

# The Daigou Index 2.0

The biggest threat to luxury  
in the next five years

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‘ For your image,  
there is nothing  
worse {than Daigou}.  
It’s dreadful ’

- LVMH Chairman, Bernard Arnault in  
January 2023

The Daigou market in China represents an estimated **\$81B USD** problem. Since 2019 we estimate the market has **grown over 40%** and has seen an increase in the levels of professionalization, as well as more platforms emerging serving the growing market.

Your typical Daigou now is more than likely a **large organization with significant buying power** rather than your average Chinese international student making a bit extra on the side.

However, brands are **not always aware of the scale and dynamics** that sit behind this side of the grey market in China and in this paper, we aim to highlight, using a single month in 2023, the size and complexity of addressing the **biggest potential threat to luxury brands in the next five years**.

# Executive Summary

- The Daigou market has **grown nearly 40% since 2019**, to an estimated **\$81B USD for all industries\***. The luxury sector plays a key role in this overall market, as **the category is uniquely suited** to align with the driving forces that drive Daigou's businesses (price differentials across borders, scarcity, exclusivity etc.)
- Daigou businesses have become **more professional** - scaling up operations significantly. These 'corporate' Daigou can access products at volume and can in turn **disrupt brands' strategies** in the local China market.
- The Daigou channel was stimulated in China in 2020 and 2021 by **surplus global stock from brands** unable to account from drops in demand as the pandemic circulated and undulated around the world. This has led to some left-over **bad habits from brands** looking to maintain sales targets.
- Our data (for 10 top luxury brands across key categories) shows for the month of **August 2023 over 350,000 units were sold** representing a combined revenue of **~2 billion RMB**. Taobao represents only 26% of the revenue generated, while DeWu has emerged as a market leader at 73% of revenue.
- Revenue is concentrated around hero, evergreen style products that most brands would expect to be selling in stores. **Price differences can range from a premium to a 50% discount** against China recommended retail price. This correlates strongly to both the brand premium perception and the focus on wholesale management by the brand.
- Some products are being sold at **prices lower than would be available at HQ retail** with tax rebates, highlighting that one key route to market can be through distribution/wholesale.
- The road to grey market control is a long one, with **the need for uncomfortable conversations** across borders and departments including management, organization, marketing, pricing, and retail operations. Every journey starts with a single step, and we believe this is **beginning to monitor the situation more closely**.

Estimated using Re-Hub analysis and Statista data projections for 2020, 2021, 2022, and 2023.

# Introduction

## The Daigou market in China

The term “Daigou,” meaning “buying on behalf of,” became popular in China due to the significant price differences between goods in China and abroad. In the early days, there was also an element of being able to access brands otherwise unavailable in the Chinese market. Daigou essentially act as personal shoppers that buy luxury goods from overseas markets for Chinese consumers motivated by saving money, as high import taxes and other factors create price differentials. Another reason for the rising popularity of Daigou is their reputation for providing authentic luxury products, building trust with their consumers in a market plagued by counterfeit product fears. The Daigou industry has drastically influenced the luxury market, leading to both benefits and challenges.

The Daigou trend has led to a boost in sales for brands (primarily in non-Chinese markets) and altered traditional distribution channels and consumer behavior. However, it also poses challenges to local retailers and brands in terms of lost revenue, as transactions often occur outside official distribution channels. Brands must strive to find a balance between ensuring growth globally and ensuring brand equity locally.

Daigou have benefits. They help shape market demand acting as an organic marketing channel. Products purchased will often find their way into social media posts of buyers, creating organic buzz and overall brand awareness. Whatever commercial challenge they pose, any action taken may result in an overall decline in brand popularity and must be balanced with an associated uptick in marketing investment locally. Daigou also play a key role in new brand adoption in China. By supplying goods of new and emerging brands, the demand for those goods is grown organically through the resulting buzz created around them. This has in turn helped foster growth in e-commerce platforms like Taobao, JD.com, and Tmall.

