

The Daigou Report 2024



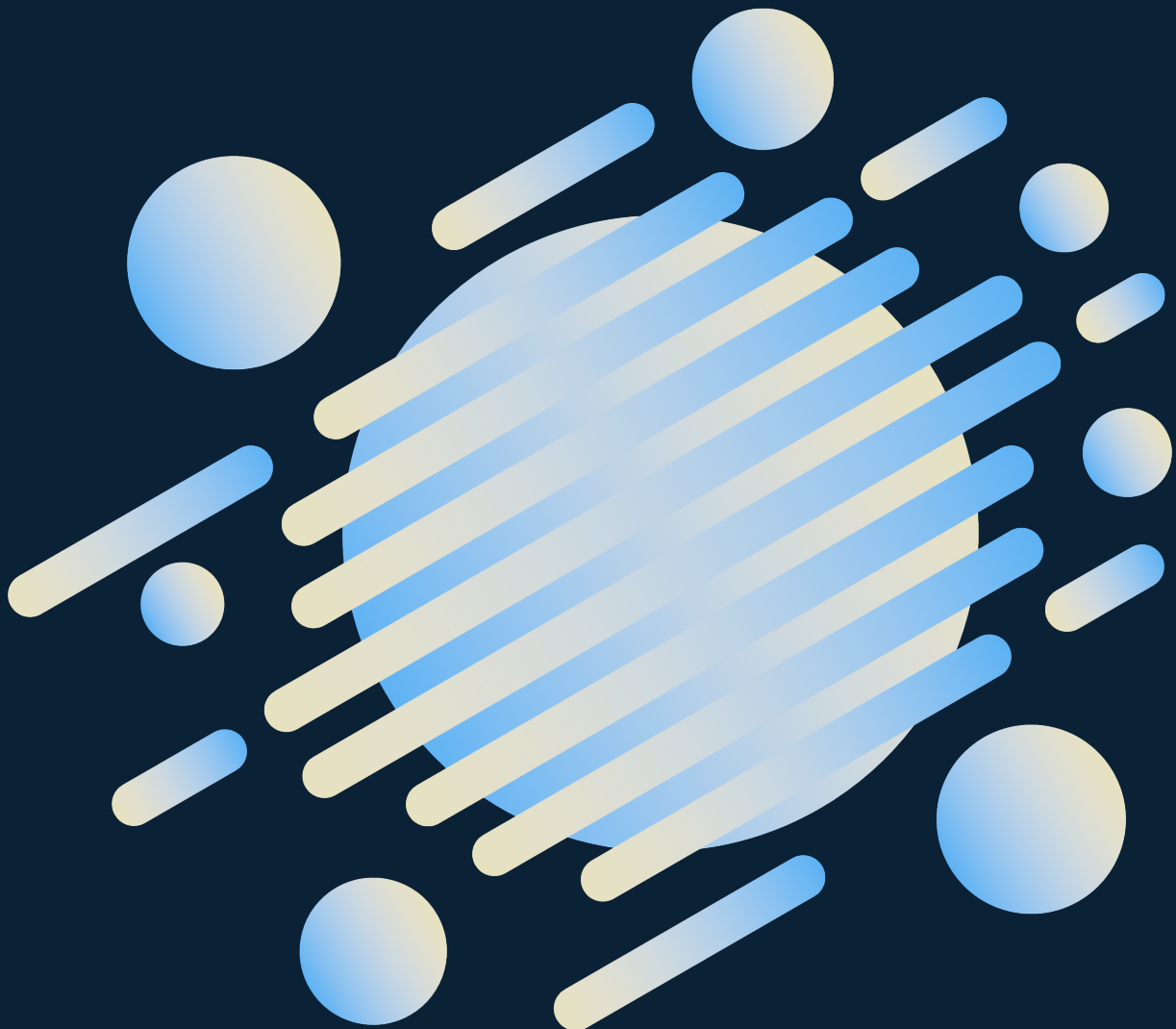
The shifting sands of cross-border eCommerce in China for luxury and beyond

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Executive Summary

- In the past year the grey market for luxury goods in China **has outpaced the growth seen by brands directly**. Highlighting the attractiveness of the channel to consumers.
- Across the ten brands analysed, **discounts have overall, increased**. While brands are making efforts to stymie the impact of large scale daigou, **there is still significant inventory in the market driving pricing and availability**.
- New season releases are less impacted by the grey market. **However, there is still indirect cannibalization from off-season and evergreen products**.
- Price indexes to **Japan and France** reveal that without significant other discounting mechanisms, **they are likely not the main source of top items sold in the grey market**.
- Japan's favourable currency situation has enabled growth from Chinese consumers. However, the price difference between Japan and Grey Market channels still **highlights there are likely large-scale operations continuing in 2024 not connected with Japan**.
- Hainan has emerged as a significant market for luxury goods in the past years. The incremental **impact of duty-free and other coupon mechanisms can lead to discounts up to 40% on certain items/brands**. However, recent focus on curbing Daigou activity and the current grey market price implies that **Hainan could have a limited Daigou impact**.
- Consumers are incredible savvy when it comes to Daigou purchases, sharing detailed information of the lowest prices, best and worst sellers, as well as incremental offers to be obtained. **Conversations on the Daigou topic have been growing steadily over the past 24 months**.
- **We have seen a significant increase in the number of listings on Taobao** over the past three months connected with luxury items. This likely highlights **the return of small scale Daigou** leveraging the price arbitrage to earn a margin on luxury goods.
- Small scale daigou operations are becoming **more sophisticated** to avoid detection. This includes **obfuscating their true purchase purpose, operating multiple store fronts, funnelling consumers into private CRM through WeChat**, and avoiding duties through falsely claiming a lower value of goods shipped.
- Outside of luxury fashion, there is significant impact from grey market channels in categories such as activewear and watch and jewelry. Given the discounts on offer, and the units sold for specific brands, **these channels are significantly harming revenue potential and brand equity in China**.

Introduction

China Luxury in 2024

Luxury has enjoyed a strong period of growth in China over the past 15 years. Growth was especially abundant during the COVID-19 period, where consumer spending was concentrated within the domestic market, and brands went to large lengths to quickly develop the luxury infrastructure within China itself.

The paradigm of growth is shifting in China in 2024. Recent releases of brand level financial reports over the past two quarters have begun to reveal a changing dynamic for growth globally (Figure 1). There has also been a significant shift in revenue generation across markets, with luxury spending out flowing from China into other markets.

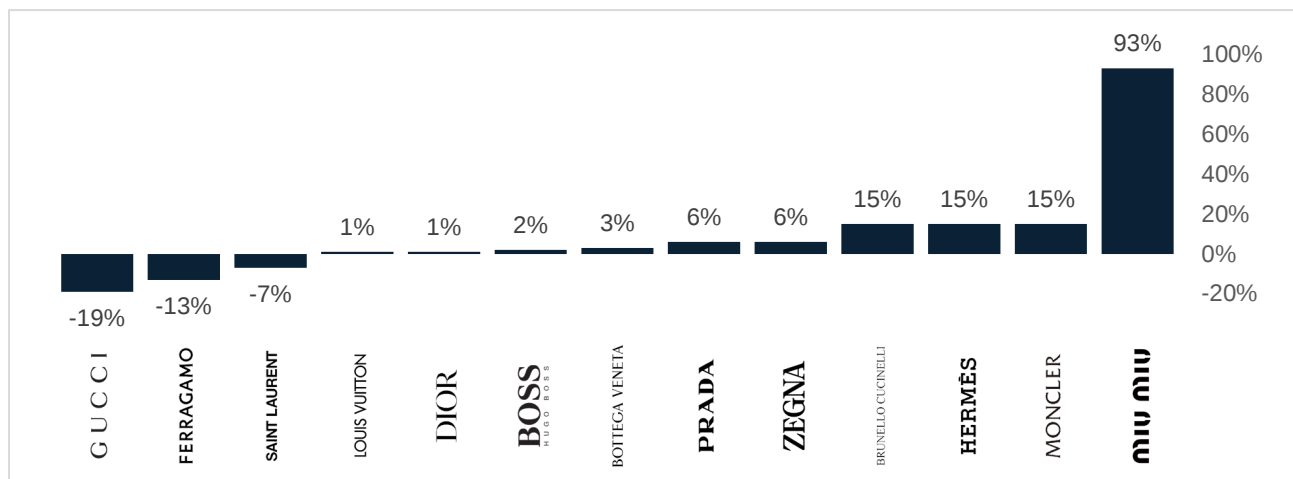


Figure 1: Global revenue growth H1 2024 vs 2023 at constant currency at brand level

Within China itself, there has been a significant polarization of performance. Many brands are experiencing a significant flattening of growth, while others are experiencing significant decline in China affecting their overall global revenue performance. Other brands are still able to drive growth in China itself.

It is important for brands to continue to place importance on the Chinese market, not only for the revenue generation within the market, but also the ability for Chinese consumers to drive significant sales outside of China. As illustrated by Bain (Figure 2) the location in which spending occurs has been shifting post pandemic, with 2024 numbers set to increase this trend.

While the consumer may be purchasing in other markets, they are still being influenced prior to any trip they might take, thereby raising the importance of still investing strongly in maintaining awareness and influence in China as a whole.

It is within this context of a more mobile, more frugal consumer that Daigou operations have now found themselves within, creating significant shifts in behavioural patterns since our last report.

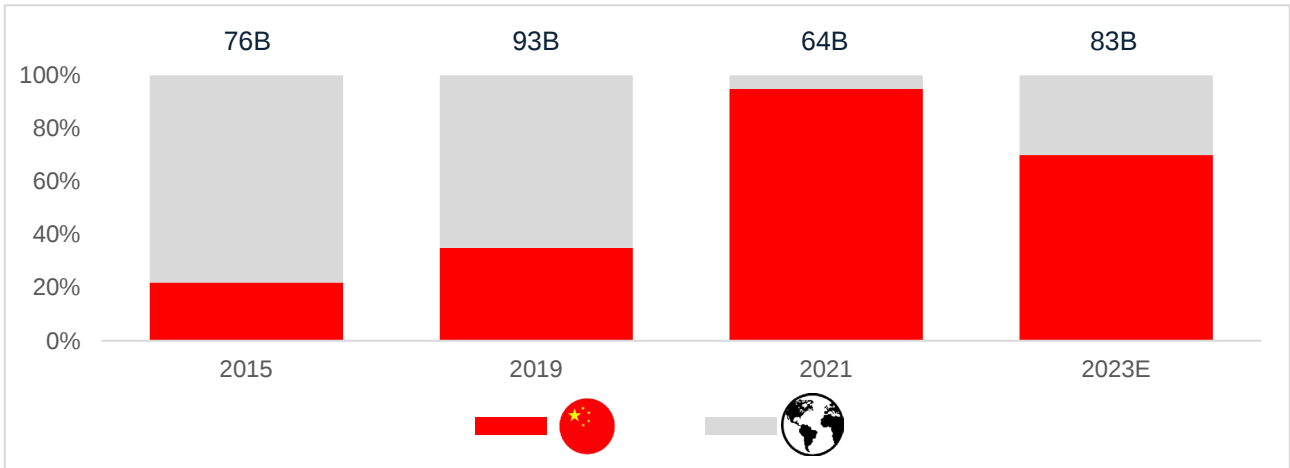


Figure 2: Geographical breakdown for Chinese consumer luxury goods spending - 2015 - 2023E (Bain&CO), total spending along the top in billion euros

Daigou 2023 - Recap

In our previous report, we highlighted the changes that the Daigou channel had undertaken throughout the COVID period – with the entirety of the channel account for an estimated 81B USD.

