



CL

The China Luxury Market

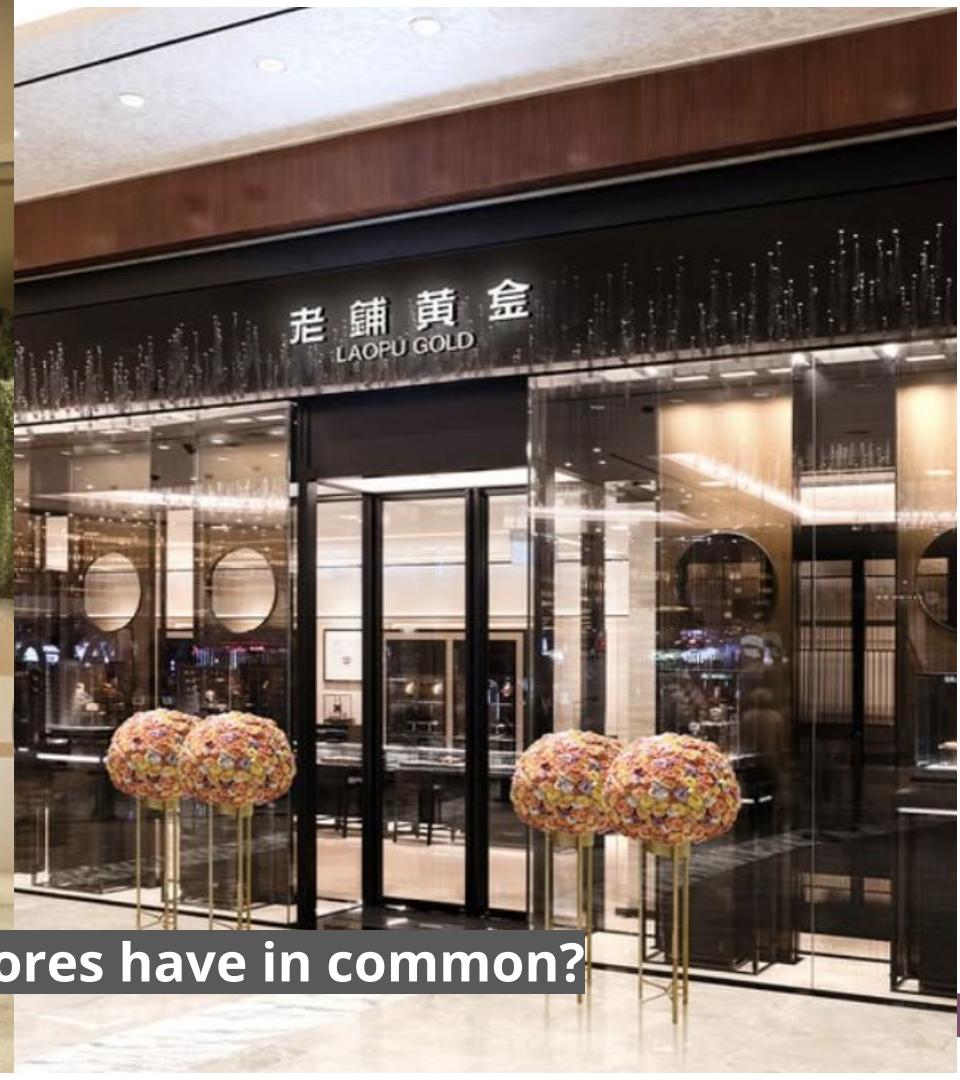


ABOUT CLA

CLA is a global consultancy that advises and works collaboratively with brands, retailers, investors, technology companies and scaleups. With a focus on retail and innovation, CLA works closely with its clients to identify growth opportunities globally, accelerate innovation and create go to market strategies.

Established in 2011, CLA has decades of experience with cross-border expansion, particularly across Asia, North America and Europe.

Songmont



What do these two stores have in common?

Chinese luxury consumers aren't abandoning luxury—they're redefining it. The top 20% of brands are accelerating. The bottom 75% are falling behind. Chinese challenger brands understand why.

- Only 21% of brands are optimistic about China in 2026—down from already weak 2025 levels
- Yet China remains one of the world's two most important consumer markets
- The question isn't whether to be in China—it's how to survive what I call the 'K-shaped reckoning'

01

THE VALUE SHIFT: FROM LOGOS TO LONGEVITY



The Macro Picture

- **Consumer confidence:** 89.6 (Sept 2025)—highest in 3 years but still below pre-COVID 120+
- **The paradox:** Confidence rising, but spending shifting dramatically

The Old Luxury Equation:

Status symbols + logo visibility = luxury value

The New Luxury Equation:

- 56.3% of consumers now prioritize "happy spending" (emotional satisfaction purchases, up 16.2% from 2024)
- Wellness + experiences + cultural resonance = luxury value

