

Insights from Alibaba's Gateway '17 Summit: Consumer and Industry Trends in China—Fashion and Apparel Panel



The Fung Global Retail & Technology team attended Alibaba's Gateway '17 event in Detroit, Michigan, last week. This inaugural conference, which attracted more than 3,000 attendees, is the largest event Alibaba has hosted outside China. The summit was designed to help small and medium-sized businesses in the US better understand the China opportunity and enable them to sell into China via Alibaba's various platforms.

The breakout sessions that followed the keynote presentations delved into opportunities in specific sectors. Ameer Chande, Managing Director of Global Strategy and Operations at Alibaba Group, gave a presentation on key trends among Chinese fashion consumers. The presentation was followed by a panel discussion with four industry experts:

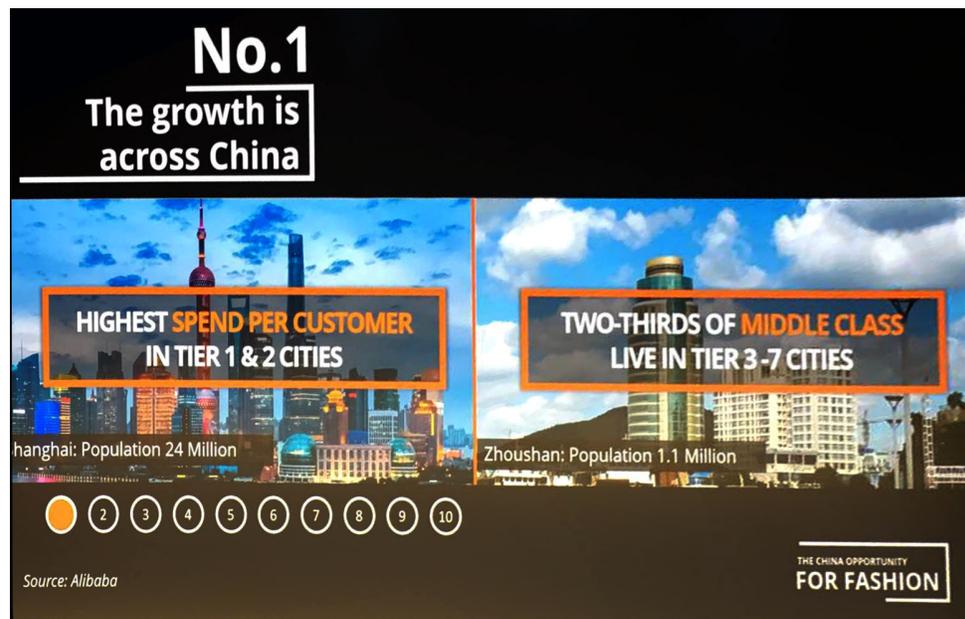
- Roth Lai, Deputy Editorial Director, *ELLE* China
- Jessica Liu, General Manager, Tmall Apparel
- Leslie Tse, General Manager, International Business Development, Baozun
- Deborah Weinswig, Managing Director, Fung Global Retail & Technology

Below are our key takeaways from the Fashion and Apparel breakout session that was part of the event's Consumer and Industry Trends in China segment:

- 1) The Chinese fashion market is expected to experience explosive growth, driven by demand from lower-tier cities.
- 2) Online penetration in the fashion category is accelerating in China.
- 3) Chinese fashion consumers are generally young and willing to spend, but they love a deal.
- 4) The power of social media in the fashion category cannot be overstated.
- 5) The American lifestyle is inspirational for Chinese fashion consumers.

1) The Chinese fashion market is expected to experience explosive growth, driven by demand from lower-tier cities

China accounted for more than 30% of the growth in the global apparel market in 2015. The Chinese apparel market was valued at \$150 billion that year, and iResearch projects that it will reach \$195 billion in the next five years. Growth in the fashion category is expected to be driven by rising demand from the lower-tier cities, and there are currently 102 cities in China with a population of over 1 million. The combined spending power of consumers in the lower-tier cities is estimated to be roughly the same as the power of consumers in the four Tier 1 cities—Beijing, Shanghai, Guangzhou and Shenzhen. Alibaba’s data indicate that consumers in the lower-tier cities demand the same fashion goods as those in the Tier 1 cities and that fashion is the number-one category in which aspirational shoppers in lower-tier cities plan to trade up when their income increases.



Source: Fung Global Retail & Technology

2) Online penetration in the fashion category is accelerating in China

The fashion category is quickly moving online in China. The current online penetration rate for fashion in China is 13%, and it is expected to reach 20% in the next five years, according to AliResearch and Boston Consulting Group. Jessica Liu, General Manager of Tmall Apparel, noted that the B2C online channel is the fastest-growing channel. Rapid e-commerce infrastructure development and increasing demand for fashion-forward items from consumers in lower-tier cities have contributed to the accelerating growth of e-commerce. Leslie Tse, General Manager of Baozun, a third-party e-commerce partner that helps foreign brands operate their online stores in China, believes that the logistics infrastructure for e-commerce has improved significantly in the past few years in China. For many shoppers in lower-tier cities, where foreign brands do not have much of a physical presence, the online channel offers more on-trend items than their local apparel stores do.

3) Chinese fashion consumers are generally young and willing to spend, but they love a deal

The fast-growing demand for fashion in China, especially for foreign fashion brands, is being driven by shoppers under the age of 35. Chinese millennials bought 50% more foreign brands in 2016 than in 2013, according to data from Alibaba’s platform. Also, millennial shoppers are generally the only child in their family, and they often have additional income from their parents and few financial liabilities. They are willing to spend 70%–80% of their discretionary income on fashion, according to Chande. She noted that young Chinese fashion shoppers are willing to spend a fortune on fashion items as a means of self-expression. Meanwhile, they still love to shop for deals.



No.7

Women love shopping

20% OF CHINESE WOMEN SHOP ONLINE DAILY VS 8% GLOBALLY

Source: Fung Global Retail & Technology

4) The power of social media in the fashion category cannot be overstated

Social media heavily influences fashion purchases in China, where consumers rely on peer-to-peer recommendations and “cewebrities” (online celebrities) for fashion inspiration. Deborah Weinswig, Managing Director of Fung Global Retail & Technology, said that shopping is a sport in China and that shoppers love to talk about what they bought at social gatherings and on their social media pages. Roth Lai, Deputy Editorial Director of *ELLE* China, said that the fashion magazine had created video-based content on social media apps in order to drive more engagement. Chande then shared the story of a Chinese celebrity who posted a picture of himself on social media wearing a T-shirt from Detroit-based brand Carhartt; the brand subsequently went viral in China, she said.

5) The American lifestyle is inspirational for Chinese fashion consumers

More than 300,000 foreign fashion brands are already selling in China. Chinese consumers generally prefer foreign fashion brands, as they perceive them as having better quality and more fashion-forward design. Many in the rising middle class in China aspire to experience the American lifestyle by purchasing American goods, particularly in categories such as fresh produce and outdoor apparel. For example, outdoor category sales in China are growing because an increasing number of Chinese consumers are interested in exploring outdoor activities as part of their lifestyle. American outdoor apparel brands have the opportunity to introduce the outdoor lifestyle to millions more curious Chinese consumers.



FLASH REPORT

Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Jing Wang

Research Associate

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 18th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com