The margin structures proved favourable for large scale, large volume operations, with a move to more professional organizations looking to take advantage of the significant price arbitrage offered by brands across borders, coupled with the development of more direct relationships with wholesale departments of brands.

The overall impact of this, as estimated by Re-Hub in partnership with Bain (Figure 3), varied across brands, with some more affected than others. However, the picture remained clear that this channel has, is, and will continue to have a large impact on the revenue generation potential from both the China market as well as the Chinese consumer – thus requiring global attention to understand, address, and mitigated associated risks.

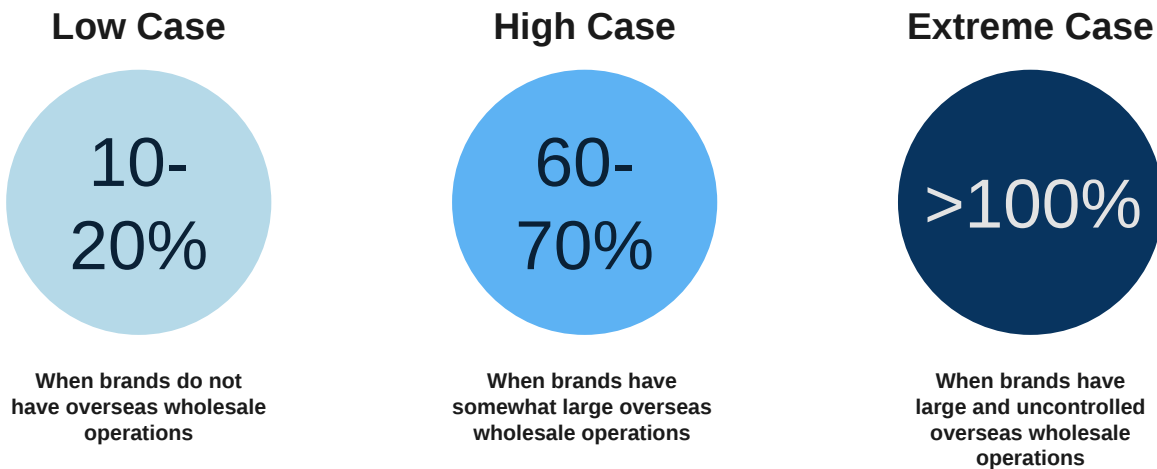


Figure 3: Daigou GMV generated as share of brands' official revenue in mainland China (fashion and leather goods)

Daigou 2024

In 2024, the Daigou landscape continues to evolve, presenting a dynamic and ever-changing environment for individuals or agents who source and sell goods from overseas to Chinese consumers.

The Daigou landscape is being influenced by several notable trends. First, there has been a resurgence in the interest in luxury shopping abroad as Chinese overseas tourism resumes, leading to potential shifts in consumer spending patterns. Price gaps between luxury goods in mainland China versus other markets have played a critical role in making luxury shopping abroad more attractive, stimulating the return of Chinese tourists' luxury spending in Europe and Asia.

This report aims to provide a wider context to the Daigou channel overall, updating the current state of play within luxury fashion, and exploring the trends that are shaping the shifting dynamics behind the grey market for luxury.

In addition, we will deep dive further into the impact of Japan and its current favourable exchange rate, alongside the impact of other geographies such as Hainan.

Looking more closely at consumer behaviour, we will unpick how consumers are sharing information and influencing the wider audiences to best take advantage of the Daigou channel.

The return of small scale Daigou is one trend that is set to further increase the disruption from the channel into the industry, and we explore what might be driving these changes.

Lastly, we look beyond luxury fashion, to showcase that this trend is something that all brands across categories must pay attention to.



Luxury Fashion

Methodology

To assess the size of the grey market problem for brands we selected a representative group of the top luxury brands including Louis Vuitton, Celine, Chanel, Christian Dior, Hermès, Gucci, Balenciaga, Prada, Celine, Saint Laurent, and Fendi.

Using a selection of brand keywords, combining English and Chinese names, we extracted the listings of these brands from different platforms for the month of July 2024 compared to August 2023. Allowing assessment of sales for each of the listings (the actual measured metric varies across the different platforms).

By applying Re-Hub's luxury taxonomy and only including products which fall into either Bags, Clothing, Shoes, or Accessories, we can remove some of the noise from other categories. This means our analysis does not contain beauty or cosmetic products.

Outlook

The overall outlook for the grey market by comparing revenues over time reflects the brand reality in China - stagnant, with a polarized picture. It is important to understand that growth or decline in the grey market can reflect different possible trends and these trends can vary brand to brand.

Taking a positive outlook, a decline in grey market revenue generation can denote that brands have taken measures to control the impact of Daigou. Anecdotal evidence from the market suggests that brands such as Louis Vuitton have systems in place to identify individual Daigou in stores and look to blacklist these buyers to stymie the flow of goods across borders.

Additional measures that brands have taken are to control wholesale accounts and trace the product flow into China. If partners are found in contravention of these rules, their agreements can be severed - these measures are often mentioned in financial reporting and can often lead to short-term decline of revenues from the brand directly. These are important measures to project the brand in the long run.

The more negative view can indicate that a decline in grey market revenue may be related to a drop in brand desirability.

Other neutral trends that will likely affect the channel revenue is the ease of accessibility to lower price products directly through the resumption of travel to international destinations, as well as the rise of other channels not measured which fall beyond the scope of this specific paper.

As with most things the truth is likely a combination of multiple positive and negative factors, each weighing differently for different brands at different times. In this, the nuance is important to analyse to help guide us further.

Channel Mix

In our 2023 report we highlighted that Taobao and DeWu were the main grey market channels for revenue generation in China. Moving in 2024 we looked at which brands have seen a YoY increase or decrease on either channel (Figure 4).

We can see that Hermès is the only brand with significant increases on DeWu, while Dior, Saint Laurent, Balenciaga, Chanel, and Gucci saw increases on Taobao. Celine, Fendi, and Louis Vuitton are the only brands that saw a significant decline on both channels.

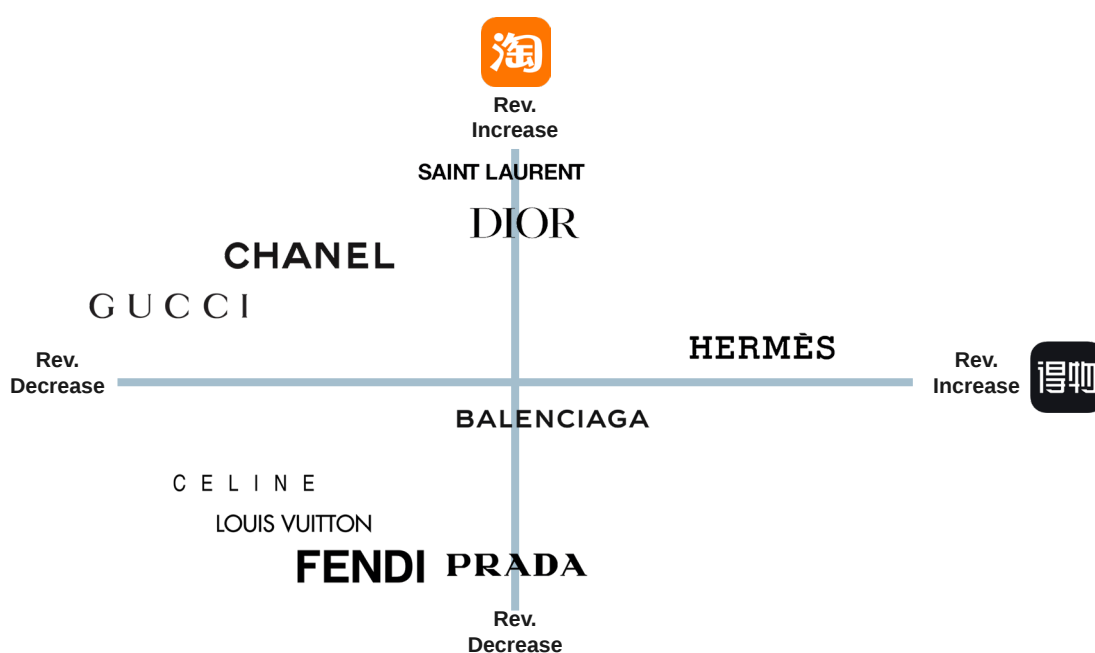


Figure 4: Channel growth/decline in grey market revenue August 2023 vs July 2024 considering overall trend

Typically these moves are indicative of a shift in the Daigou types that are focusing on different brands. Significant rises in revenue on Taobao can indicate one of two elements; a rise in the number of smaller, in-store Daigou operating, which can be indicative of a significant price arbitrage across geographies (especially when stacked with other discounts); a rise in the number of fake listings masquerading a true daigou.

An overall decline in grey market revenues, as mentioned previously may be connected to positive or negative outcomes. Positive: short term curtailing of Daigou sales (through price harmonization, Daigou identification in-store, etc.) has led to a decrease in the ease of access of goods or a decrease in margin potential. Negative: there has been a shift in consumer preference toward the brand, signalling an overall decline in brand desirability.

It is noteworthy that three LVMH brands fulfil the criteria of a negative growth rate on both platforms, highlighting a potential group led effort to curb grey-market impact.

Discounts

Conducting analysis across the brands and their top products we can unveil some insights about the evolution of discounting. Looking from multiple angles - discount on the top 50 products from 2023 in 2024; discounts on the top 50 products from 2023 against the top 50 products from 2024; or even the top 50 products from 2024 in 2023 our analysis results in the same insight - discounts have been increasing (Figure 5).

This relative discount level can be the result of two factors; either, sellers have been pushing the price down of the item - typically this is due to market competition and the need to keep lowering the price to remain competitive against other sellers from off-season products. Alternatively, this can also be a corresponding discount increase due to the brand raising the price of the item between the two analysis periods - this mechanism is especially true for brands such as Chanel.