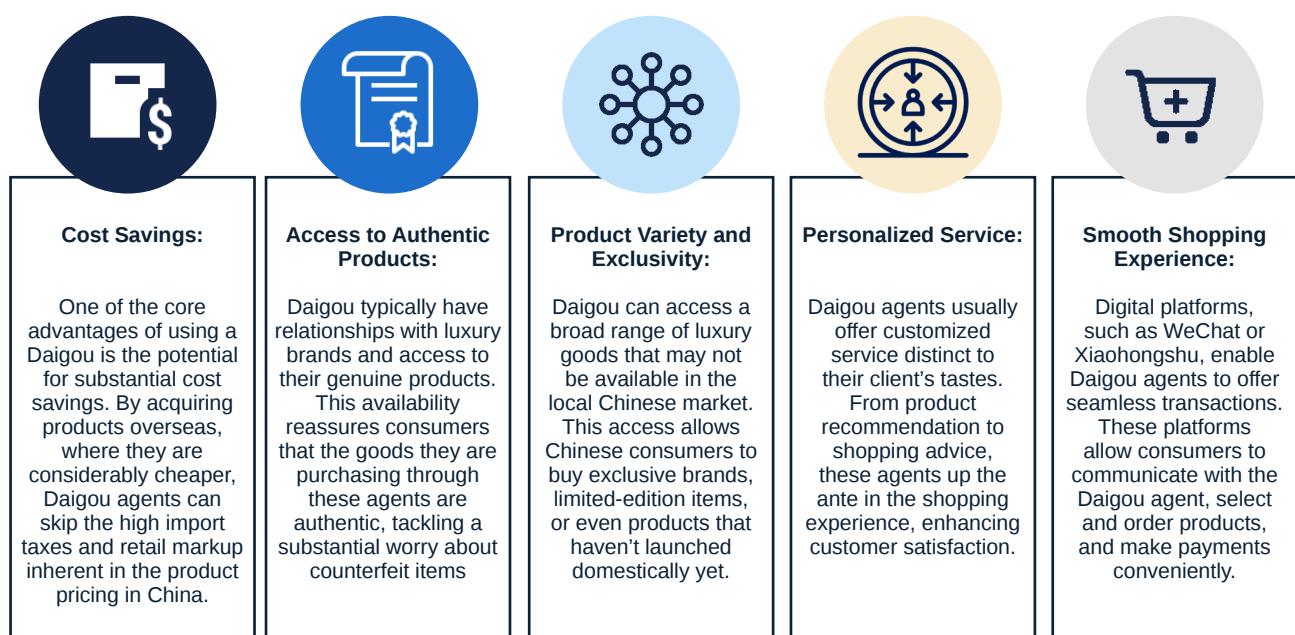


Figure 1: The key drivers for consumers to engage with Daigou in the Chinese market

The Daigou phenomenon is a trend born out of demand within the Chinese market. The trend itself presents significant commercial challenges for brands; pricing strategies; distribution chains; promotions and discounts; and internal management structures all of which are up for debate when it comes to solving the issues Daigou present. At the same time however, Daigou give us significant insight into China's dynamic luxury market helping influence trends, online retail dynamics, brand reputation, and the competitive landscape. The challenges and opportunities presented by Daigou do not exist in isolation and exist in symbiosis with your brand, the market, and consumers.

## What has changed since COVID-19?

The Daigou industry in China has undergone significant changes since the onset of the COVID-19 pandemic. To understand how the market has changed, we can factor these changes into two categories, push factors – factors that have move Chinese consumers away from Daigou and pull factors – factors that have attracted more attention to the Daigou market.

### Push

**Daigou Margin Pressure:** With China being (from a consumer perspective) reasonably cut off from the rest of the world during the COVID-19 pandemic, the length and impact of the lockdown made conducting Daigou type businesses more difficult. The increased logistic costs and difficulties has resulted in a significant downturn in small Daigou operations – these are your typical Taobao seller – who live in a foreign country and have access to luxury goods at in-market prices. Considering all the costs associated with purchasing, shipping, and in-market logistics, margins were (and continue to be) razor thin.

**Government Crackdown:** This has been coupled with a government crackdown on the grey market of Daigou sellers, who were not paying taxes on their imported goods. The government tightened regulations on cross-border e-commerce, which has made it more difficult and costly for Daigou sellers to operate in China. This has led to a decline in the number of these smaller Daigou sellers, as many have either gone out of business or transitioned to more compliant business models.