ECONOMIC ENDURANCE

CONSUMER SENTIMENT HAS SHIFTED TOWARD A SENSE OF LONG-TERM ENDURANCE

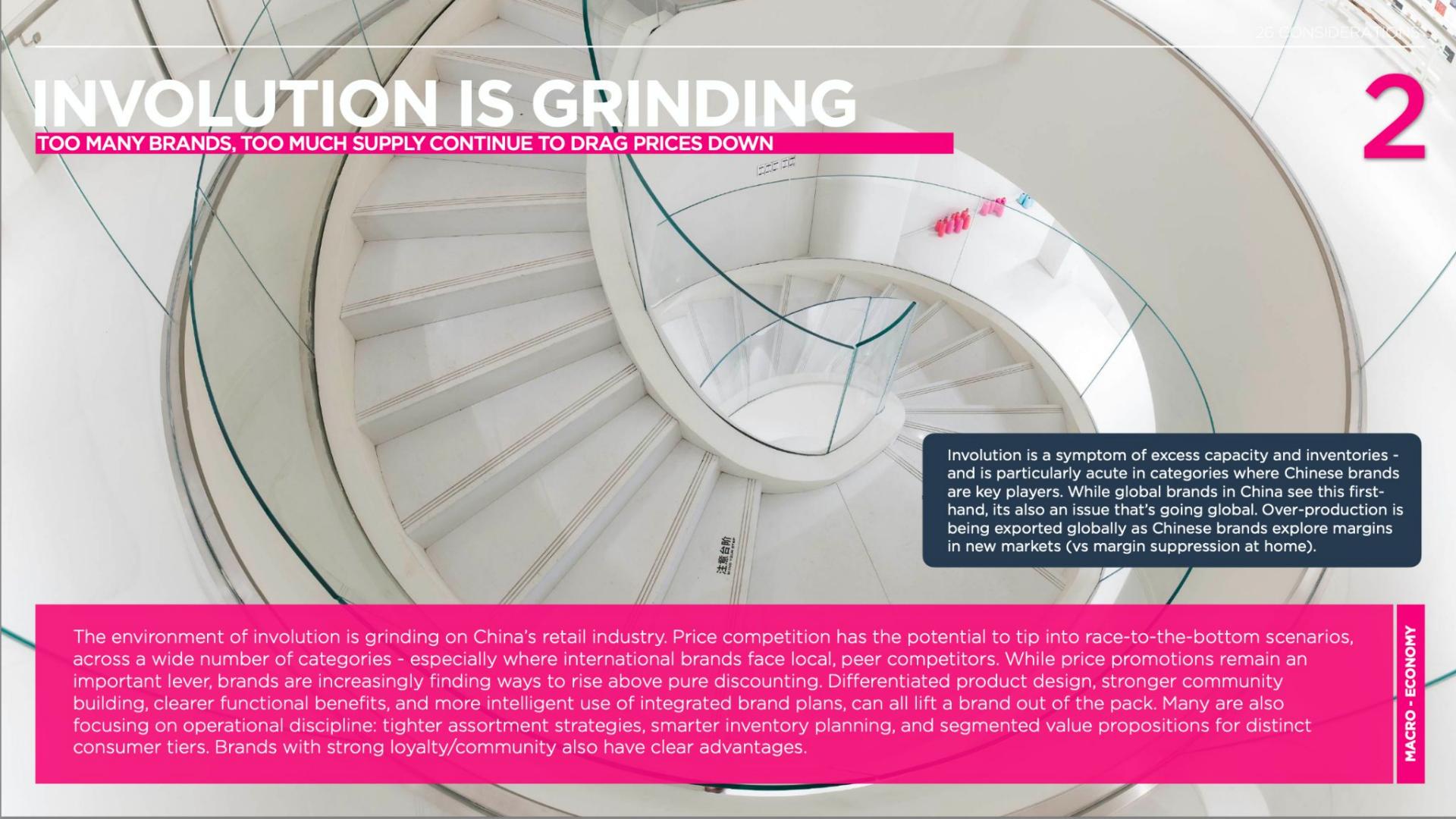
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As noted in previous years' Totem reports, despite the economic challenges, China remains as one of the top two consumer markets globally, together with the US. And, as such, China is still an important prize for global brands. There are signals that China's deflationary cycle is nearing a bottom, with retail poised for a rebound.

China's economy in 2025-26 is navigating a complex period. On the surface, headline indicators—GDP growth and aggregate consumption—are holding up. But behind these topline numbers lies a far more challenging reality. Consumers are more selective, trading down or delaying purchases, and the once-automatic velocity of discretionary spending has weakened. Businesses, meanwhile, face tighter margins, intense price competition - involution. The structural overhang from real estate, combined with a multi-year correction in private-sector confidence, continues to shape sentiment. China's "growth" feels less like acceleration and more like carefully managed resilience. The economy remains large and dynamic—but the era of easy momentum has clearly passed.