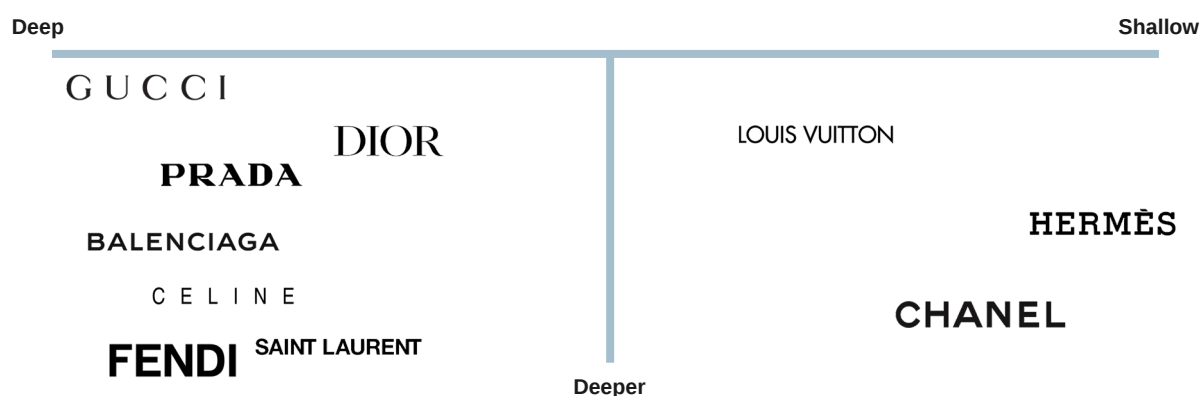


Figure 5: Discount evolution of top products by brand - discount against RRP at the time of analysis

Other brands such as Fendi, Celine and Saint Laurent are facing an already deep discounting level of their top products, which has reached even deeper levels since last year. Brands such as Gucci, Louis Vuitton and Dior have seen less impact when it comes to deepening discounting levels. For Gucci specifically, there has been little change in the discount levels regardless of the way of analysis, perhaps highlighting that there has been a price stabilization for the brand over the past year as Kering announced stricter controls on its wholesale operations since 2023.

New Season Impact

Another interesting angle to look at how grey market channels are affecting the potential of luxury fashion brands in China is the revenue generated as a function of seasonality. The worst example of cannibalization would be when the majority of goods selling on these platforms are from the current and recent seasons, however from our analysis in Figure 6 we see this is not the case.

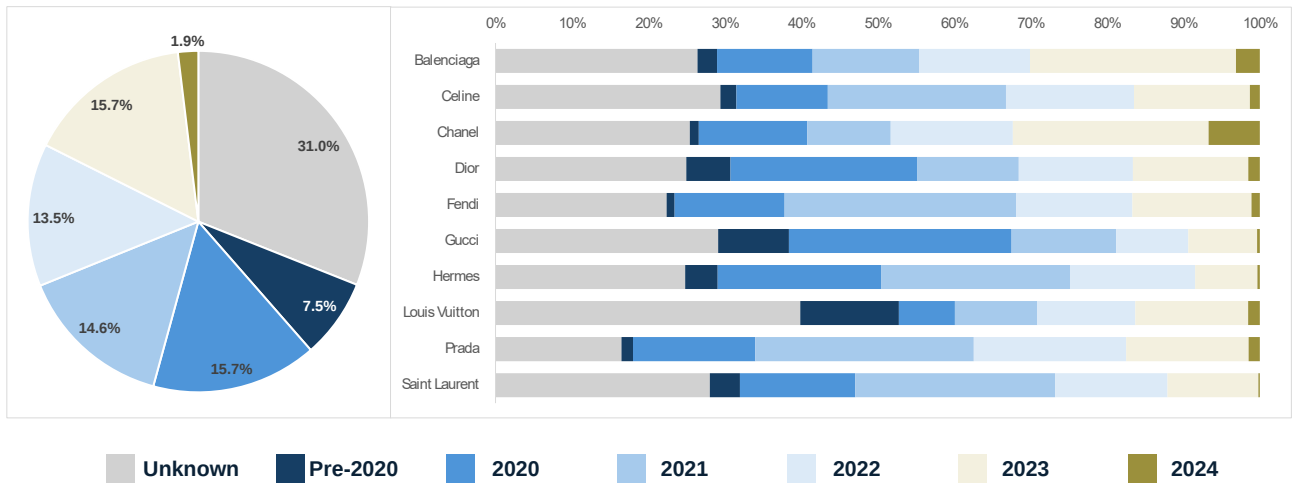


Figure 6: Breakdown of revenue generated on DeWu as a function of year of release of product for Left: brands combined Right: by brand

From revenues generated on DeWu for the first seven months of 2024 (January - July) we can see that only 1.9% for our ten analysed brands falls within the 2024 fashion season. There is a reasonably equal weighting from the past eight seasons (FW/SS - 2020 - 2023), highlighting products from older collections that are working their way through distribution networks to finally end up on Chinese grey market platforms.

Another large source of revenue is from items that are tagged as Unknown, the vast majority of these items represent evergreen products from brands that are designed to sell over longer periods than a single season.

Brands such as Chanel have a large contribution from newer items, most of which are available at a premium against China market prices, highlighting that the exclusivity and lack of availability for certain new products is driving grey market revenue generation. On the other side, we can see that Louis Vuitton generates more revenue from evergreen and older season products, perhaps highlighting a strong demand from aspirational consumers to access iconic products at a discount, or products no longer available from direct channels.

While the analysis provides some level of comfort toward the immediate and direct cannibalization threat of on-season products, the revenue generated still represents a challenge of indirect cannibalization in that consumers are likely making decisions between either on-season products sold by the brand at full price, or older season products at significant discounts available in the grey market. It also represents the challenge in building evergreen portfolios for brands in that it is not long before the price point of these items becomes favourable to drive consumers toward grey market purchases.

Top Products

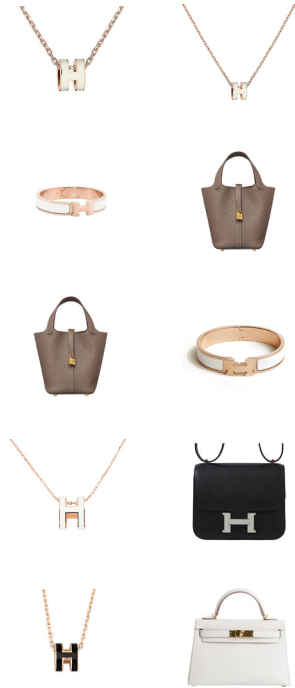
Bringing together our analysis in a more visual way, we can view the top five products for each brand for August 2023 vs July 2024 (Figure 7 and Figure 8). Overall we can see a strong level in consistency in the top items for each brand, with many of the top five representing the star / evergreen products that have served to define the brands success in the last two years.

Interestingly as we move into 2024, we start to see the proliferation of lower priced categories such as sunglasses and T-shirts, perhaps as a symptom of a higher price sensitivity of the average Chinese consumer.

GUCCI



HERMÈS



LOUIS VUITTON



PRADA



SAINT LAURENT



Figure 7: The top five products per brand on DeWu in August 2023 (left) against July 2024 (right)

BALENCIAGA



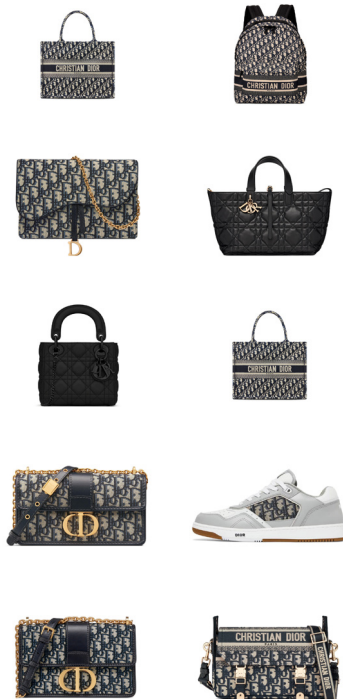
CELINE



CHANEL



DIOR



FENDI

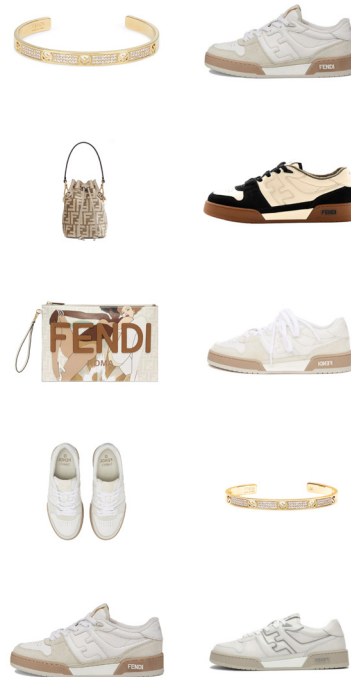


Figure 8: The top five products per brand on DeWu in August 2023 (left) against July 2024 (right) continued

Price Indexes

In our previous Daigou report in 2023 we highlighted that the likely source of many of the goods in the Chinese grey market has shifted from individual daigou - defined as shoppers who leverage price arbitrage to be able to earn margin through re-sale, into more institutional level Daigou - defined as organizations with direct links into the brand or distribution networks who have the purchasing power to obtain goods at wholesale prices in bulk.

A guiding light as to the source of Daigou activities comes from price benchmarking against other markets. Figure 9 shows indexes against the China price (in RMB as of August 22nd, 2024) against market prices in France and Japan (with tax rebates and currency exchange rates considered), and grey market channels.