**Local Luxury Development:** Another factor that has affected the overall demand is the significant developments that have been undertaken by brands in China to provide an improved, localized, and higher level of premium experience for Chinese consumers. The lack of Chinese travelers in flagship stores in Paris, London and Milan have led to a focus on building the brand owned offline retail ecosystem – with many brands expanding their coverage not only within Tier 1 cities (Shanghai, Beijing, Chengdu) – but also store openings in lower tier cities such as Xiamen, Fuzhou, and Dalian.



The store themselves are one aspect, but an increased focus on staff training to be able to provide more customized and personalized experiences, empowered with new digital tools (especially with the rise of WeCom – the enterprise edition of WeChat) has enabled Store Assistants to be able to provide personalized product recommendations, provide special offers on consumer relevant occasions (birthdays, anniversaries etc.) and track omnichannel behavior in real time. We previously highlighted the ability for Daigou to provide personalized experiences to replace the brand experience, however brands have upped their game – closing the experience gap.

**Digital Luxury Development:** Another important push factor has been the development of luxury in the digital sphere. In November 2020 many brands were still yet to open on TMall, and even less had presence on other platforms such as JD. Now in 2023, with the notable exception of the majority of LVMH brands, brands often leverage TMall (and other platforms) for new user acquisition, thereby increasing the overall availability of a wider range of products and special offers to a much broader spectrum of Chinese consumers.

## Pull

**Rise of New Cross-Border Platforms:** Platforms such as DeWu have drastically increase the availability of cross-border products. Their “authenticate first, ship later” approach, lenient return policies, user-friendly interface, and wide range of products (often at attractive discounts) provide a safer alternative to engaging with individual Daigous on multiple platforms.

**Economic Uncertainty:** Within the current macro-economic context characterized by low consumer sentiment, middle-class aspirational consumers are becoming more cautious with their spending. They now think twice before splurging on luxury products, and as a result they may prefer to buy products at a discount from Daigous rather than purchasing directly from the brands.

**GenZ Attitudes:** Chinese GenZ consumers have been shown to exhibit less brand loyalty and are keen on discovering and experimenting with new brands and products that align with their unique personalities. The ability to access limited-edition or unavailable products in China is undoubtedly an advantage for Gen Z consumers in their engagement with Daigous.

**Reversing Price Parity:** Luxury brands initially prioritized price harmonization initiatives to reduce price differences between overseas markets and China. However, due to trapped consumer spending, many brands raised prices in China to maximize profits. With the lifting of restrictions in 2023, the current price gap between Western markets and China remains significant for most luxury brands. Daigous capitalize on this price disparity by selling products in the Chinese market at discounted prices while still generating a profit.

**Supply:** In the early stages on the pandemic, Europe and the US had a demand shortage, while consumer demand in China was high. Some brands - knowingly, or not - turned to Daigous to sell inventory that ended up in Chinese market. This created many bad habits for brands wishing to prop up wholesale and HQ market retail revenues.



## The 3P Daigou Development Framework

As the market continues to develop, we envision that the 3P model outlined below will continue to shape the Daigou industry. Expect to see further professionalization - upgrading consumer experience, providing access to a wider array of brands, products, and services; strengthening of current platforms as well as the potential for new platforms to emerge; and a continued development in the private sphere. Brands need to be aware that the market does not remain static and need to be continually developing their experience to stay ahead of Daigous.

### Professionalization

If you were a Daigou in 2019, moving products around was comparatively easy. After the imposed travel restrictions, you moved into a sink or swim world. You needed to up your logistics game or look somewhere else for your money. The result? A consolidated market, with higher degrees of professionalization – less noise, more experience.

### Platformization

Companies in China have realized the potential for making a margin on product price differences, thus spawning platforms like DeWu – a platform that compared to some brand flagships on eCommerce has a much better experience, and compared to setting up your own Taobao store, helps you drive much more traffic, and for the end consumer, builds trust and security through authentication. Younger audiences may not be willing to take the risk to buy from a Daigou's Taobao store, but you can bet they'd buy from DeWu.

### Privatization

What we can see of the grey market is merely the tip of the iceberg. The biggest potential grey market platform is WeChat but given its private nature we will likely never know how much product is being bought and sold. Many sellers will think of Taobao, Douyin, RED eCommerce as a marketing platform to recruit people into their CRM – WeChat. WeChat Daigou can offer a tailored selection of goods, a speedy response to questions and for special customers, personalized shopping trips with a one-to-one livestream from the Paris flagship store.