INVOLUTION IS GRINDING

TOO MANY BRANDS, TOO MUCH SUPPLY CONTINUE TO DRAG PRICES DOWN

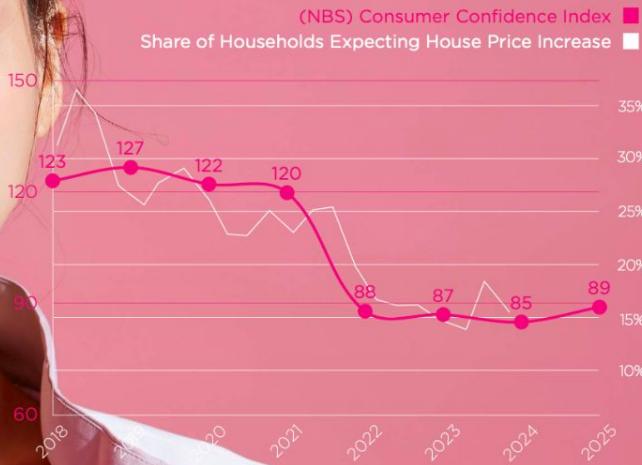


Involution is a symptom of excess capacity and inventories - and is particularly acute in categories where Chinese brands are key players. While global brands in China see this first-hand, it's also an issue that's going global. Over-production is being exported globally as Chinese brands explore margins in new markets (vs margin suppression at home).

The environment of involution is grinding on China's retail industry. Price competition has the potential to tip into race-to-the-bottom scenarios, across a wide number of categories - especially where international brands face local, peer competitors. While price promotions remain an important lever, brands are increasingly finding ways to rise above pure discounting. Differentiated product design, stronger community building, clearer functional benefits, and more intelligent use of integrated brand plans, can all lift a brand out of the pack. Many are also focusing on operational discipline: tighter assortment strategies, smarter inventory planning, and segmented value propositions for distinct consumer tiers. Brands with strong loyalty/community also have clear advantages.

A FLICKER OF OPTIMISM

WHILE ENDURANCE AND UNCERTAINTY REIGN, THERE ARE SIGNS OF IMPROVEMENT

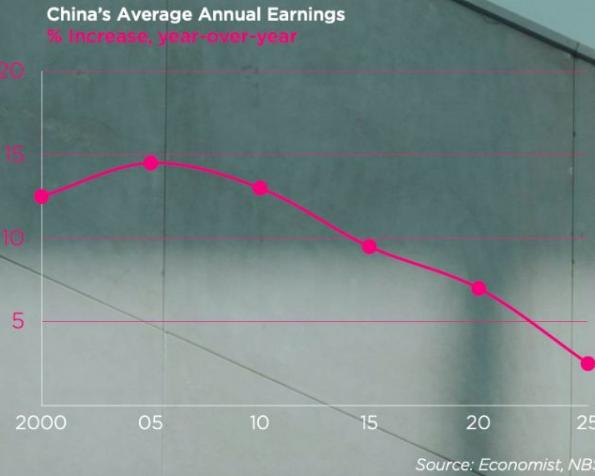


There are some signs of re-emerging optimism among China's consumers. The National Bureau of Statistics (NBS) consumer-confidence index rose to about 89.6 in September 2025 — the highest level in almost three years. Even without any rebound in property prices, many households appear to be re-calibrating expectations in line with a more modest economic environment - and returning to a more positive mindset.

Retail consumption expanded by 4.3% during the first 10 months of 2025 (according to NBS), while first half 2025 was a 50% improvement over 2024. During that same time period, online sales growth was in the range of 5.6%, per Moojing data (8.5% year-over-year, according to NBS).

