medium to express cultural identity.

Luxury brands leverage this trend in several ways. Limited editions, seasonal merchandise, and product personalization are some of the strategies being employed. On occasions like Valentine's Day 2023, 500 exclusive collections were released on Tmall Luxury Pavilion, with customers given the opportunity to further personalize their selections through bespoke services such as engraving, wrapping, and audio gift cards.

Most well-known luxury brands, like Louis Vuitton, already offer customization services in China, amplifying the sense of belonging for high-value customers to an exclusive club within an already-exclusive group of luxury consumers.

WeChat, with its integrated Mini-programs, is proving to be an ideal platform for customization services in China. Luxury brands can leverage such platforms to aggregate customization demands, optimizing their operations, and enhancing the customer experience.





Future of Personalization:

AI and Data Analytics

Yet, while these current trends are exciting, the future of luxury personalization will be supercharged by advancements in **AI, data analytics, and integrated digital ecosystems**. These technologies hold enormous potential to drive even deeper customization, transforming every touchpoint of the customer journey into a unique, personalized experience.

Artificial intelligence, for instance, can allow brands to anticipate consumer desires and automate the delivery of tailored recommendations. Coupled with robust CRM systems, AI can generate data-driven insights into customer behavior and preferences, enabling brands to offer individualized products and services that perfectly match each customer's tastes and lifestyle.

Bridging the Physical-Digital Gap:

3D Visualization and Personalized Video Consultations

Technologies like 3D visualization and one-to-one video services are increasingly being used to bridge the gap between physical and digital luxury experiences. Brands such as Cartier and Vacheron Constantin on Tmall Luxury Pavilion have integrated **3D technology** into their platforms to offer immersive product viewing experiences online. Simultaneously, **one-to-one video consultation** features are helping to bring the same exclusive and luxurious experiences found in retail stores to the digital space.

Embracing Cultural Context:

Localization in Digital Luxury

Despite these efforts, some Chinese consumers believe local brands understand their tastes better and can provide more satisfactory bespoke services, perceiving **the current offer from foreign brands as too limited**. This underscores a critical opportunity for luxury brands to further refine their personalization strategies. To truly resonate with Chinese consumers, luxury brands need to adopt a more nuanced understanding of their unique preferences, cultural nuances, and consumption habits.

This could be achieved by leveraging machine learning and artificial intelligence, creating collaborations with local stakeholders and incorporating elements of Chinese culture, history, or symbolism into product designs or marketing campaigns.

In a notable example of effective localization, Louis Vuitton launched an interactive WeChat Mini Program game, «Mah Jump,» celebrating the opening of their first restaurant, «The Hall,» in Chengdu. This culturally enriched game, infused with local elements like hot pot, nightlife, and tea drinking, paired with a hip-hop song by local rapper Ma Siwei, engages the Gen Z demographic while offering a virtual exploration of Chengdu.





Post-Purchase Services

Post-purchase services represent a critical extension of the luxury shopping experience. Brands on Tmall Luxury Pavilion, such as Burberry, Chopard, Cartier, and many others, have started offering a range of services from product cleaning, maintenance, exchanges, adjustments, and even white-glove customer support.

Customers can now easily schedule product pickup and delivery through the platform, a stark contrast to the past when approximately **90% of such services were handled solely in physical stores**. This digital pivot allows customers to enjoy the same premium-quality, individualized services expected from walking into a brick-and-mortar boutique, from the comfort of their homes.

As the luxury landscape continues to evolve, brands are not only redefining their online shopping and post-purchase experiences but also expanding their horizons towards more immersive digital realms. The Metaverse promises an exciting arena for luxury brands to explore, offering unprecedented opportunities for customer engagement and brand immersion.

TREND 2

Exploring the Metaverse, Digital Collectibles and Virtual influencers



With currently 1.05 billion netizens, 99.6 percent of whom are cellphone users, China is in a position to propose its vision of Web 3. It demonstrated early on by banning cryptocurrencies, and thus NFTs, in 2019.

In contrast to the West, which has been slow to legislate and allows private players to develop the industry amidst market fluctuations, China proposes a different model.

Outlined in its 14th five-year plan, the Chinese government has detailed the strategy and pathway for China's digital economy from 2021 to 2025. Web3 is envisioned not as a space for speculation, but as a legitimate industry serving the real economy, with particular emphasis on the Metaverse.