## The current state of play

The landscape of Daigous has changed significantly given both the Push and Pull factors in line with our 3P model outlined above. This has led to a shift in the significance of different platforms, some of which had little to no relevance before.

Taobao still plays a huge role in the overall landscape, offering an easily accessible platform for buyers and sellers alike. However, the likelihood of finding counterfeit items is higher, and the consumer behavior we have witnessed is that there is a strong focus on bringing buyers into the sellers' private ecosystem through additional WeChat discounts available if the buyer adds the sellers' personal account.

Tmall and Tmall Global have much stricter entry requirements for merchants looking to sell on the platform. While there is still some unauthorized or grey market presence, our data extraction shows it is negligible.

JD.com has gone through great lengths over the past years to attract brands, and for brands that have an official presence on the platform, it is not possible to find grey market listings - this is true of brands that also have mini-apps integrated into the platform.

## The Daigou Digital Landscape for Luxury



Taobao was the typical location for individual Daigou to build prevalence through their shop and moving traffic to WeChat when appropriate.

No focus on authenticity or quality of user experience.

JD.com runs unauthorized retail for some brands – acting as somewhat of a Daigou, obtaining products from Travel Retail channels and Wholesalers.

Once official presence of the brand is established – Daigou listings are removed.

DeWu is the case study for an integrated Daigou platform – focusing on offering a platform between Daigou and consumers.

Heavy focus on building user experience and authentication has led to its success.

Douyin has become a home for live streamers after the rise of its ecommerce capabilities. Individual Daigou who used to sell on Taobao have found success in livestreaming their offers on the platform.

RED is similar to Douyin, although has seen a relatively lesser focus on building ecommerce capabilities.

The platform increases in relevance for the beauty category.

WeChat is the realm of private domain social selling. Daigous bring consumers into their own personal CRMs and conduct business behind closed doors.

The size of this market is unknown and unknowable.

Figure 2: The digital platforms most often used in Daigou transactions in China



DeWu has emerged in line with our trend of platformization. The company has created an integrated platform with a consumer centric experience. Our recent white paper - DeWu - The Crossroads of Chinese GenZ and Luxury Brands outlines the development of the platform. DeWu places a heavy emphasis on authentication of product and service, thereby adapting to the needs and pain points of current Daigou shoppers. A strong focus on experience has also led to conversion of consumers from other platforms such as TMall to DeWu.

Social selling and livestream platforms such as Douyin and RED have also started their ecommerce operations and present another potential disruptor to the industry with a stronger focus on social commerce. We have already seen some Daigou starting to leverage the platforms to sell products. This, however, is more prevalent in the beauty industry due to the lower barrier to entry.

WeChat - as a private domain - sits outside of the scope of our analysis. Given the benefits of moving consumers into private channels from the sellers, it is likely that WeChat accounts for a large portion of the market today, albeit one that exists in relative obscurity.

## Margin Structures

Daigous are businesses, and businesses are made in margins. In Figure 3 we outline the path to purchase for different Daigous within the luxury leather goods and apparel market, and in Figure 4 the estimated margin structure that can be leveraged by the Daigous. We offer three potential models for Daigou businesses; individual Daigous - an individual purchasing goods at favorable rates, importing those goods into China and selling them at a profit; corporate Daigous - a significant scale up of the individual model predicated on the ability for Daigous to access goods at wholesale prices; integrated Daigous - the integration of Chinese digital sales platforms and Daigous, allowing for further savings.