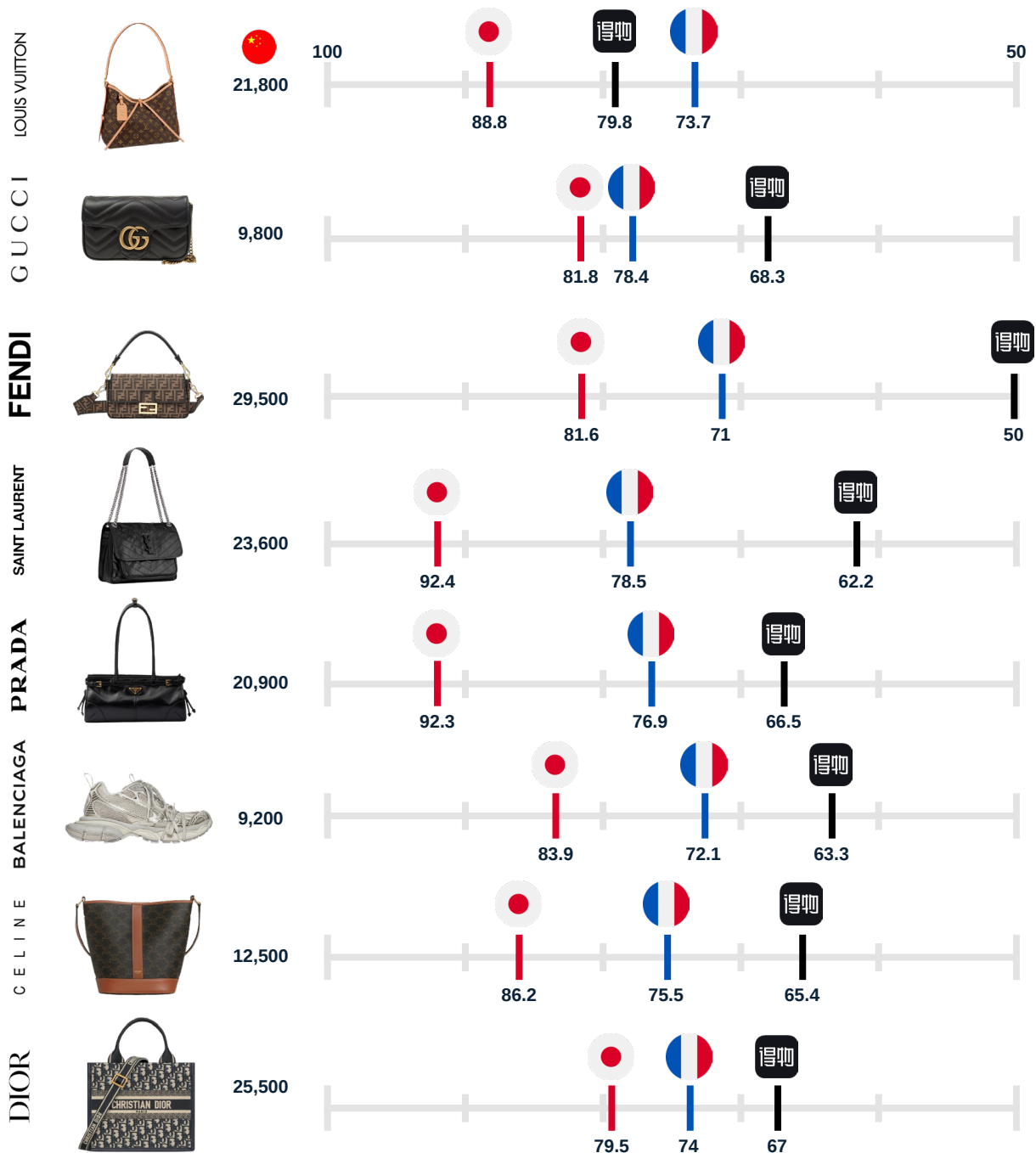


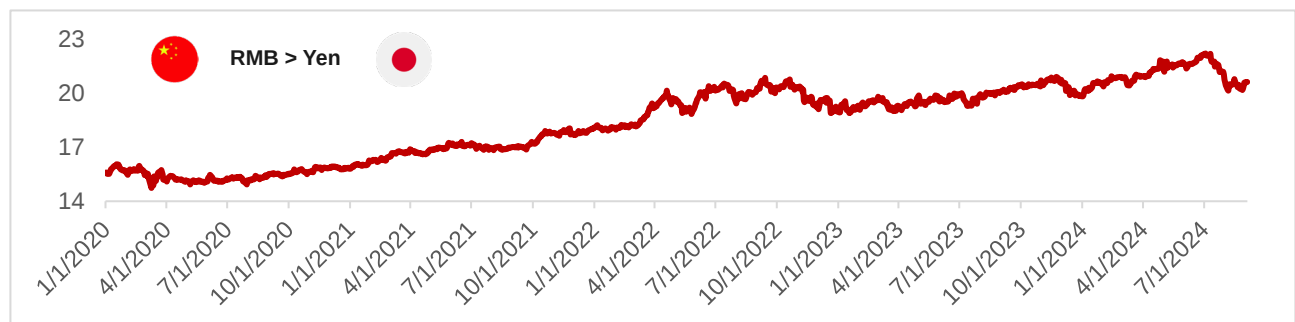
Figure 9: Price index of top selling items; indexed against China mainland price (from WeChat mini-program or brand website); price in Japan and France from brand website at 7% and 11% tax rebate respectively. Exchange rates at date of analysis - 22nd August 2024

Daigou Trends

Japan – Chinese consumers drive Japanese market

One of the most talked about trends in recent months has been the emergence of Japan as the new luxury shopping destination for Chinese consumers.

Compiling relevant data (Figure 10 and 11), we can see that favourable currency exchange rates (with a 43% increase from 15.2 yen to 1 RMB in July 2020, to 21.7 yen to 1 RMB in July 2024), increased visitor numbers (209% vs 2019 in terms of flight bookings), increased duty-free spending (327% increase in Q1 2024 vs Q1 2019) all point to a possible source of Daigou operations and purchase.



	July 2020	July 2021	July 2022	July 2023	July 2024
Average	15.2	17	20.3	19.6	21.7
Growth		12%	19%	-3%	11%

Figure 10: Currency conversion rate for RMB > Yen from Jan 2020 - August 2024

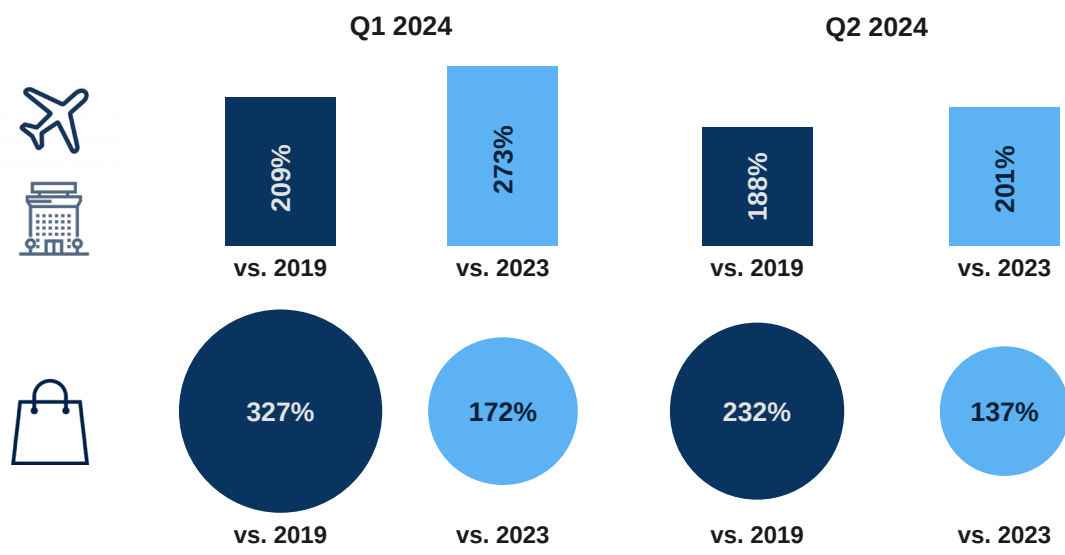


Figure 11: Flight and hotel resumption data (Ctrip) and Global Blue Duty-Free spending growth data for Q1 and Q2 2024 with comparisons to 2019 and 2023 respectively

The growth in the market is further supported by financial earnings releases. Japan has been the fastest growing market for many luxury groups in recent months (Figure 12), with the same groups seeing a decline of revenue from the domestic China market. This highlights that a large portion of the growth and spending we are seeing in Japan is driven by Chinese consumers.




				
	Time Period	Asia Excl. Japan	Japan	Europe
HERMÈS	H1 2024	7%	9%	16%
LVMH	H1 2024	-10%	44%	3%
KERING	Q1 2024	-20%	22%	-8%
RICHEMONT	Q2 2024 (Q1 2024 per Richemont)	-19%	42%	4%
PRADA	H1 2024	12%	55%	18%

Figure 12: Geographical revenue growth by group for time-period identified vs the same time period in the previous year

Japan’s Role

Given the price indexes disclosed in this report, the pricing difference between Japan tax-rebate prices and grey market prices is still higher in Japan. While this analysis is only conducted for a limited number of items, the likelihood is that at current prices, Japan could not act as a source of grey market goods at the quantities sold and still generate margin for third parties.

Undoubtedly there is still a role to be played when consumers can stack incremental discounts; cashback apps; credit card offers; department store discounts; and general shopping vouchers could in theory provide enough discount to make daigou operations viable, but this does not scale. The likely role that Japan plays in the ecosystem is more as a barrier to grey market consumption, providing consumers with cost savings against China prices, while maintaining brand experience and no authenticity concerns. As long as the currency situation remains favourable (August 2024 has shown signs of a shift in the exchange rate already), this is set to continue.



Hainan

Hainan, the Chinese island province situated in the South China Sea, has emerged as a dominant force in the global travel retail industry over the past 15 years. The province's journey began with a single store in 2011 and has evolved into hosting some of the world's premier duty-free shopping complexes, most notably the opening of the Haikou shopping emporium in October 2022, which generated 950 million USD in revenue in 2023.

In 2023, duty-free sales within Hainan experienced a 25.4% year-on-year increase, reaching 43.76 billion RMB as reported by Haikou customs (Figure 13). This substantial growth underscores the province's pivotal role in the travel retail market. Visitor numbers to the island surpassed 90 million in 2023, further cementing the market opportunity.

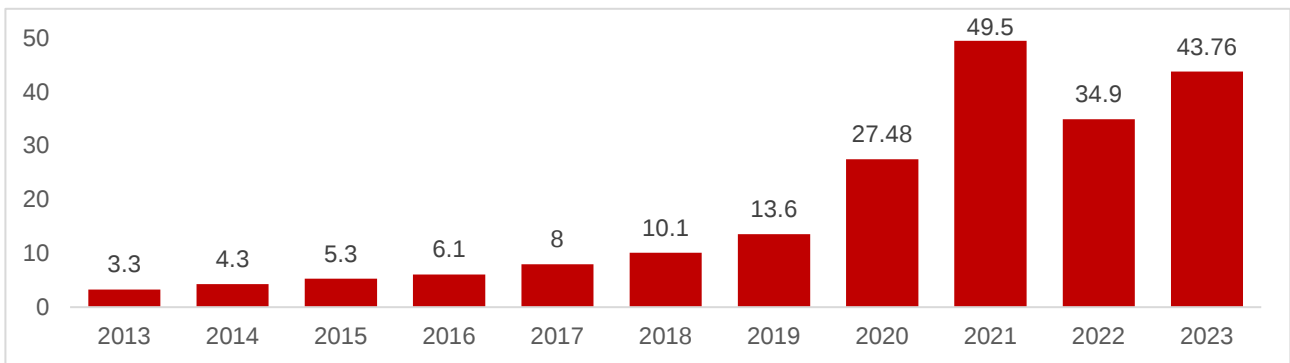


Figure 13: Revenue growth of Hainan duty-free sales in billion RMB from 2013-2023 (Haikou customs)

The Hainan government has gradually implemented measures to stimulate the sales development on the island. On July 1st, 2020, the duty-free shopping allowance was tripled to 100,000 RMB, and the single purchase limit of 8,000 RMB was removed, encouraging the purchase of higher-priced products. Furthermore, enhancements in the beauty category, such as increasing the consumer allowance from 12 SKUs to 30, have contributed to boosting sales.

The onset of the COVID-19 pandemic proved to be a turning point for Hainan's market. While the global pandemic had adverse effects on many markets, Hainan experienced a positive impact due to shifting trends. The restrictions on international travel led to a surge in visitors to the island, subsequently driving significant revenue growth that might have otherwise been directed to different destinations.



In contrast, Korea witnessed a decline in visitor numbers from mainland Chinese tourists, resulting in a substantial revenue decrease of -22.8% in 2023 according to the Korea Duty Free Association. The Korean Customs Service introduced measures in February 2024, restricting foreign consumers from traveling with more than 50 SKUs or specific quantities of certain items, in response to the pervasive institutional daigou that were emerging.

Hainan's Role

On face value, the savings available through removing duties fall in the region of 10-15% depending on brand and category. This alone would suggest that there is little margin to be made by Daigou obtaining items in Hainan.