By employing a combination of regulations, case law, and leveraging Hong Kong's unique status, China has successfully structured an ecosystem that, as of June 2023, is already valued at \$1.06,1 billion USD. China is already several years ahead of what you know in the West.



China's Metaverse Strategy:

AR, VR, and Digital Yuan in Focus

Today China's Metaverse is characterized by several key aspects: it runs on consortium blockchains developed by Chinese tech giants, cryptocurrency is banned in Mainland China, and NFTs are reimagined as non-financial Digital Collectibles, becoming a strong CRM tool for brands.

The Chinese Metaverse market follows a unique trajectory, with a steady compound **annual growth rate (CAGR) of 35.8% from 2023 to 2030**. Metaverse spending in China will surge from \$76,076.8 million in 2022 to an estimated \$4,57,241.9 million by 2030².

Segment-wise, China's Digital Collectibles market is projected to reach \$4882.5 million in 2022, while China's AI virtual avatar market is expected to reach 10.24 Billion Yuan in 2026³. Additionally, the production of 1.75 billion AR utilities is expected by 2030⁴. Furthermore, the Chinese cloud gaming industry, which reached a market value of 3.4 billion RMB (\$480 million) in 2021, is projected to witness a surge in monthly active players from 70 million in 2021 to 180 million by 2025⁵.

² China Metaverse Intelligence Report Research and Markets 25 April 2023

³ 2023 Chinese Virtual Human Industry Report, issued by Tencent Research Institute . March 2023

⁴ China AR Industry Report, by IResearch, February 2023

⁵ China Cloud Game Industry Research, by IResearch, 3 November, 2022

Digital Collectibles in Luxury:

Redefining Business Models

As business models evolve, new applications emerge. For instance, digital collectibles have shifted from one-time campaign tools to cultivate future consumers and enhance loyalty. The scarcity of these collectibles adds value to luxury consumers, aligning with the essence of uniqueness and exclusivity.

With Millennials and Gen Z projected to comprise 60% of the luxury market by 2025, and considering China's Gen Z population of up to 342 million, it is crucial for high-end retailers to effectively engage and appeal to this new generation of consumers. Creating digital collectibles provides a novel way to connect with younger, tech-savvy shoppers who are enthusiastic about innovations like blockchain and the metaverse.

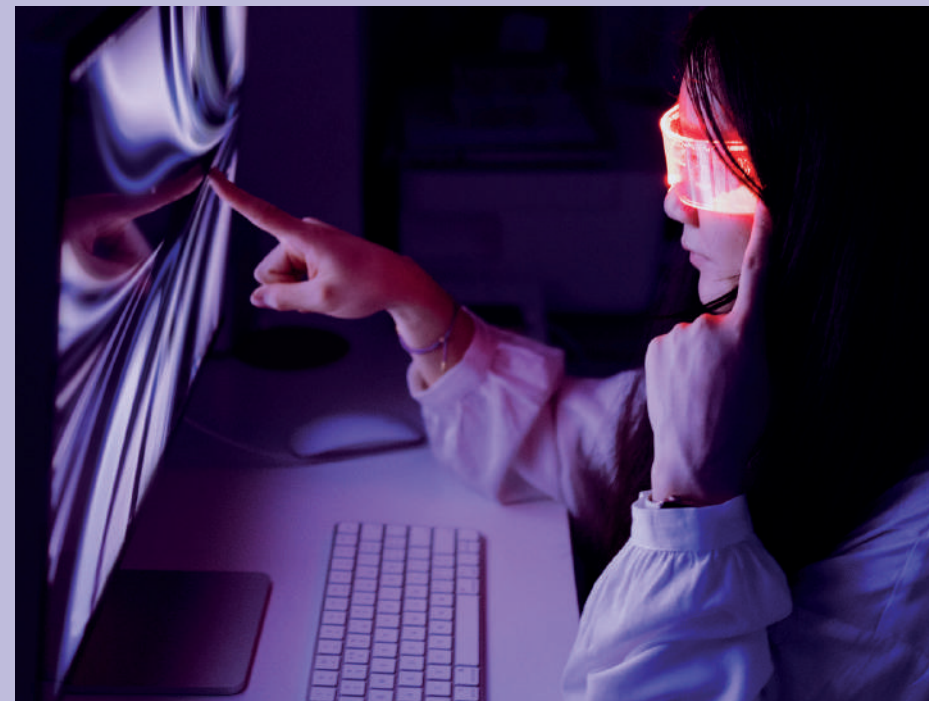
The emergence of consumer communities in the virtual realm is compelling luxury brands to strategize their retail models by emphasizing incentivization and rewards systems to safeguard their values.