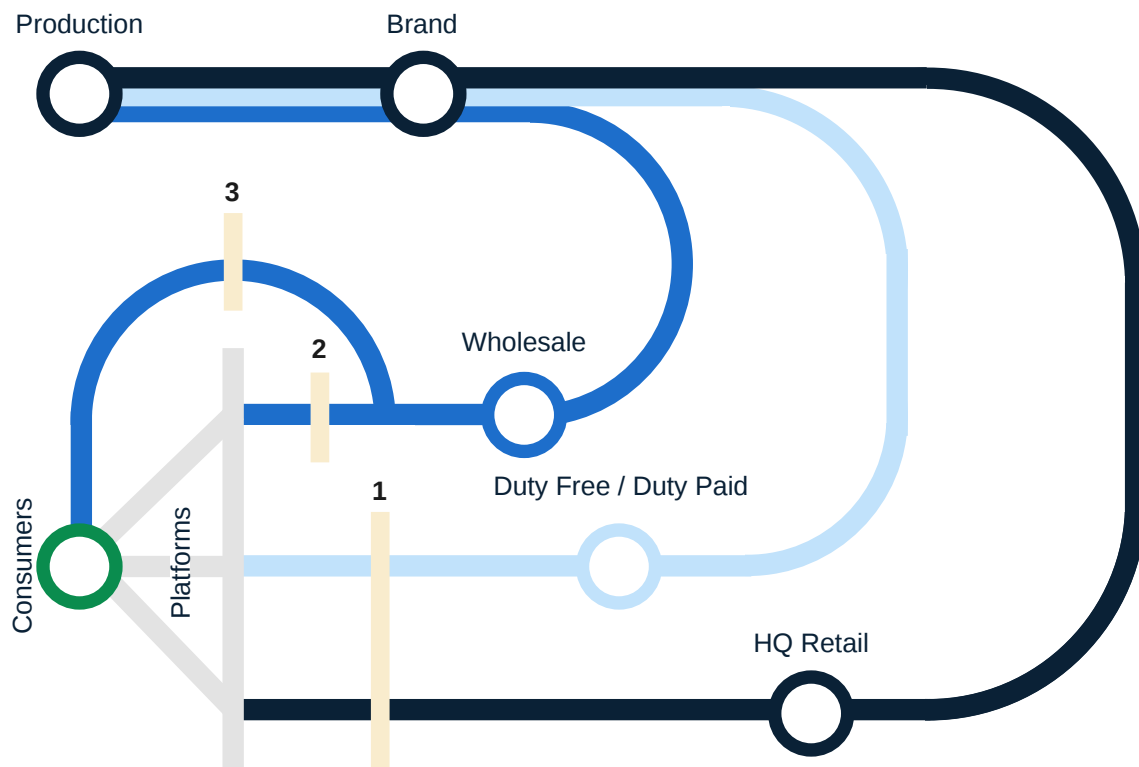


Figure 3: The potential route to market for luxury products to arrive to Chinese consumers

While these three models are the primary models that we find in the market, there are other potential models. There is the possibility of Daigous having access directly to production - with many stories of products that fail quality assurance finding their way into the market through this channel. However, due to the volatility and uncertainty behind this model we do not discuss it further.

Additionally, there is always the presence of counterfeit goods in the market. This is typically more prevalent on platforms such as Taobao, where the listing may appear authentic, but the final good is not of true brand origin. Counterfeit products are blended into our analysis, and outside of applying simple business rules - such as applying a lowest possible price for profit, detailed image analysis (however simply putting the actual product in the listing image negates this potential), and test purchases, counterfeits continue to be present in the market.