However, for certain brands and items, there is the opportunity to stack offers to drive deeper discounts. The combination of different discount mechanisms such as credit card spending coupons; government sponsored savings; and duty-free operator discounts (Figure 14) can result in savings in excess of 40%, enabling the potential for Daigou operations (albeit with significant risk).



Figure 14: Examples of coupon mechanisms available in Hainan. From left to right: duty-free store coupon, credit card spending coupon, government sponsored cashback coupon. Example of ~40% discount available through coupon mixing for Chloe Woody bag (22nd August 2024)

There is identified evidence that the misuse of allowances and leveraging of coupon offers have created challenges, particularly concerning daigou smuggling activities. Instances of individuals exploiting travel allowances and engaging in illegal purchases for resale on the mainland have been reported, contributing to a grey-market influx of low-priced goods in China. A survey from Yangzhou indicated the handling of 561 daigou smuggling cases in 2022, totalling 3 billion RMB, highlighting a pervasive issue that undermines market regulations and presents a significant challenge in combating illicit activities.

The onus also falls on brands to ensure they maintain wholesale excellence - managing partners in the Hainan market to ensure pricing consistency, avoiding the long-term erosion of China mainland revenue generation potential.

Consumer Interest

From data we can conclude that Daigou sales continue to grow. Until now we have analysed the Daigou channel from a sales perspective. In this section we will look at the consumer discussions about Daigou, and how it intersects with brands, platforms, and geographies.

While there are undoubtedly many different channels within which consumers will discuss Daigou as an idea, for the purpose of this analysis we looked specifically at RED due to its correlation with luxury, the luxury consumer, and as a channel that is often used as discovery of ideas in the Chinese market.

Initially, the number of overall posts mentioning either of the keywords Daigou (代购) or Overseas Shopping (海淘) was tracked over time (Figure 15). There has been a significant growth in the number of posts associated with these two ideas over time. Increasing significantly between 2022 and 2023 as the Chinese market began the process of reopening to travel, and thus opening the potential for the channel to be accessed by Daigou and Consumers themselves.

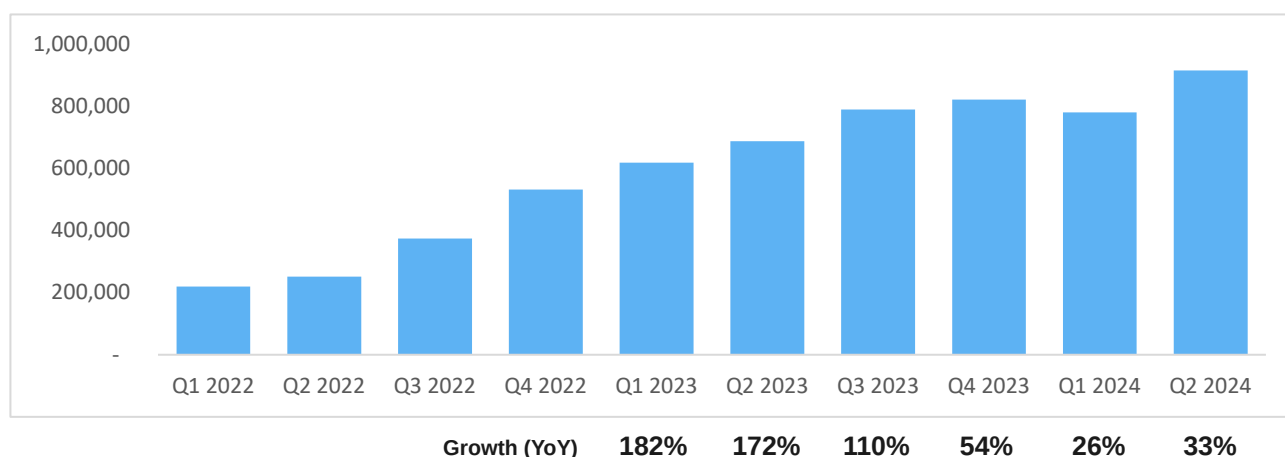


Figure 15: Number of posts on RED mentioning Daigou topics from Q1 2022 - Q2 2024

The growth slowed slightly into 2024, but with a much stronger base of comparison. As of Q2 2024 there have been nearly 1M posts on RED that mention the topics surrounding Daigou. These conversations likely denote activity both from consumers curious about the potential opportunities that Daigou offer as well as the sellers themselves marketing their services to a wider audience using social media.



By Geography

Taking the typical Daigou locations that Chinese consumers may travel to for luxury goods, we can see which have been growing in terms of conversations (Figure 16).

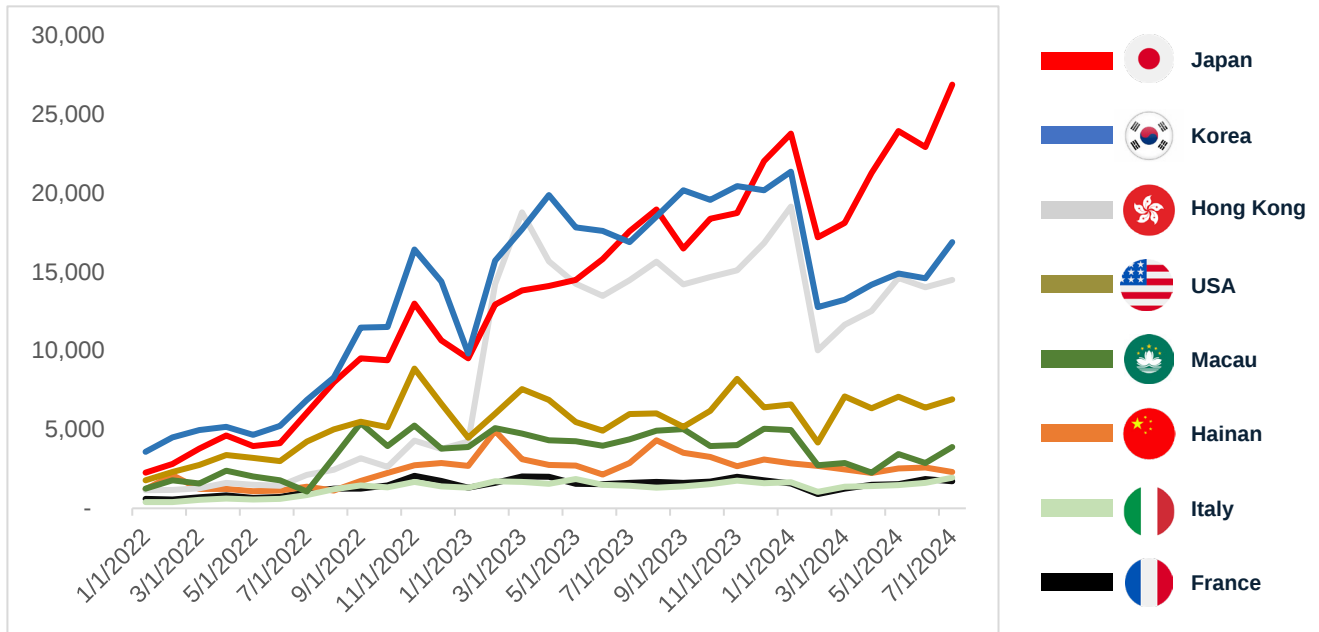


Figure 16: Number of posts on RED mentioning Daigou topics and specific geographies (Jan 2022 - Jul 2024)

Japan has emerged as the overall most talked about destination when it comes to Daigou conversations on RED. The growth in number of posts from H1 2022 to H1 2024 reached 490% with over 120,000 posts in the first six months alone. Korea and Hong Kong come in second and third respectively, both seeing noticeable drops in the conversation level since the start of 2024.

For Korea specifically this may be a result of the increased regulatory environment for Daigou since January, with the result being a downturn in consumer interest in the market.

Other markets such as Hainan, Italy, Macau and the USA have all grown in their conversation amount but still lag in terms of absolute number of posts versus the first three markets.

The content of the posts is diverse but some examples can be seen in Figure 17. These vary from advising consumers not to buy in a specific market as lower prices are available elsewhere, to specific strategies for shopping at a brand and ensure the best experience.

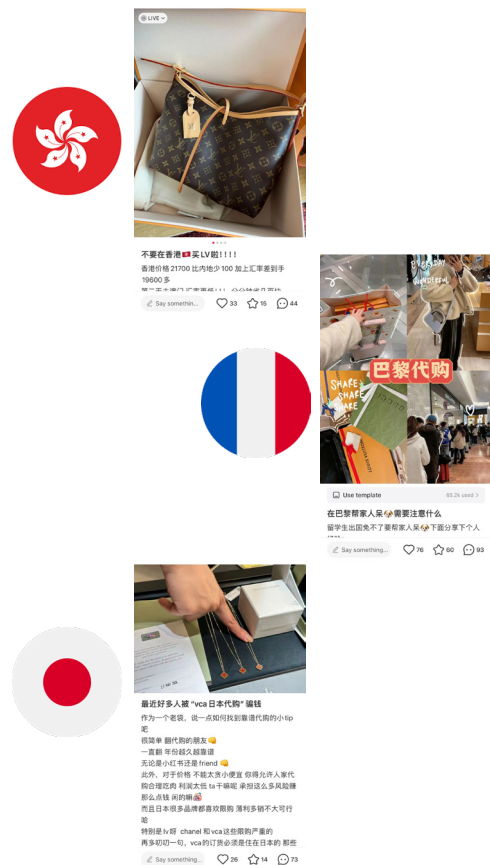


Figure 17: Examples of different posts mentioning top geographies from RED

By Brand

Daigou operations affect different brands in their size, this is also reflected through the number of conversations towards specific brands on RED regarding the Daigou topic (Figure 18)

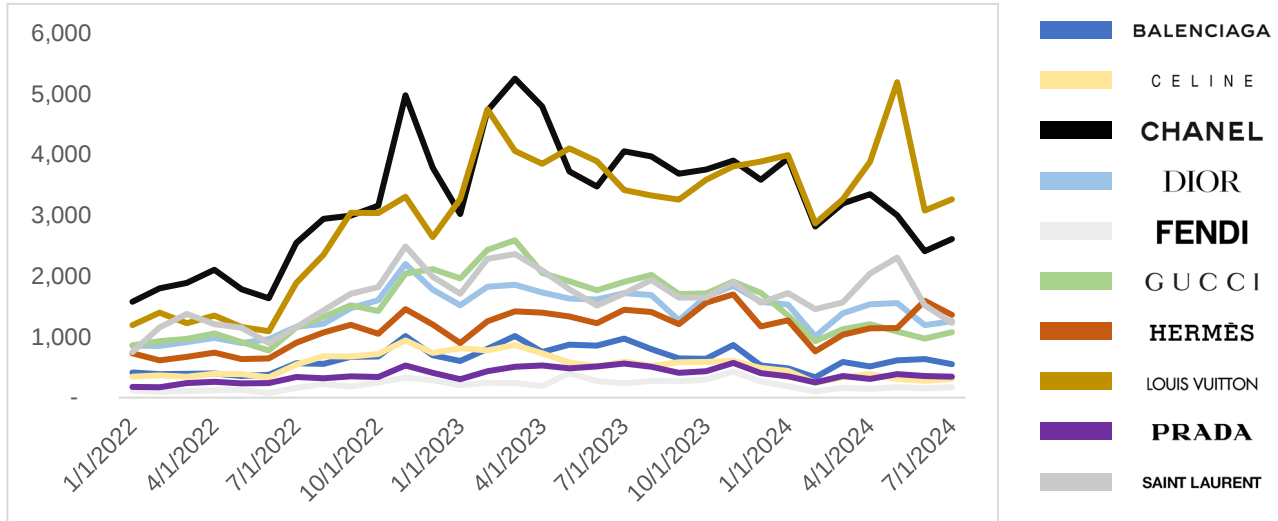


Figure 18: Number of posts on RED mentioning Daigou topics and specific brands (Jan 2022 - Jul 2024)

Louis Vuitton and Chanel come out on top of the most talked about brands when it comes to posts relating to Daigou on RED. With Louis Vuitton showing significant growth over the past two years (200%).