CONFIDENCE STILL INFLUX

THE LONG-TERM VIEW ON CHINA'S CONSUMER POINTS TO ADDITIONAL CHALLENGES

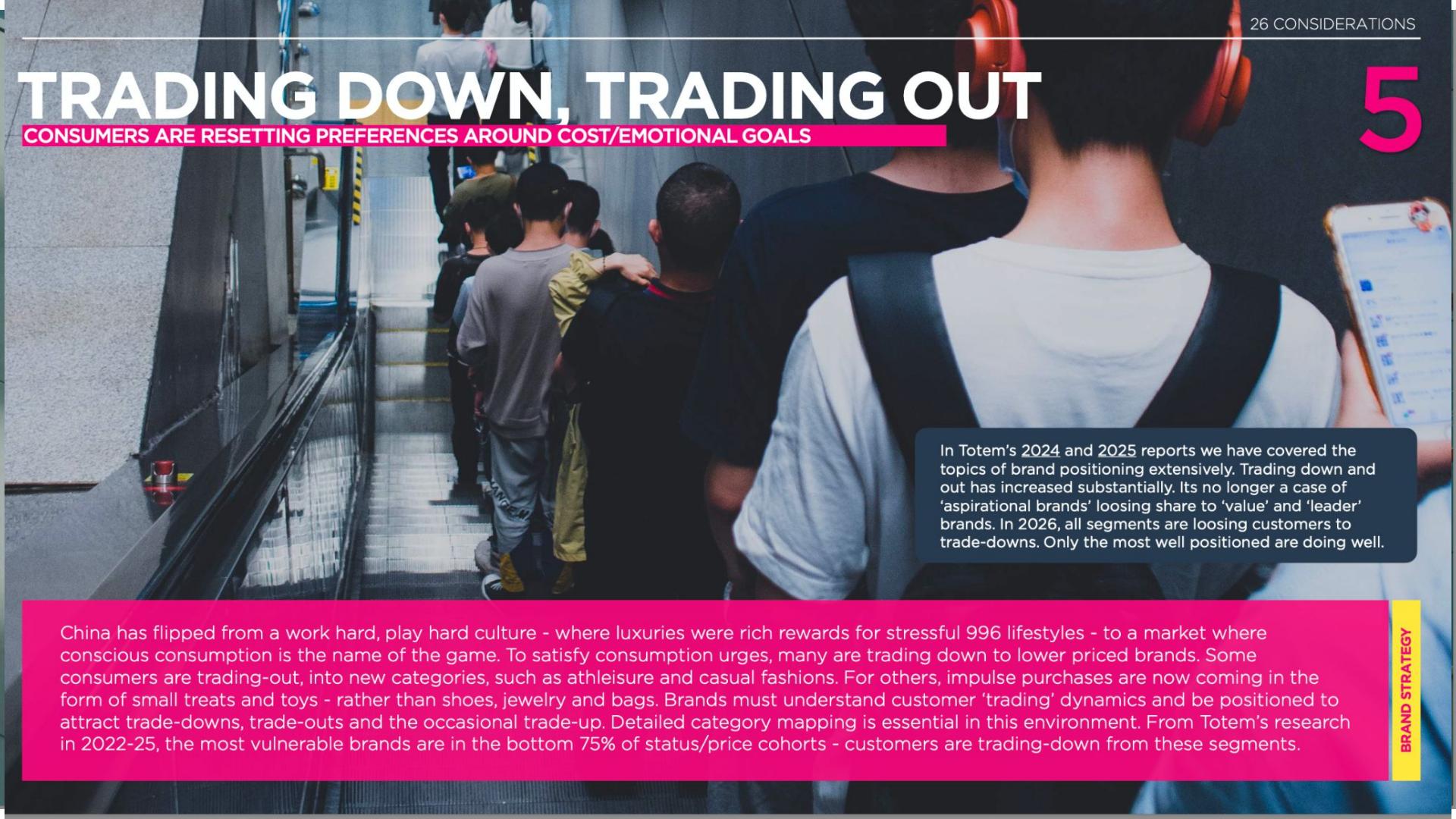


There is a growing class of disenchanted white collar workers in China who do not see the upside from working '996.' The 'Layflat' counterculture and movement of people to more simple work-life scenarios is a reflex to China's slowdown. The fashion brand, 'Monday Sleeping Club' serves as a poignant emblem of the current state of play.

With the wealth effect (from property values) having mostly receded in China over the last few years, wages and employment prospects become a more important consideration when measuring consumer sentiment. According to data from The Economist (and China's NBS), wage growth has been steadily falling since 2000, which follows the long-term cycle of rapid growth, leveling off, and maturity of an economy like China. These persistent declines raise the level of uncertainty. There is however an argument that suggests Chinese may be more likely to view their prospects in relation to how they are doing versus the average (more than people in US/EU who might be more subject to marginal increases/decreases). If that is true, then relative confidence may hold stronger, for longer, if everyone is leveling-down by similar rates in China.

TRADING DOWN, TRADING OUT

CONSUMERS ARE RESETTING PREFERENCES AROUND COST/EMOTIONAL GOALS



In Totem's 2024 and 2025 reports we have covered the topics of brand positioning extensively. Trading down and out has increased substantially. Its no longer a case of 'aspirational brands' loosing share to 'value' and 'leader' brands. In 2026, all segments are loosing customers to trade-downs. Only the most well positioned are doing well.

China has flipped from a work hard, play hard culture - where luxuries were rich rewards for stressful 996 lifestyles - to a market where conscious consumption is the name of the game. To satisfy consumption urges, many are trading down to lower priced brands. Some consumers are trading-out, into new categories, such as athleisure and casual fashions. For others, impulse purchases are now coming in the form of small treats and toys - rather than shoes, jewelry and bags. Brands must understand customer 'trading' dynamics and be positioned to attract trade-downs, trade-outs and the occasional trade-up. Detailed category mapping is essential in this environment. From Totem's research in 2022-25, the most vulnerable brands are in the bottom 75% of status/price cohorts - customers are trading-down from these segments.