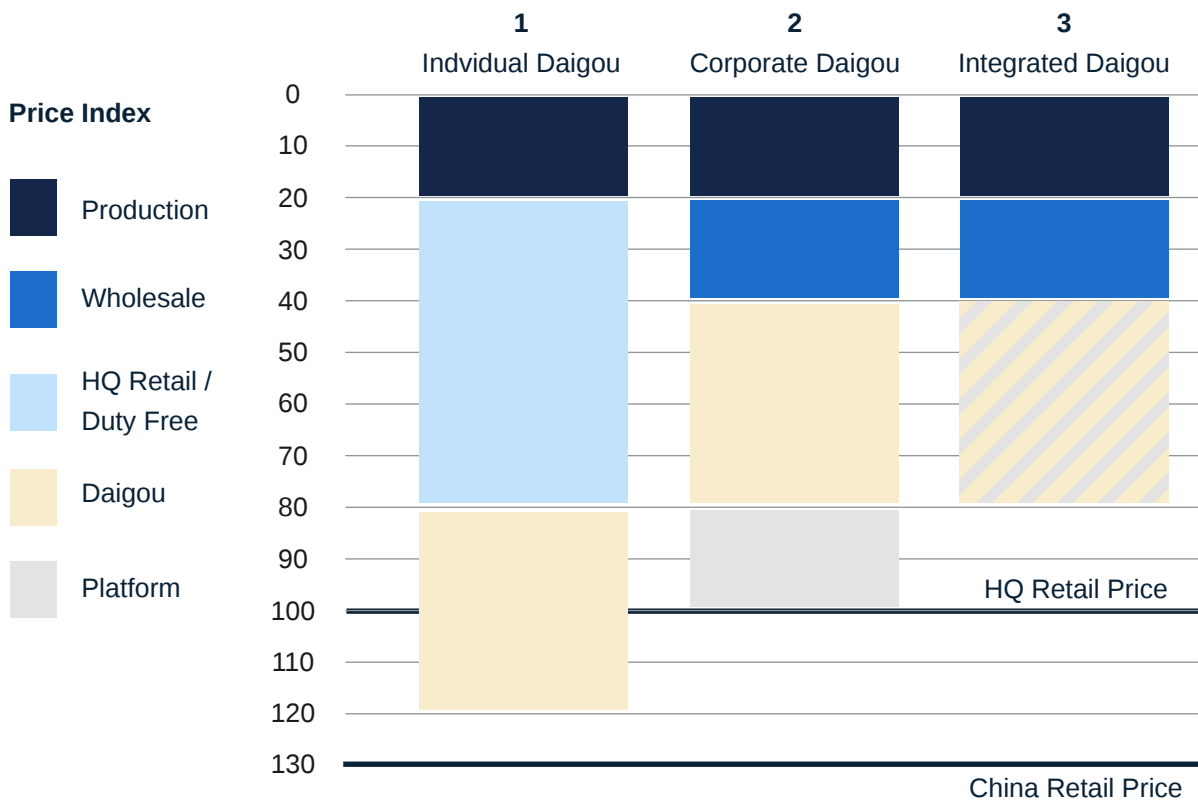


Figure 4: Estimated margin structures for different Daigou models given an index to the HQ (in most cases European) prices. Actual values may vary.

With the changes to the ecosystem based on the trends we have outlined, the margins that individual Daigous are capable of achieving are significantly pressured. This coupled with the emergence of the large scale corporate Daigou and integrated platforms has led to a significant downturn in the attractiveness of this model as a viable business. This is not to say that individual Daigous do not exist, in fact our research shows that for brands that have tight controls on distribution and wholesale, this continues to be the primary model of operation. The result of this is that these brands are often found at much lower discount levels due to the lack of scalability in the operations.

In our research for this paper many of the products analysed were offered at discount rates more than 30%, and in some cases 50% of the retail price in China. At the margin structures outlined for Individual Daigous we believe that these listings cannot be operating under this model and still make a profit.



## Beauty: A cautionary tale

When Bernstein published in 2020 their compelling analysis on the profitable Daigou business, it shed light on the extent to which La Mer was being excessively distributed through Daigous. Leaders in the cosmetics industry have not only tacitly acknowledged the system, they also have facilitated it.

Three years later - Key players claim to have gained control over the Daigou system. In January 2023, Mr. Arnaud, LVMH Chairman, talked about “fighting against so-called parallel exports” and Tracey Travis, Estee Lauder CFO, explained in August 2023 that reducing uncontrolled travel retail has positive implications for sustainable long-term growth but also presents significant challenges during the transition.

However, the actions taken so far appear insufficient. The offer available on Daigou platforms across the board have reached unprecedented levels, most likely way beyond inventory being off-loaded. If brand leadership teams do not make a stronger commitment to control internal behaviours, the long-term equity of their brands won't be safeguarded.

As the market continues to develop, with significant price differences between geographies due to currency fluctuations, taxation, regional discounting, and differential pricing strategies, and with the regulatory environment maintaining the existing status quo, we should expect to see a continued development of the market along this 3P model.

The somewhat harsh reality of the Daigou market today in China is that consumers are in some cases able to satisfy more of their needs through engaging with a Daigou than a brand or authorised reseller of a brand. But, how big of a problem is this really for brands? Is it something that is worth paying significant attention to, or regardless of efforts taken by the brand something that will always remain - a necessary evil? Are there indeed any drawbacks to tackling Daigous in terms of limiting your brand exposure to the Chinese audience in that the relationship between Daigous and brands is symbiotic? All worthwhile questions we at Re-Hub aim to help your brand answer.

# Daigou Index 2.0

In November 2020 Re-Hub released its first article in a series exploring cross-border ecommerce in the luxury industry and the potential impact it has on luxury brand performance in the Chinese market. The 'Daigou Index 1.0' estimated the size of the market in 2020 to be 57 billion USD, with top luxury brands being significantly affected.