For instance, Lamborghini has launched artistic Digital Collectibles in China, leveraging the auto manufacturer's rich cultural heritage and capitalizing on the Chinese luxury collectible toys culture. These Digital Collectibles serve as tickets to access exclusive community clubs and provide entry to high-profile offline events, including luxury trips to Lamborghini's headquarters in Italy. These exclusive events facilitate dialogues between current vehicle owners and brand admirers while actively nurturing future consumers.

Bridging E-commerce and the Metaverse

The massive e-commerce market, projected to reach a market value of 3.33 trillion USD by 2023⁶, has naturally fostered strong connections between Chinese netizens and the adoption of the Metaverse. Notably, services and entertainment serve as significant purchase triggers for 73% of luxury buyers⁷.

To engage new consumers, Alibaba has introduced a range of experiences in virtual and augmented realities. This includes the **AR trial** in Tmall Luxury Pavilion and the presence of a «virtual influencer» named Timo, who promotes products from various partner brands. Moreover, Alibaba assists brands in creating their own virtual spaces within Tmall, combining e-commerce with brand storytelling through in-app gamification.



According to KPMG research, retailers offering a virtual shopping environment like the Metaverse have seen **ROIs grow by 450%** due to higher conversion rates.

Naturally, the current landscape of e-commerce has led Chinese netizens into the Metaverse, making access to diverse experiences through smartphones a key approach.

⁶ 7 April 2023, data released by International Trade Administration

⁷ Boston Consulting Group & Tencent: 2021 China Luxury Marketing Digitalization Trend Report

E-CNY:

Reshaping Transactions in China's Metaverse

The E-CNY solves the current ban on cryptocurrency in Mainland China and accelerates this vision. According to the People's Bank of China, there have been 261 million personal digital wallets and 87.5 billion RMB in transactions conducted. The E-CNY facilitates Digital Collectibles transactions and will also support the payment method for the China Metaverse in the future, providing a complete consumer metaverse experience, including XR experiences, digital identity management, and digital assets.



Source: @MetastreetMarket Instagram

China's Metaverse Vision:

Enhancing Reality

Another key aspect of the China Metaverse is the core concept proposed by the Chinese government: **«Use the virtual to enhance the real, use the virtual to strengthen the real.»** China prioritizes the application of Metaverse technologies to enhance its national power and empower the existing economy.

In line with this concept, brands throughout China in 2023 are transitioning from one-time Metaverse campaigns to a more **multidimensional approach**. This includes activities such as design and development, marketing, manufacturing, and the adoption of new business models.

Globally, L'Oréal has launched its first avatar hairstyles on multiple Metaverse platforms this year.

Meanwhile, NAO, the Chinese AI-generated fabric manufacturer, is disrupting both avatar fashion and the traditional fashion industry. NAO is pioneering upstream fashion solutions by creating and producing virtual and physical products. Their physical products made their debut in the 2023 Pu Yuan fashion show, while their virtual fabric products hold significant potential in the China avatar fashion market.

Chinese brand Meta Street Market exemplifies this concept by introducing a new retail business model. They are establishing a virtual retail market for transactions involving digital products and bridging the gap between virtual and reality by producing hyper-personalized physical products.

China, as usual, has placed restrictions on activities that defy its established norms: **‘gami-fi’**, which echoes gambling, and **cryptocurrency**, seen as a potential threat to its central bank’s authority.

The Power of Cultural Significance in the China Metaverse

In terms of content, cultural significance plays a key role in the China Metaverse, particularly for the transforming Chinese luxury consumers. These consumers, driven by aspiration, seek personal enhancement and cultural capital through globally relevant signifiers, demonstrating a well-rounded awareness of value.

Brands are exploring innovative ways to monetize cultural capital by combining China’s rich heritage culture, powerful gaming culture, the virtual idol market, and serving as authentic representatives of the local zeitgeist.

Gucci’s deep collaboration with the Chinese intellectual property (IP) Marsper has achieved tremendous success. The **#MarsperxGucci** hashtag has garnered 6.8 million reads on Weibo, and **#Marsper** has attracted 3.5 million views on Xiaohongshu (also known as RED). This co-branding project has accelerated the luxury house’s expansion into the Metaverse while tapping into China’s influential gaming community.