SO-SO SALES FESTIVALS

DOUBLE 11 AND 618 OVERSHADOWED BY OMNI-PRESENT DISCOUNTING

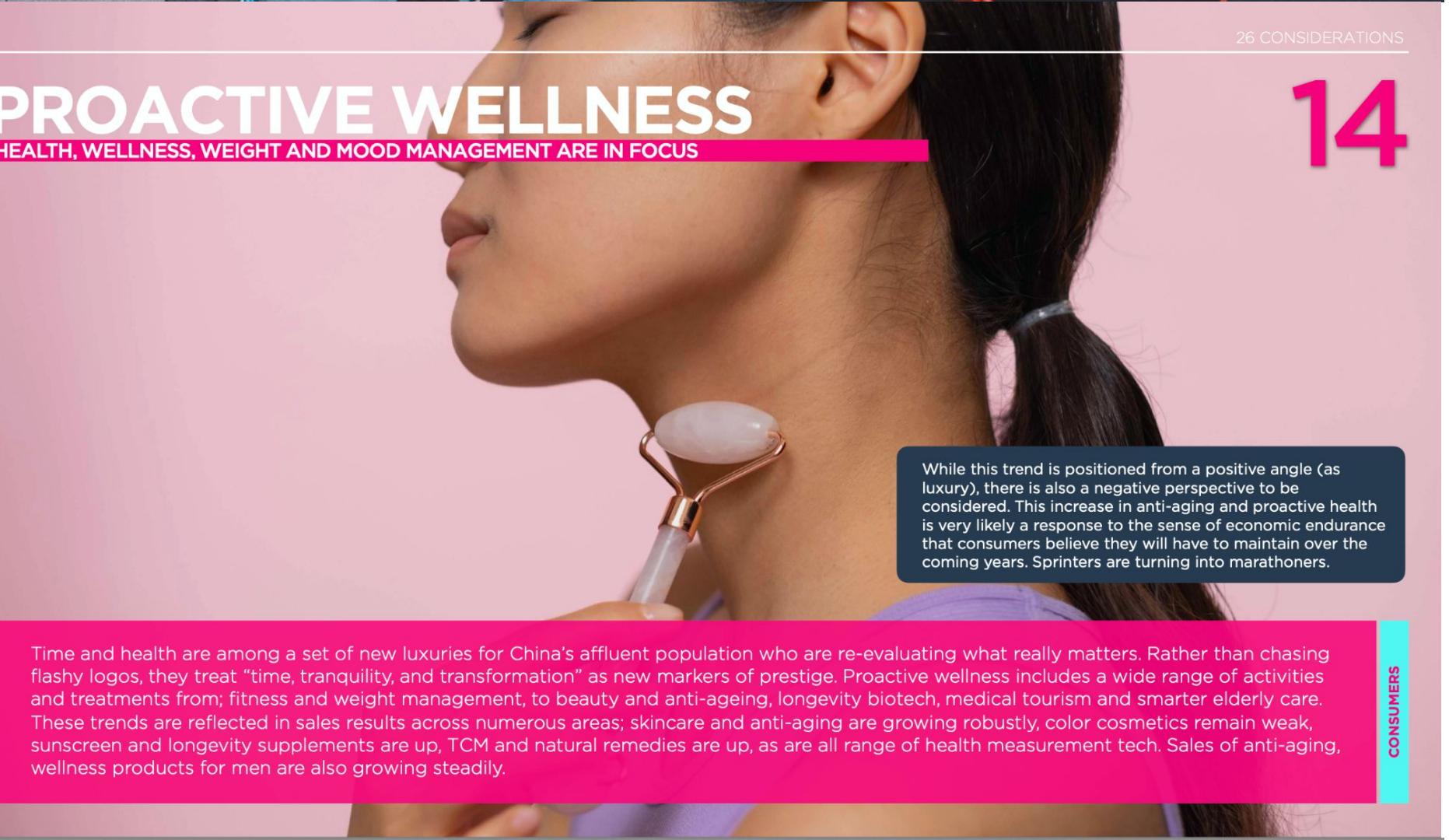
A smaller, select group of brands out-performed during Double 11 in 2025. Where in previous years the gains were a bit more even, in 2025, a more select set of brands were standout winners. Brands with YOY increases included; Lululemon, Uniqlo and Dior (according to data from KFD), where the majority of others within category declined.

Double 11 in 2025 delivered modest but stable results: a longer sales window and higher order volumes, but lower average cart values. China's major sales festivals—once the defining peaks of the retail calendar—continue to lose some of their punch, as discounts have become omnipresent throughout the year. Consumers are increasingly desensitized to discounts, so when the festivals ramp up, most of the staple purchases have already been made. Shoppers are no longer buying things they "sort-of want" just because they're discounted. Instead, they're using 618 and Double 11 as decision triggers to finally purchase the items they truly love. This cycle is becoming less about price and more about carefully chosen brands that have earned a spot in consumers' shrinking consideration sets.

PROACTIVE WELLNESS

HEALTH, WELLNESS, WEIGHT AND MOOD MANAGEMENT ARE IN FOCUS

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A close-up photograph of a woman's profile, showing her neck and ear. She is using a rose quartz facial roller on her neck. Her hair is pulled back in a ponytail. The background is a soft pink.

While this trend is positioned from a positive angle (as luxury), there is also a negative perspective to be considered. This increase in anti-aging and proactive health is very likely a response to the sense of economic endurance that consumers believe they will have to maintain over the coming years. Sprinters are turning into marathoners.