From the brands we analysed (including top players such as Gucci, Chanel, and Louis Vuitton) we found that most of the issue was centred around Taobao as a platform. Louis Vuitton being the most affected brand with over 28,000 separate listings of its products on the platform during the time that we analysed.

The impact of cross-border behavior is incredibly hard to estimate, and it is an ever evolving and ever shifting environment, with new platforms emerging, Daigou shifting focus away from the business toward other endeavours, and brands combatting the impact. Additionally, the presence of counterfeit products creates murky waters for analysis.

Now in 2023, Re-Hub brings you the Daigou Index 2.0 – with a broader perspective across more platforms and brands, we can start to assess the size and dynamics of the Daigou market in China.



## Our Approach

In order to assess the size of the grey market problem for brands we selected a representative group of the top luxury brands including Louis Vuitton, 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 August 2023. Giving us the ability to assess some element 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. Additionally, we remove any listing that has a listing price of less than 1,000 RMB to help remove the potential for low quality counterfeit goods and unrelated products.

Aggregating the revenue on a brand level gives us an indication of the size of the issue on each platform for each of the brands. For DeWu - the numbers shown are GMV (Gross Merchandise Value) revenues, in that they include returns, refunds, and cancellations. For Taobao and other platforms this number is more representative of NS (Net Sales).

The methodology used for this paper was aimed at providing an overview and should be considered as directional for each of the brands and platforms shown. Our SPECTRUM methodology - where we utilize machine learning and image recognition to specifically identify and match products across a brands' portfolio is outlined in our appendix, and gives us the potential to create a more accurate picture of the grey market situation for our clients.

## Brands Across Platforms

For each of our selected brands we collected listings across four different platforms: Taobao, Douyin, JD.com and DeWu. RED is not included in our analysis. Tmall global and Tmall were also analysed, however for the brands selected, and excluding authorised or brand official presence, the revenues generated were negligible. Additionally, any information about product sales on WeChat is not available due to the nature of the platform.

For each brand we present the number of listings, the units sold, and the revenue generated (at sales price) for the month of August 2023.

Listings				
	Taobao	JD.com	Douyin	DeWu
<b>BALENCIAGA</b>	34,117	10,105	206	13,055
C E L I N E	6,905	20	151	7,532
<b>CHANEL</b>	11,841	1,858	194	11,806
DIOR	12,013	0	67	15,303
<b>FENDI</b>	9,049	0	54	13,040
G U C C I	38,994	0	509	28,920
<b>HERMÈS</b>	3,557	6,048	158	18,487
LOUIS VUITTON	3,438	0	185	18,039
<b>PRADA</b>	17,950	83	120	17,149
<b>SAINT LAURENT</b>	18,307	2,171	89	11,571

Figure 5: The number of listings for each brand on each of the platforms analysed in this report. Note: For DeWu each 'listing' represents a specific SKU. By definition no SKU has multiple listings unlike other platforms.

Two insights are immediately obvious when we compare platforms. The first is that JD.com has interesting dynamics when it comes to the presence of grey market. While some brands such as Balenciaga and Hermès have a wide array of listings on the platform's other brands such as Gucci and Louis Vuitton have zero listings. It is not possible to find an unofficial listing of these brands on the platform. The connection between the brands with no listings and JD.com is that each of these brands have an official store on the platform. The implication is that JD.com has a commercial agreement to suppress the grey market for brands opening on the platform.

From the listings perspective we can also note that Douyin does not have the scope of presence for these brands as we have seen on other platforms. From analysing the listings, many of the products being sold on the platform are claimed second-hand products, although their pricing would indicate to us that these are likely counterfeit goods.

Both Taobao and DeWu have high numbers of listings for each of the brands. The number of listings on Taobao for each brand is likely higher than shown, due in large part to the search algorithm and its interaction with our extraction methodology. However, the listings shown are also highly likely to be those that generate significant revenue which we will showcase later.

A final point on DeWu - due to the nature of the platform, each of the listings extracted is an individual brand SKU. It is not possible for the same product to have multiple listings (this contrasts with Taobao where the same SKU can have multiple listings). Therefore, the insight available to us on DeWu when it comes to listings is more aligned to breadth of products available for each brand - Gucci has over 28,000 different products listed on the platform currently.