Other brands in our analysis have also shown growth, with Hermès, Saint Laurent, and Prada showing growth in posts of 72%, 62%, and 51% respectively.

Celine has seen a decline in the number of posts since 2022, with an overall decline of 8%.

For Louis Vuitton and Chanel, the majority of the content is related to global price comparisons, allowing consumers to understand where the best markets to purchase specific bags from these brands are (Figure 19).

This is somewhat reflective of the grey market pricing situation where many of the products highlighted show lower price differences versus the China price, given the existing strict control on sales channels. Both brands also show strong pricing variances across different geographies likely adding to the demand for information.



Figure 19: Examples of different posts mentioning top Chanel (top) and Louis Vuitton (bottom) from RED

The Return of Small Daigou

The pre-COVID model for Daigou operations was often considered as individuals operating in markets outside of China, buying goods on behalf of other consumers and funnelling these goods into the China market.

The onset of the COVID pandemic put this model under threat, with increased logistics costs, lack of travel options, and stricter controls of goods. These trends significantly impacted the margin potential of this business model, and many individual Daigou, identifying the lack of potential, moved on to other pursuits.

This in turn facilitated the development of larger scale operations as previously mentioned, and while brands have looked to regain control of these operations through actions centred around wholesale excellence, the 2024 context has reignited the potential for small scale Daigou operations to blossom.

The most notable data point that supports this re-emergence has been the recent boom of listings of luxury fashion products on Taobao (Figure 20). Historically the platform operates under a C2C model and has always been the staging post where smaller Daigou operations can recruit consumers and shift units.

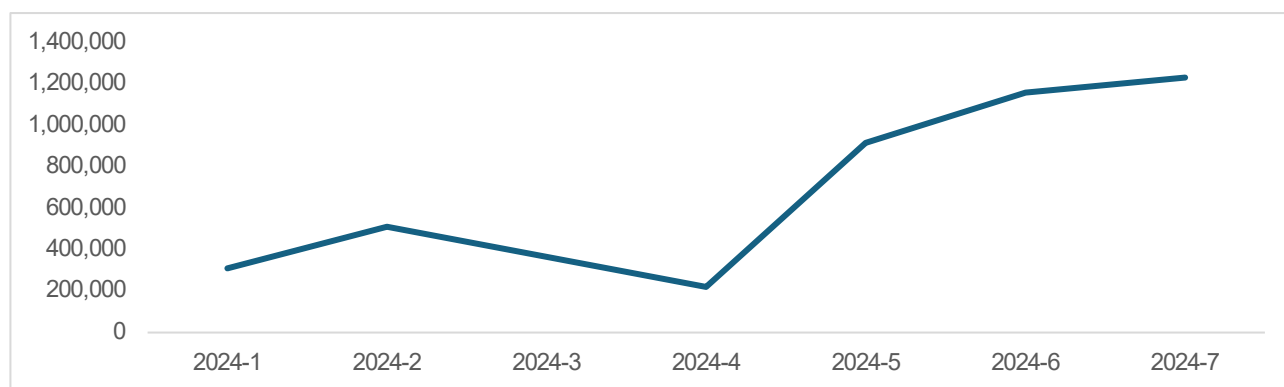


Figure 20: Number of listings of ten analysed luxury brands January 2024 - July 2024

While measures to counteract large scale Daigou operations will (if pursued with consistency) likely quell the growth of the channel, in the short-term, the reemergence of small scale daigou is likely to be incremental to the overall channel. This means that the largest cannibalization effect will be on the revenue potential in the China market, a trend which we have already seen being played out in the quarterly earnings calls of many brands.



Fendi

Fendi has emerged as an example of brand that has seen a significant rise in the number of listings on Taobao. Our analysis reveals a disproportionate number of the new listings emerging within the Bag category fall into the 4,000 - 6,000 RMB price range (Figure 21). While there is the possibility that these are connected to lower end bags within the portfolio, it is also possible that some are counterfeit products - a risk associated with Taobao as a platform.

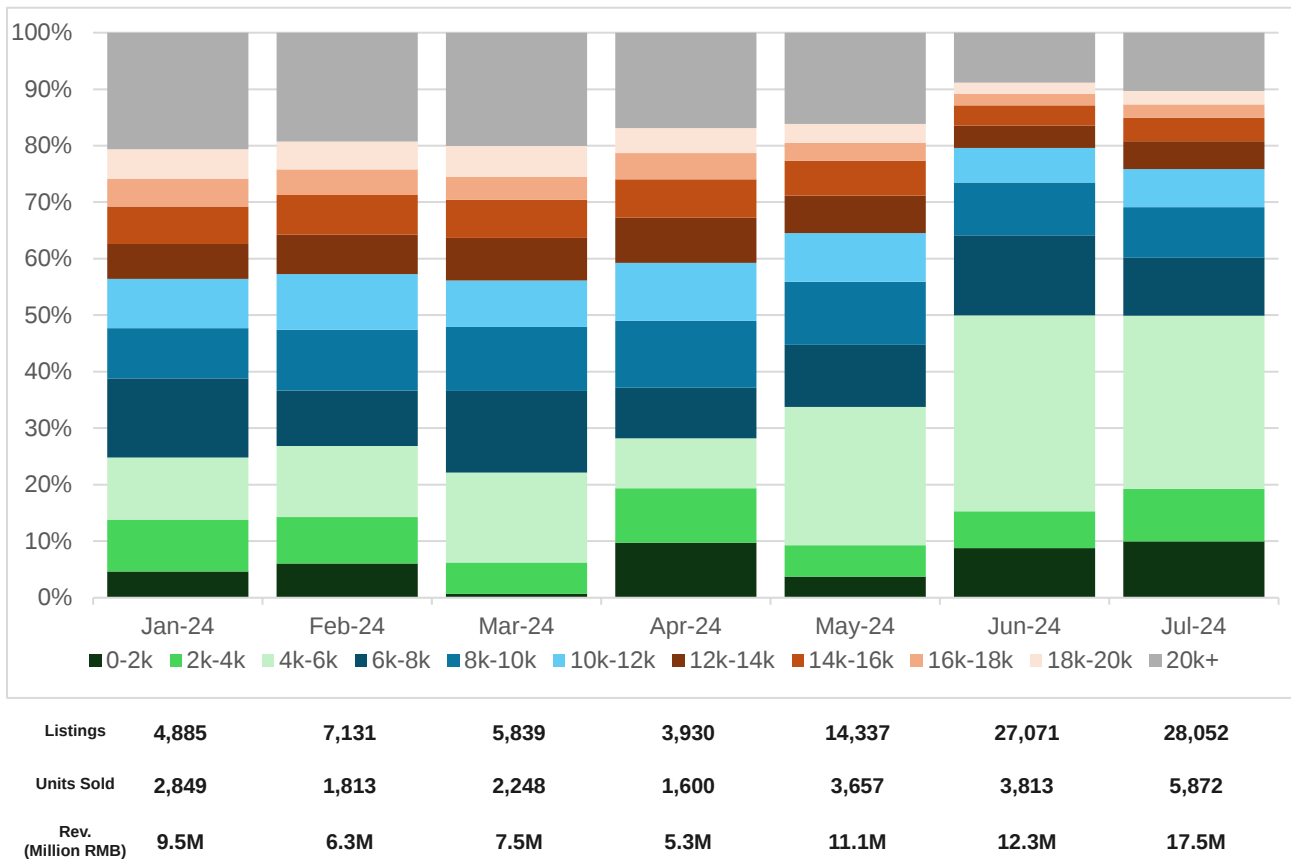


Figure 21: Number of listings on Taobao for Fendi bags by 2,000 RMB price breaks. January 2024 - July 2024

With nearly a 500% growth in the number of listings for Fendi bags on Taobao, the likelihood is that there is a blend of Daigou, as well as potential counterfeit listings posing as Daigou piggybacking on the uptick in the trend. In terms of brand equity harm, the proliferation of counterfeit goods should become a focus for brands within their global intellectual property teams.

How Daigou Operate

With the analysis of Taobao coupled with the return to overseas travel, and ease of logistic operations since COVID-19 there is a projected return of smaller scale Daigou that operate within stores. This form of Daigou differs significantly in behaviour from the large scale Daigou who often have direct relationships with brands or brand partners through distribution channels.

While the potential for these small scale Daigou to generate significant revenue is smaller, what they lack in individual volume shifting power, they make up for in numbers. Additionally, this type of Daigou is much more difficult to control for brands. These Daigou have become masters of the trade in that they need to go undetected by brands that want to curb Daigou operations in their stores globally. Whether individual operators or as part of a larger network, they have developed tactics and strategies to be able to operate undetected by brands as outlined in Figure 22.

While not all brands discourage this behaviour, for those that do, identifying these Daigou in store has become tougher over-time as they evolve and adapt to the situation. For brands that only operate on a direct-to-consumer basis, identifying and mitigating the impact of these type of Daigou becomes the top priority in managing their grey market presence in the current environment.