Time and health are among a set of new luxuries for China's affluent population who are re-evaluating what really matters. Rather than chasing flashy logos, they treat "time, tranquility, and transformation" as new markers of prestige. Proactive wellness includes a wide range of activities and treatments from; fitness and weight management, to beauty and anti-ageing, longevity biotech, medical tourism and smarter elderly care. These trends are reflected in sales results across numerous areas; skincare and anti-aging are growing robustly, color cosmetics remain weak, sunscreen and longevity supplements are up, TCM and natural remedies are up, as are all range of health measurement tech. Sales of anti-aging, wellness products for men are also growing steadily.

SPORTS INTEREST IS ROLLING

PARTICIPATION, ASPIRATION AND VIEWERSHIP IN SPORTS IS PRIMED FOR 2026

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Live-streaming is rising to meet the growth in sports and fitness head-on. In the fitness space, coaches are hosting 'social workouts' - 30-60minute sessions with group instruction, live Q&A, and links to gear and supplements. Look for this trend to expand further into other sports areas, in support of rising need for tips, coaching and community.

China's interest in sports accelerated sharply in 2025, underpinned by the post-pandemic shift toward healthier lifestyles, the rise of outdoor culture, and a boom in participation-led categories from running to tennis. Fitness apps, marathons, city cycling groups and padel courts all surged, reflecting a deeper, more habitual engagement with sport rather than short-lived trends. Sales of sports related gear advanced in equal measure. Sales of tennis, cycling, running, fitness/gym, outdoor/hiking gear are leading the way. 2026 is a year chock-full of big sports moments, including the Winter Olympics in Italy (Eileen Gu, An Xiangyi, among others will raise national interests further), and the FIFA World Cup. The sports movement in China is however, much more grassroots now, so these big events really just boost foundational excitement.

ATHLEISURE IS THE NEW LUXURY

HIGH-END ATHLEISURE AND SPORTWEAR ARE MUSCLING INTO THE LUXURY SPACE

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The shift towards sportswear (away from flashy luxury) appears to be a secular trend, aligned with (1)an increase in the experience economy, (2)more sports participation, and (3)a pivot in what signals luxury and status. In the current environment, having the time to pursue sports/hobbies is a mark of status (where others are stuck in the office).

Flashy luxury and streetwear are under pressure. Recent data from Moojing show ecommerce YOY declines in the range of 35-50% for "flashy" luxury and streetwear labels, such as Balenciaga (down 48%), Off-White (down 70%), and Stussy (down 38%). At the same time, outdoor brands (eg. Arcteryx, Salomon), together with niche sport-specific brands (eg. Pas Normal and Tracksmith) are surging. Athleisure brands Lululemon (up 42%) and On Cloud (up 119%) are very much at the core of a pivot from 'flashy' luxury to a more casual, sports centric mode. 'Basics' brands like Uniqlo (up 27%) also fall on the right side of this pivot to 'quieter' fashion. Polo has done a good job of finding the right line (up 59%). Mass sports labels seem to be struggling to dial-in the right balance. While Adidas is up 21%, Nike is down 14% and ANTA is down 8%.

FEEL GOOD PURCHASES

SMALL TREATS, COMFORT AND NOSTALGIC PURCHASES HAVE SERIOUS MOMENTUM



Brands must look to identify consumers' emotional centers in their approach to marketing. Nike's soup activation in Guangzhou was good attempt at breaking through. Food sits at the emotional center for (most) people in China - it is joy and comfort. The challenge for brands is finding emotional touchpoints which are also brand relevant.

2025 was the year of Gelato in China. This surge in ice cream shops follows an explosion in coffee ('22-23), fragrances ('23-24), a persistent rise in small collectibles, toys, plush ...and shift to nostalgia and preppy style. People are in search of comfort, happiness and small moments of joy.

For decades, China's breakneck pace of growth kept everyone looking forward to the future, with little opportunity to enjoy 'the present' - and zero opportunity to look backwards to the past. With the slowdown in the economy (and future prospects), that dynamic has shifted hard towards feel good moment and purchases. Together with the shift toward experiences (vs products), this is a defining consumer shift for 2026.

EXPERIENCES > PRODUCTS

EXPERIENCE CONSUMPTION CONTINUES TO OVERSHADOW PRODUCTS

10



Product brands should be participating in the shift towards experiences - offering branded experiences either for free (as part of CRM) or as premium, paid offerings. Research by EY in 2025 suggested that 84% of luxury consumers in China were willing to pay for a brand experience if it was not offered for free.

As part of a broader, secular realignment in China, towards more conscious consumption, the experience economy continues to gain ground (outpacing products consumption in many cases). There is a growing awareness and consciousness around values, ethics, morals, and building a life of purpose. It's not just about work anymore in China. A report by Generation Z showed that 56.3 percent of Chinese consumers choose "happy spending" in 2025, defined as paying for emotional satisfaction or personal interests, up 16.2 percentage points from 2024. Personal growth and the idea of expanding one's view of life is another key emotion supporting the rise of experience consumption. Travel, sports, adventure, education, health and personal services are all key areas for growth. Correspondingly the service sector is growing quickly.