Within just a few years, China has successfully established a viable and stable ecosystem for both users and businesses. Regulation persists, and an expanding body of case law is instrumental in shaping the world of tomorrow.

TREND 3

Live Streaming: Beyond Sales, a Powerful Tool for Storytelling



Live Streaming:

Opening A New Chapter in Sales

In May 2016, the arrival of Alibaba's Taobao Live marked the opening of a new chapter in sales. Evolved rapidly in China, live commerce quickly developed into an innovative sales channel that revolutionizes the way brands engage with customers and reshape the retail experience. The entertaining nature of live commerce, combined with its ability to offer immersive experiences, accelerate the customer journey by guiding consumers from awareness to purchase.

The impact of live commerce was particularly witnessed during Alibaba's Singles' Day pre-sales campaign in 2020, where an astounding \$7.5 billion in total transaction value was generated within a mere 30 minutes, showcasing its immense power and allure*. According to a recent Beijing Consumers Association's survey, approximately **90% of Chinese consumers have engaged in browsing and purchasing products through livestreams***. The rise of live commerce in China is now reshaping the landscape of online shopping, fostering unprecedented consumer engagement, and redefining the dynamics of the marketplace.



* Alibaba's Taobao Live hits US\$7.5 billion in first 30 minutes of presales for Singles' Day," South China Morning Post, 29 October 2020

* Beijing Consumers Association: More than 90% of consumers surveyed have experience in online live broadcast consumption, 31 May 2023



Redefining Live Commerce:

Tmall Luxury Pavilion

One prominent player leading the charge is Tmall Luxury Pavilion developed by Alibaba, which has transformed luxury retail by bridging the gap between the in-store experience and digital commerce.

Last March, Tmall Luxury Pavilion launched a tailored service for **private live streaming** sessions that enable sales associates from luxury brands to engage with customers individually and provide one-on-one consultations for those who require more information or attention before making the purchase.

Esteemed luxury brands such as Burberry and Cartier were among the first to embrace this feature, allowing customers to pre-book a live slot with advisors for 20 to 30 minutes, and even pre-send a tailored introduction of consumers' chosen items. The booking can also be canceled or rescheduled anytime before the session, giving consumers more flexibility compared to offline visits.

By extending personalized services online, Tmall Luxury Pavilion replicates the exclusive atmosphere found in physical stores, delivering a frictionless, immersive, and highly personalized consumer experience, bridging the gap between the luxury retail experience and digital commerce.

The Coming of Phygital Era:

New Channel for Brand Storyteller

Live streaming in the luxury industry has transcended its traditional role as a sales channel and has become a powerful tool for brand storytelling. While live streaming gained popularity as a shopping experience, luxury brands have approached it differently, focusing on engaging consumers through captivating narratives.

The Power of Fashion Shows Unveiled:

Brands' Conversations
and Storytelling in Real Time

Louis Vuitton became one of the pioneers in using live streaming during the first digital Shanghai Fashion Week in 2020, prompting other luxury brands to follow suit. In the world of fashion, the purpose of fashion weeks has traditionally been to showcase fantasy and creativity. However, with the advent of live streaming on platforms like Tmall, designers are now looking for an intricate balance between authentic storytelling and driving sales conversion, turning modern fashion shows into a mixture of virtual fashion shows, e-commerce live streams and panel discussions. Within just the initial three hours of its commencement, the online fashion festival drew an impressive audience of over 2.5 million viewers¹⁰.

Rather than merely showcasing new collections, luxury brands have recognized the potential of live streaming as a platform to convey their brand culture and heritage, engaging consumers on a deeper level. Dior, for instance, held a live stream to give a real-time interpretation of the published short movie for its high-end collections during the same fashion week, delving into the brand's inheritance and its integration into its products. This immersive experience attracted over 8 million viewers and sparked discussions among more than 300 million people on Weibo, emphasizing the demand for meaningful brand conversations and storytelling¹¹.

Emotional Connection

through Live Streaming

Through live streaming, brands are given an opportunity to share their stories, values, and inspirations in a more personal and relatable way, evoking emotions and forging a strong bond with viewers. In 2021, Burberry embraced the potential of live streaming to connect with consumers by **leveraging the power of storytelling**. The collaboration between Burberry and fashion blogger, Lisa, and the editor-in-chief of Grazia, Maxime, took center stage in a livestream on Taobao, with a specific focus on children's clothing. Drawing from her own experiences as a mother, Lisa shared the rich history of Burberry while providing personal insights into purchasing clothes for her children, establishing an emotional resonance with the audience.