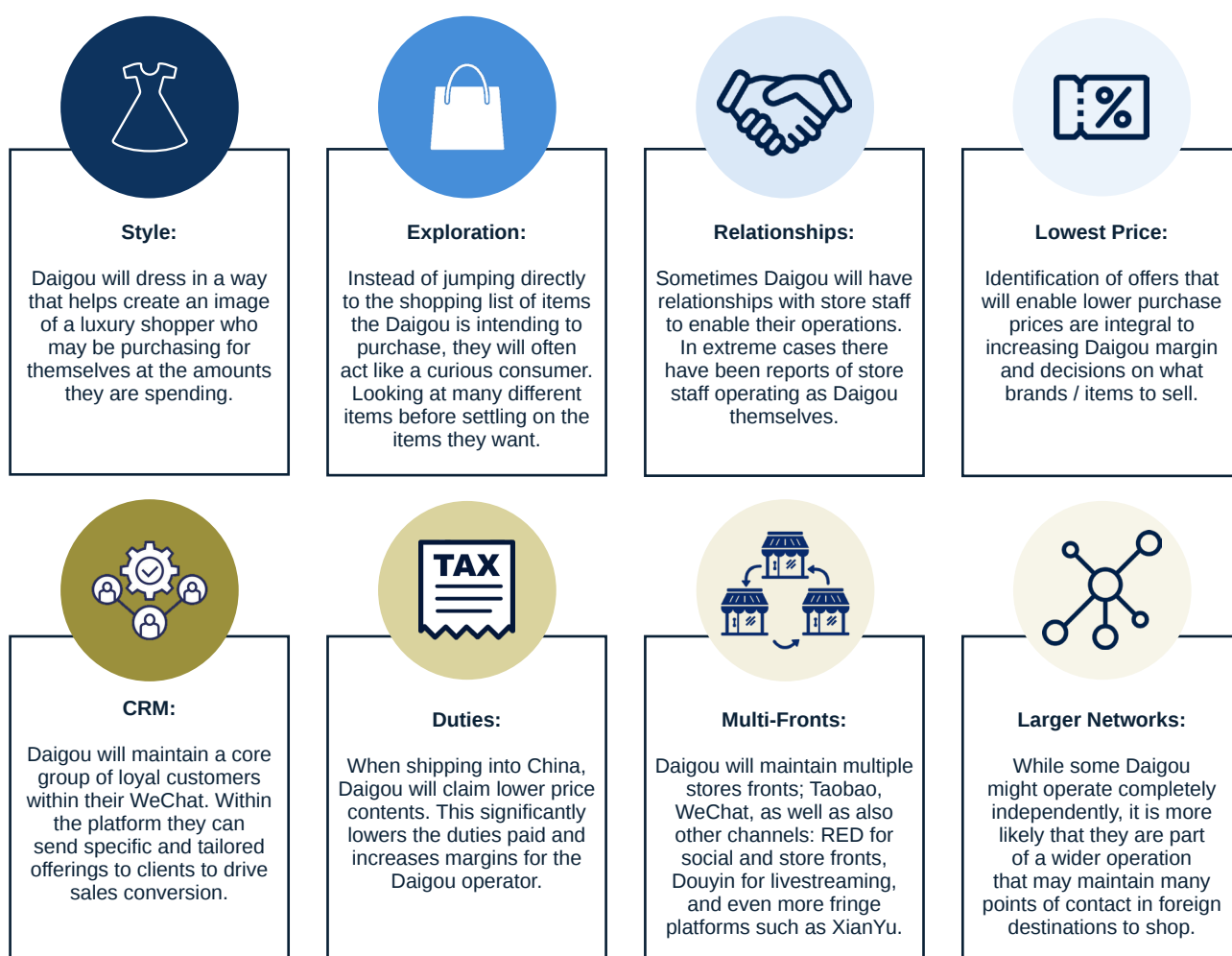


Figure 22: Behaviours of small scale Daigou

Other Categories

Luxury fashion has all the hallmarks of a category that will be disrupted by the Daigou trend – higher price points, large price arbitrations between China and the rest of the world, high throughput of portfolios with seasonal releases.

However, we must be careful not to consider it the ONLY category that can be affected by the Daigou trend.

Sportswear / Outdoor Apparel

One of the fastest growing categories in China has been the rise of sportswear which has strongly been connected to a rise in the desire for outdoor experiences and sports participation.

It is also an area where there is much fiercer competition between global mega brands such as Nike, Adidas, and Puma, with the established and emerging local players such as Anta, Lining, Peak etc.

Given their strong reliance on distribution, it is not strange to see many of the big players generating significant revenues on DeWu (Figure 23). Given the history of the platform as a sneaker platform it is also not surprising to note that much of the revenue comes from the sneaker category itself.

There is a reasonably rapid decline in revenue generation as we move away from Nike, with Li-Ning generating 20% of the total revenue of Nike all-time on the platform.

Lower down the list we find brands that their presence on these types of platforms may represent a bigger source of concern. Brands such as The North Face and Arc'Teryx have been growing well in line with the overall sportswear trends in China but may be facing challenges from grey market impact.












	DeWu Rank	Index (to Nike)
	1	100
	2	63
	3	24
	4	20
	12	6
	14	4
	19	3
	30	1
MONCLER	33	1
	37	1
CANADA GOOSE	45	1
 lululemon	168	0.1
 Columbia	180	0.1

Figure 23: Brand ranking on DeWu by GMV revenue generated all-time (as of April 2024). Index represents index to Nike.

As we move into higher price points, at the cross-over between sportswear and luxury, brands such as Moncler and Canada Goose are more exposed to the grey market impact. While Canada Goose maintains outlet stores in China and globally, we can still identify that the top selling items on their Tmall stores are being undercut by the offerings on DeWu (Figure 24).



		Name	DeWu Price	DeWu Units	Tmall Price	Tmall Units	Avg. Discount	Units Sold Ratio (DW/TM)
MONCLER		Maya	9,845	5,963	14,380	1,448	32%	4.1
		Maire	9,950	3,125	14,350	210	31%	14.9
		Parana	11,267	2,224	16,800	297	33%	7.5
		Montbeliard	10,769	1,579	16,750	152	36%	10.4
		Parnaiba	13,964	1,099	20,900	176	33%	6.2
		Name	DeWu Price	DeWu Units	Tmall Price	Tmall Units	Avg. Discount	Units Sold Ratio (DW/TM)
CANADA GOOSE		Expedition (Black)	9,499	2,216	14,500	354	34%	6.3
		Freestyle (Black)	3,593	5,131	5,200	839	31%	6.1
		4600L (White)	9,468	1,268	14,500	517	35%	2.5
		Expedition (Grey)	10,475	1,135	14,500	354	28%	3.2
		Crofton (Black)	6,675	1,785	9,500	290	30%	6.2

Figure 24: Top 5 SKUs on DeWu for Moncler (Top) and Canada Goose (Bottom) for Oct 2023 - Mar 2024 (peak season). Prices are given as the average price throughout the period. Units sold on DeWu are in GMV, while in Tmall are in Net Sales.

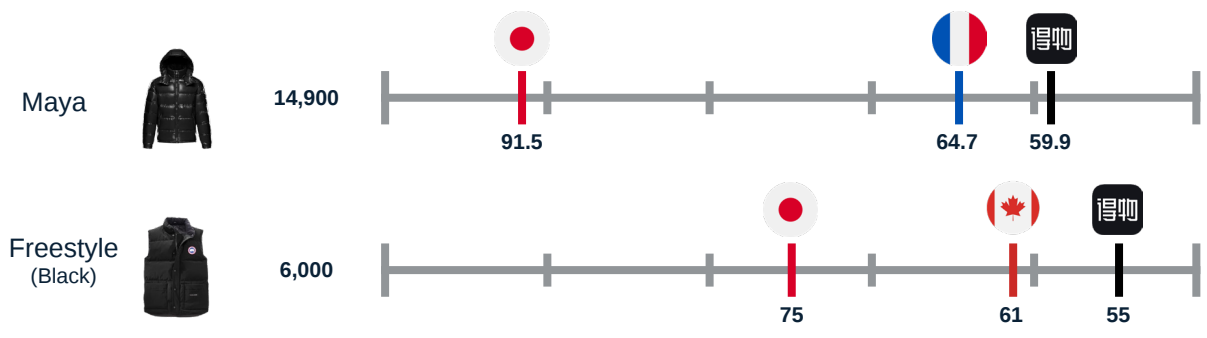


Figure 25: Price index of top selling items; indexed against China mainland price (from WeChat mini-program or brand website); price in Japan and France from brand website at 7% and 11% tax rebate respectively; Canada price at brand website price. Exchange rates and prices at date of analysis - 22nd August 2024

Given the proximity of the international market price from the brands' home location, it is possible that with additional discounting, price arbitrage may be fuelling the Daigou trade in winterwear, although the volumes that we see for the top products might imply a wholesale origin.

Watches and Jewelry

There are many factors that make the Watch and Jewelry category less favourable for Daigou type operations – high unit costs increase the risk on single purchases, a high degree of price parity across markets means there is less margin to be uncovered, and a higher consumer risk against counterfeit products given the overall higher price point.

However, this does not mean that the top brands are not generating sales on grey market platforms.

Swarovski ranks in third with a historical revenue generation of over 1.2B RMB on the platform, it is only eclipsed by Casio and G-SHOCK (Figure 26).

Moving down the list we can see from DeWu that significant revenue is being generated in the category from W&J specific brands as well as overall fashion brands (e.g. Gucci).

While likely not the most pressing concern for multi-category fashion brands, the problem is perhaps more pressing for brands such as Cartier, Bulgari and Van Cleef & Arpels, facilitating further analysis.

	DeWu Rank	Index (to Swarovski)
 SWAROVSKI	3	100
 LONGINES®	4	95
 TISSOT	7	66
 HERMÈS	8	64
 ROLEX	9	59
 <i>Cartier</i>	10	57
 GUCCI	11	56
 BVLGARI	12	55
 OMEGA	13	55
 LOUIS VUITTON	14	52
 Van Cleef & Arpels	15	36
 CHANEL	18	22
 apm MONACO	20	21
 周大福 CHOW TAI FOOK	26	14
 TUDOR	35	8
 IWC SCHAFFHAUSEN	36	7

Figure 26: Brand ranking on DeWu by GMV revenue generated all-time (as of April 2024). Index represents index to Swarovski.

Cartier

From analysing performance on Tmall and DeWu, it is clear that there is cannibalization of sales from grey market channels in China. In recent quarters, growth has slowed (Figure 27), but the comparative product performance on both channels (albeit a GMV on DeWu and NS on Tmall comparison) show that significant discounts lead to higher numbers of units sold on DeWu. It is also worth noting that the Richemont brand has some of the biggest discounts on offer on DeWu, requiring further analysis to understand the source of these goods (Figure 28).

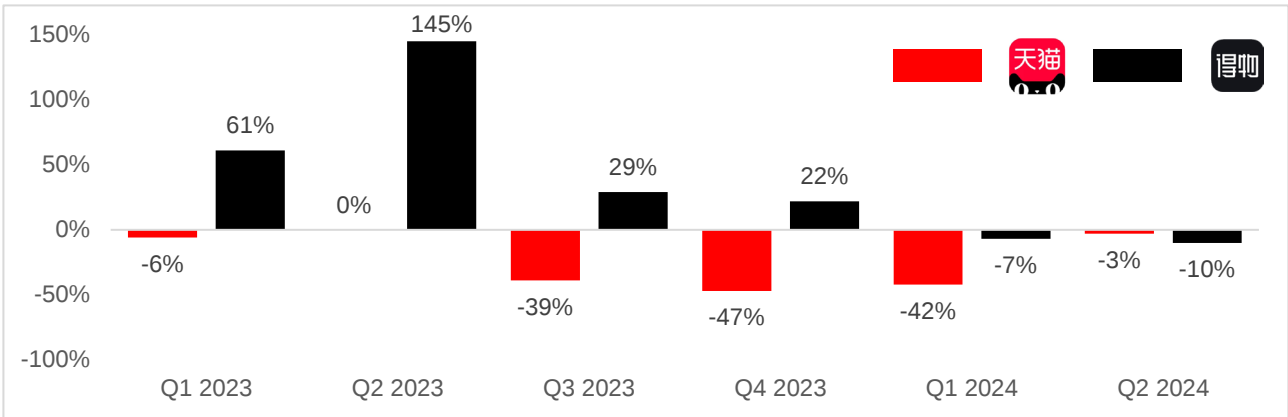


Figure 27: Growth rate of Tmall (NS revenue) and DeWu (GMV revenue) quarterly against the same quarter in the previous year. Q1 2023 - Q2 2024.