CHINA'S NEW 20:80 RULE

THE TOP BRANDS PER CATEGORY WILL OWN LARGER SHARES OF MARKETS

PURCHASED A NICHE BRAND IN PAST 12 MONTHS (CHINA)



Source: Bluebell 2025

While weaker players in mainstream categories are getting passed over, consumers still have interest in niche brands. Survey data from Bluebell suggest that a majority of China's consumers purchased niche brands showing there is room for (hot) new brands. For larger brands, the lesson is in harnessing the thrill of discovery while building assortments which play well in niche (on trend) areas of interest.

Moving forward a small number of brands (20%) may dominate the bulk of any single consumer's attention/consideration (80%). In China's old retail paradigm, consumers were incredibly promiscuous, wanting to sample an incredible range of brands as-and-when they became available or whenever they came into the trend spotlight. In this environment, China was able to support an incredible number of competitors in each category - more category players than any other market globally, by a long measure! As consumers become more conscious and selective, we are seeing a growing volume of brands falling out of the market. The bottom 75% of brands in each category/cohort are at risk of falling-out as a result of a narrowing market, together with trade-downs & outs. Persistent price competition adds margin pressures to an already tight market.

Three Predictions for 2026

1



Involution continues to loom large in China's retail environment, driving prices and margins lower.

Despite prices being soft, consumers are cautious, leading to a retail/marketing environment which is challenging.

Brand surveys reveal a K-shaped pattern among brands in 2026, with some brands doing very well, and a large group of others struggling.

In this context, we see a path ahead where fewer brands gain a larger share of the market ("China's new 20:80 rule").

To succeed brands must have strong price/positioning strategies, as well as crystal clear audience insights and alignment.

2



Brands succeeding in China are activating constantly ...creating fresh, compelling products and experiences for customers.

Large brand pop-ups (activations) were the defining feature of China's marketing environment in 2024-2025.

These large scale 'brand ceremonies' have made an impact with consumers. But, they also point to a crisis of confidence in retail - with sales teams trying to re-spark growth on the fly - as brands struggle to balance evolving customer interests, together with high marketing costs and retail footprints which don't always work effectively.

Brand activations need to be more fully evaluated as part of comprehensive brand playbooks - rather than being ad hoc 'hail mary's.'

3



Consumer preferences are changing quickly, with experiences (and feel good) consumption outperforming status products.

The last few years have seen significant pivots in consumer interests, especially among younger segments. Most of these pivots are a direct result of changing social and economic conditions.

Experiences are surging ahead of products, with travel, entertainment and activities (eg. Sports) benefiting strongly. Preppy, sports and athleisure fashions are edging out traditional luxury and pricey streetwear brands.

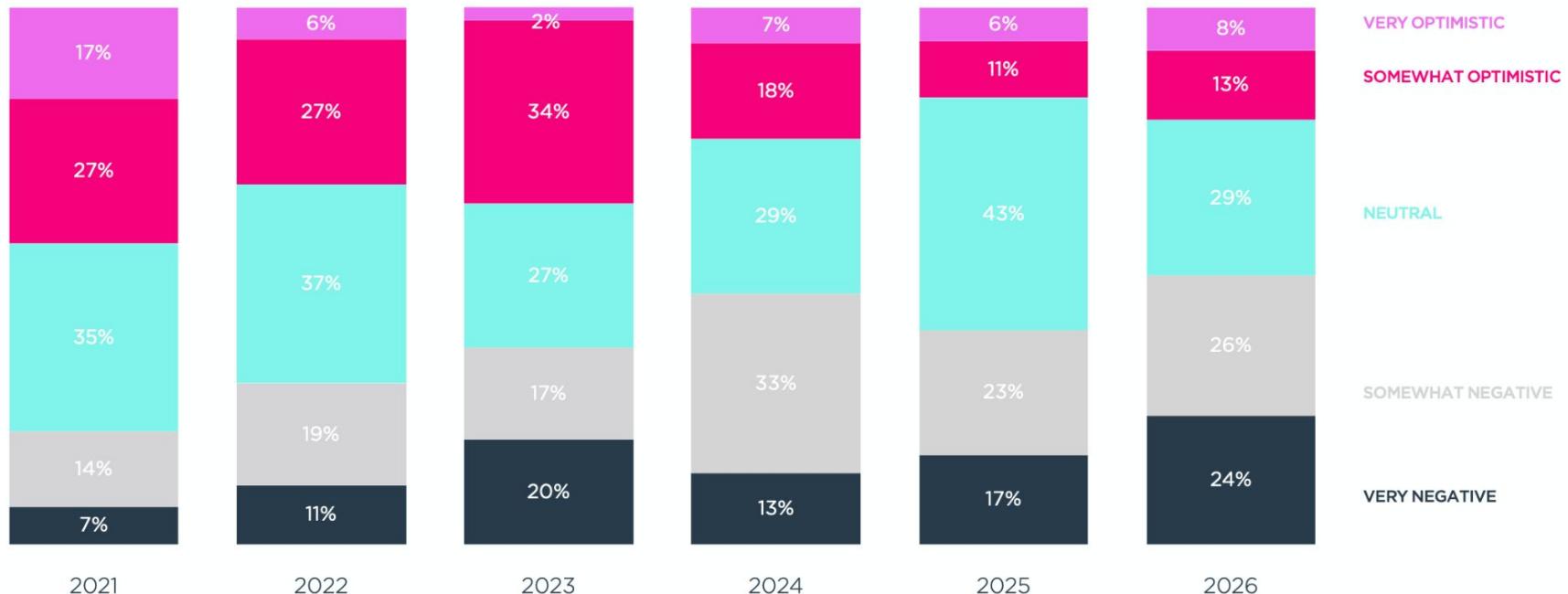
Feel good products (food, toys, accessories) are more affordable (to satisfy the urge to buy) and provide a degree of comfort (joy) during an uncertain, volatile period.