Through this captivating live stream, Burberry not only imparted valuable brand knowledge but also served as a guide in helping viewers choose high-quality products for children, catering to their unique needs and interests, which deepened consumer engagement and strengthened the bond between Burberry and its target audience.

¹⁰ "From Louis Vuitton's live streams to Shanghai Fashion Week with Tmall: how the luxury sector in China adapted to the coronavirus pandemic", SCMP, 3 April 2020

¹¹ Digitalisation in Luxury China, Mintel, 2022



The Future of Live Streaming in Luxury Retail

Live streaming has emerged as a potent tool for captivating luxury buyers. Still, most interactions with luxury brands through online platforms are relatively **passive**, such as following social media accounts and viewing live streams. However, when it comes to purchasing and utilizing online services, consumer participation remains relatively low, indicating a preference for offline experiences, especially for trying out luxury items. To fully embrace digitalization, luxury brands must strive to enhance consumers' online interactions, focusing on **omnichannel marketing** to ensure a seamless integration of online and offline experiences.

With the post-90s generation becoming a key market segment, it is paramount for luxury brands to cater to their preferences. This includes interactive games or platforms like Bilibili, where this demographic actively seeks information and entertainment.

A comprehensive digitalization strategy necessitates the harnessing of cutting-edge technologies and optimization of offline interactions. By embracing technologies like virtual experiences and augmented reality, luxury brands can create immersive and interactive journeys. In an illustrative case of using advanced technology for engagement, Tommy Hilfiger hosted a dedicated livestream in September 2022. This event, powered by Alibaba Group's technology, **featured the virtual influencer Noah interacting with customers and human co-stars**. This unique initiative led to a striking 288% increase in year-over-year sales and gathered a staggering 5 million impressions in a span of just three hours¹². These digital pathways cater to evolving consumer preferences, bolster brand engagement, and seamlessly blend physical and digital realms.

¹² Contenders at Cannes 2023: Noah x Tommy Hilfiger | Wavemaker China, 12 May 2023



Unifying Global Prestige with Local Expertise

As the global economic center shifts to the APAC region, home to 60% of humanity, **VO2 GROUP has launched VO2 Asia Pacific**, a pole of excellence ready to shape the future customer digital journeys. For over a decade, we've served customers in China, keenly understanding and anticipating their evolving desires while safeguarding the global DNA of the luxury brands we represent. Our approach unifies international brand standards with local market adaptations, creating a harmonious balance of global prestige and local relevance.

Expertise in WeChat, data management, CRM, clienteling, and the intricacies of the Chinese market is at the core of our operations. Our Shanghai-based team of over **60 professionals** delivers **tailored solutions** and extraordinary value to our clients, bolstered by a global talent pool of over 700 consultants contributing to retail and luxury strategies, solution engineering and project execution

At **VO2 GROUP**, we embody our ethos, «The Bright Side of Tech», manifesting the potential of technology to create, express, and open up new possibilities. Our mission is to guide brands to the forefront of digital personalization, leveraging the transformative powers of data analytics and AI powered solutions. This openness empowers companies to provide superior services, allows customers to access new service universes, and enables tech talents to create their own developmental path, irrespective of their background or situation.

Our Salesforce Center of Excellence further enhances our capabilities, enabling us to offer personalized, exclusive, and culturally congruent experiences that today's discerning luxury consumers demand. We're not just tech and digital consultants; we are navigators, leading brands towards a future where technology and tradition converge to redefine luxury.



Conclusion

The future of luxury digitalization in China stands at a fascinating intersection of tradition and technology, where brands are continuously innovating to enhance exclusivity and convenience in the online shopping experience. As we've examined throughout this paper, the advancement towards immersive 3D technology, personalized services, the exploration of the Metaverse, and the creative use of live streaming for storytelling are all setting new benchmarks for the industry.

The journey towards achieving a synergistic online and offline luxury customer experience requires brands to be pioneers, innovators, and storytellers, marrying their rich heritage with cutting-edge technologies while keeping their discerning customers at the center of it all. Navigating this complex landscape demands specialized knowledge and technological proficiency, especially in China's unique digital market. As we venture forward into this new era, VO2 GROUP and VO2 Asia Pacific team, equipped with these capabilities, stand ready to guide luxury brands on this journey, propelling them towards a future where they continue to inspire and lead in the luxury market.

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We are
**THE
BRIGHT
SIDE
OF TECH.**

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