	Name	DeWu Price	DeWu Units	Tmall Price	Tmall Units	Avg. Discount	Units Sold Ratio (DW/TM)
	LOVE Ring	6,195	3,172	9,872	1,408	37%	2.3
	Ballon Bleu	36,742	470	49,998	149	27%	3.2
	LOVE Ring (Diamond)	8,597	1,351	18,664	199	54%	6.8
	LOVE Ring 5.5mm	7,789	1,308	15,250	274	49%	4.8
	LOVE Bracelet	34,936	283	37,328	138	6%	2.1

Figure 28: Top 5 SKUs on DeWu for Cartier for Jan - Jun 2024. Prices are given as the average price throughout the period. Units sold on DeWu are in GMV, while in Tmall are in Net Sales.



Figure 29: Price index of Cartier SKU; indexed against China mainland price (from WeChat mini-program or brand website); price in Japan and France from brand website at 7% and 11% tax rebate respectively. Exchange rates and prices at date of analysis - 22nd August 2024

Van Cleef & Arpels

Cartier’s sister brand Van Cleef & Arpels has faced a slightly more positive outlook across TMall (Figure 30), however comparing growth rates, cannibalization is still seen. This has increased over the past quarters, thanks in large part to the recent price increases of some of the brands’ top SKUs. The comparatively lower discount on top items leads to a lower ratio of units sold between the two platforms, although in isolation it still represents a potential dilution of revenue potential the brand (Figure 31).

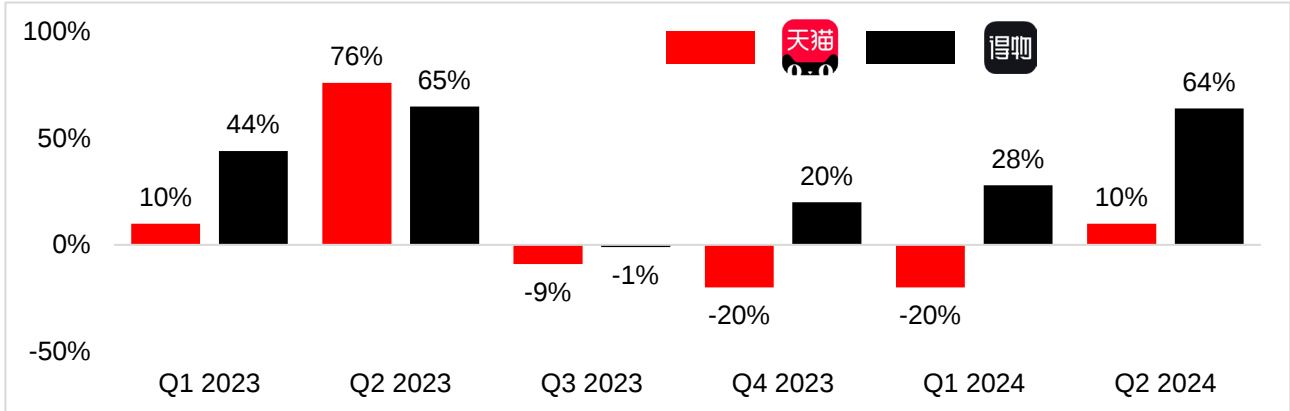


Figure 30: Growth rate of Tmall (NS revenue) and DeWu (GMV revenue) quarterly against the same quarter in the previous year. Q1 2023 - Q2 2024.

	Name	DeWu Price	DeWu Units	Tmall Price	Tmall Units	Avg. Discount	Units Sold Ratio (DW/TM)
	Alhambra (Red)	19,124	1,166	24,536	682	22%	1.7
	Alhambra (Red)	32,199	529	37,376	369	14%	1.4
	Alhambra (White)	28,622	492	34,549	217	17%	2.3
	Alhambra (Red/Gold)	38,611	342	41,708	122	7%	2.8
	Alhambra (Black)	30,432	342	34,113	160	11%	2.1

Figure 31: Top 5 SKUs on DeWu for VCA for Jan - Jun 2024. Prices are given as the average price throughout the period. Units sold on DeWu are in GMV, while in TMall are in Net Sales.

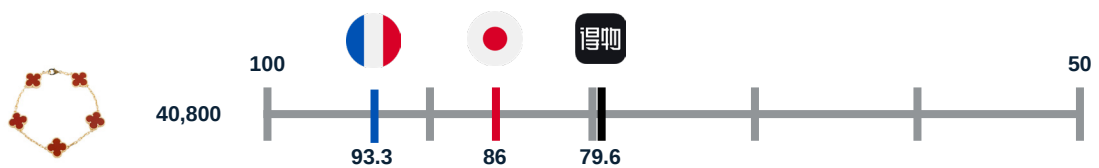


Figure 32: Price index of VCA SKU; indexed against China mainland price (from WeChat mini-program or brand website); price in Japan and France from brand website at 7% and 11% tax rebate respectively. Exchange rates and prices at date of analysis - 22nd August 2024

Conclusions

Moving Forward

As luxury growth stifles in China, optimizing growth potential has even greater implications. It is important to remember that **growth from China as a market and growth from Chinese consumers are two separate challenges**, and from numbers released, the former is under challenge, with the latter reflecting a more positive situation.

The first challenge is to **ensure consumers are enticed and able to keep spending within your brand**, avoiding trade down into lower price point brands or removal of overall luxury spend. In this sense the grey market may provide an opportunity for **consumers to remain loyal to the brand**. If the product purchase was made at an official store somewhere in the globe, this means that the revenue still lies within the global P&L of the brand at a reasonable margin.

The waters become murky when products are obtained through wholesale relationships, **diluting the overall margin and in turn the profitability of brands**, essentially offering up the margin between wholesale and retail price to any number of different recipients along the grey market chain. While efforts have been made to curb this over the past year, our analysis still shows that this a prevailing issue for many brands in 2024 and requires continued attention and caution.

We have witnessed **disproportionate growth from grey market channels against China market revenue for all brands**, fuelled by higher consumer price sensitivity, and more attractive price offerings in the market. While economic uncertainty, and significant price differences exist, the grey market will continue to grow and attract consumers.

The grey market is also dynamic in nature, with many of the trends highlighted in this report (the rise of smaller scale daigou, influx of counterfeit products, and a complex landscape of incremental coupons and discounts from third party players) resulting in **a more complex landscape that brands cannot afford not to strategise against**.

While the future of luxury consumption stemming from the China market remains unclear with a significantly polarized outlook, when it comes to the grey market there is one certainty - **brands that make the tough decisions to tighter control the market sooner rather than later, are poised to secure the health of their future growth**.

What should brands do to control the situation?

Controlling the parallel market necessitates alignment and commitment across all geographies and all departments. Hence, we believe that the Global President and his executive board must act to control the situation. While the following actions are not easy steps and will require alignment, adjustment, and forward planning, we believe they are crucial to healthier control of product supply and routes to market while maintaining strong and resonant brand equity:

Visibility. A data-intelligence partner based in China is required to accurately size the issue, including sales volume, discount rate, origin, SKUs. This close monitoring can help identify the source and scale of the issue faced which is the first step to remediation of the problem.

Pricing. Price harmonization was a trend within luxury pre-COVID, but many of the changes were unravelled through the pandemic period. It is more important now than ever before to have a top-down, CEO sponsored team looking toward a long-term plan to tackle price arbitrage as a direct method to control grey market impact.

Wholesale. Closer data ties with wholesale partners creating obligations to provide an audited monthly sales report certifying the absence of bulk reselling. This can be taken up to the next level by installing the brand POS system into wholesale partners' boutiques to effectively track routes to market.

IP Protection. The rise in the number of listings at significantly lower (50%+) discounts across platforms such as Taobao raises the concern about potential IP infringement through counterfeiting. IP protection teams must work to ensure brand equity is not harmed through an inauthentic product experience for consumers.

About Re-Hub

Re-Hub empower LUXURY BRANDS to OPTIMIZE BRAND VALUE by providing data-driven ANSWERS enabling brand GROWTH.

Through our proprietary Data&AI tracking platforms we deliver insights across brand-owned channels, grey-markets, and pre-owned markets respectively in order to gain clarity, alignment, and direction for business strategic optimization in China.



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By Platform

The intersection of Daigou conversations with platform names helps us understand which platforms are driving the most consumer interest and conversation on the Daigou topic. Looking at the data in Figure x we can see that the highest number of posts comes from discussions about Taobao, with WeChat second, DeWu third and TMall in last.

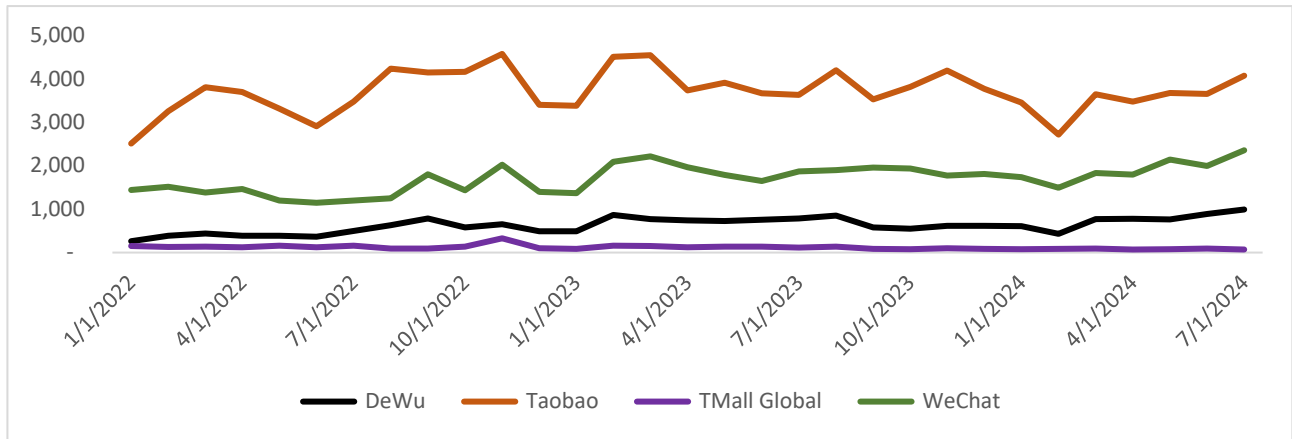


Figure 7: Hotel and Flight booking recovery volume as of July 10th - Ctrip

The post content reflects the nature of the different platforms, with Taobao and WeChat being more directly related to individual sellers, offering advice on how to identify authentic sellers or those that may be misleading in their offerings on the platforms.

Sample posts from Taobao describe the process of purchasing the item, authenticating it separately, and then identifying them as fake goods.

In posts related to WeChat, there are often suggestions of reliable Daigou who can purchase goods for you along with their direct WeChat account.

Other posts relating to DeWu are looking for others to help with product authentication due to their lack of trust in the products.