CHINA IN AN ERA OF ENDURANCE

Brands and consumers in China have largely come to grips with what is a new paradigm for growth, which is slow, sticky and unpredictable. Exuberance of the pre-Covid era has been replaced by a sense of endurance.



HOW WOULD YOU DESCRIBE YOUR OVERALL OUTLOOK FOR NEXT YEAR?



Source: Totem Media Brand Survey (2021-2026)

08

CHINESE CHALLENGER BRANDS
TO WATCH IN 2026

1

HERBEAST



- TCM-based skincare focused on Reishi mushroom as hero ingredient
- Founder trained in France, worked 5 years at L'Oréal Paris
- Sustainable packaging: refillable serums, recycled paper boxes, no plastic
- "East Living Room" retail concept blending lifestyle and product
- Publishes own lifestyle magazine (Gap City) unrelated to beauty
- Positioning: "Gentle yet powerful" - educating consumers on TCM efficacy

2

SONGMONT



- Affordable luxury bags designed and made in China with unique aesthetic
- Draws inspiration from ethnic minority cultures and traditional Chinese crafts
- Strategic global expansion: Paris Fashion Week popups (offline) + D2C e-commerce in US
- Smart influencer strategy: bicultural celebrities like Alex Chung who appeal to both Chinese and Western audiences
- Visited by Bernard Arnault (LVMH Chairman) during recent China trip
- Price point: ~\$150 for quality bags



- Joint venture combining three powerhouses: Huawei (software), CATL (battery), Great Wall Motors (design)
- Luxury EV with lie-flat business class seats and "nap mode" feature
- Designed specifically for Chinese consumer behaviors (backseat passenger experience)
- Starting price: ~\$30,000 USD
- Already expanding to Singapore and Middle East markets
- Demonstrates deep understanding of local user experience needs

4

TO SUMMER



- Heritage tracing project: collaborated with French fragrance house Robertet
- First to extract fragrance oils from aged Pu'er tea and Cantonese orange peel
- Added Chinese ingredients to official international fragrance ingredient list (FRAG list)
- Makes Chinese cultural elements relevant and accessible globally
- Resonates with Chinese consumers' cultural pride
- Product innovation that exports Chinese culture to global stage



- Efficiency-focused model: minimal store footprint, primarily takeout/delivery
- Conquered white-collar urban worker segment that Starbucks is losing
- Hero product: Coconut Latte
- Considerably cheaper than Starbucks with 30-minute delivery
- Expanding to US market
- Thrived after near-collapse, now stronger competitor to Starbucks in China

6 DOCUMENTS



- Cross-category innovation: fragrances + agarwood jewelry/prayer beads
- Natural brand extension: agarwood used in both fragrance and traditional Buddhist beads
- Believed to ward off evil and protect wearer
- Cultural storytelling woven throughout product line
- Shanghai flagship offers full lifestyle experience
- Bridges luxury fragrance with Chinese spiritual/cultural traditions

7

MAOGEPING



- Founded by China's first generation celebrity makeup artist
- Differentiation through service: professionally trained makeup artists provide free makeup in stores
- Serves underserved consumers who can't afford professional makeup services
- Built on existing beauty school infrastructure and expertise
- Products designed specifically for Asian skin tones
- Smart retention strategy: free touch-ups before dates, interviews, special events

8

YUSUMTONG



- Modern Chinese tea brand challenging traditional tea culture perceptions
- Rooted in Chinese cultural elements with contemporary appeal
- Leverages cultural connectivity while maintaining modern sophistication
- Example of how Chinese brands are elevating traditional categories with innovation
- Demonstrates shift from tea being seen as "old-fashioned" to culturally cool

Three Imperatives for Brands in China 2026

1. Redefine Your Value Proposition

- Emotional satisfaction > Logo visibility
- Experiences + wellness + cultural resonance = new luxury

2. Learn from Chinese Challenger Brands

- Product innovation at speed (Herbeqst, Two Summer)
- Cultural storytelling that resonates (Documents, Songmont)
- Service differentiation (Mao Geping, Luckin)

3. Accept the New Reality: Fewer Winners, Bigger Gaps

- The 20:80 rule is here to stay
- Top brands will accelerate, bottom 75% will struggle
- Question isn't WHETHER to be in China—it's HOW to be in the top 20%