Units Sold	 Taobao	 JD.com	 Douyin	 DeWu
<b>BALENCIAGA</b>	2,808	197	206	25,596
<b>C E L I N E</b>	22,463	10	151	8,415
<b>CHANEL</b>	12,631	193	194	10,191
<b>DIOR</b>	22,506	0	67	9,648
<b>FENDI</b>	36,530	0	54	4,990
<b>G U C C I</b>	15,534	0	509	81,742
<b>HERMÈS</b>	11,219	675	158	14,958
<b>LOUIS VUITTON</b>	9,328	0	185	45,599
<b>PRADA</b>	28,926	38	120	6,516
<b>SAINT LAURENT</b>	4,840	448	89	7,601

Figure 6: The total units sold throughout August 2023 for each of the brands across each of the platforms analysed.

The trend seen in listings is further reflected in Units Sold. Both JD.com and Douyin are not significant generators of sales - even for brands with a large array of listings such as Hermès on JD.com. The main grey market issue when it comes to sales is either Taobao or DeWu depending on the brand. For some brands, Taobao is the most problematic - with Prada having nearly 5x the numbers of units sold on the platform as DeWu.

However for Louis Vuitton the reverse is true, with nearly 6x more unit sales occurring on DeWu against Taobao. The source of this disparity is complex, and is likely a combination of many different factors including availability of counterfeits, price point, brand desirability, consumer preference, and brand focus on one or another platform in terms of stemming the flow.

While not the only factor contributing to the difference, we also postulate that this disparity can be due to the propensity of different Daigou types to sell different brands. With DeWu presenting more behavior that would align with corporate Daigou and Taobao still the home of individual Daigou.





Revenue (RMB)	 Taobao	 JD.com	 Douyin	 DeWu
<b>BALENCIAGA</b>	12,730,269	1,962,769	680,709	126,360,235
C E L I N E	66,864,442	33,000	533,730	48,849,152
<b>CHANEL</b>	53,925,960	455,933	442,277	188,687,887
DIOR	35,235,792	0	457,120	77,344,081
<b>FENDI</b>	99,171,004	0	82,076	24,078,543
G U C C I	39,871,160	0	2,569,732	285,929,108
<b>HERMÈS</b>	17,229,744	313,671	153,360	97,437,070
LOUIS VUITTON	98,881,089	0	10,389,600	468,487,642
<b>PRADA</b>	92,584,651	637,060	470,345	33,718,868
<b>SAINT LAURENT</b>	11,029,409	4,861,691	197,363	51,855,520

Figure 7: The reveue generated throughout August 2023 for each of the brands across each of the platforms analysed.

From a revenue perspective, we again see it become a two-platform problem - both JD.com and Douyin revenues are near enough negligible for the majority of brands. The size of the issue is therefore either dominated by DeWu (the case of Hermès and Balenciaga for example) or that Taobao dominates revenues (Prada or Fendi).

Compared to our previous analysis on Daigou Index 1.0, DeWu has emerged as a significant player in the grey market arena, and a platform that brands cannot afford to ignore.



## Top Products (DeWu)

As we have shown for the majority of the brands we have analysed, DeWu is a key driver of brand grey market revenue. Looking at the top products during August 2023 for each of the brands further informs the dynamics of the market. The majority of brands sell core and evergreen SKUs on the platform as the top sellers. The Balenciaga 3XL sneakers in both Men and Women's top the brands revenue on the platform - a significant blow to the sales potential of the collection at full price.

These insights can help optimize merchandising assortment across brands to generate incremental revenue.



Figure 8: The top five products per brand on DeWu in August 2023 by revenue generated

# Collections

To further analyse the scope of the issue, we can look deeper into collections. Selecting specific collections from specific brands helps us to identify how consolidated the revenue of the brand is around key collections. It also helps us to look at average prices of items across each platform - and while this can be affected by the specific products within the collection (with price differences between large and small SKUs), it still gives us a directional insight into the typical discounts that can be enjoyed on these platforms (assuming authentic goods being sold).

## LOUIS VUITTON

### Carry All



	淘 (Taobao)	京东 (JD.com)	抖音 (Douyin)	得物 (DeWu)
Listings	94	0	10	7
Units Sold	575	0	66	1,269
Revenue (RMB)	9,281,646	0	1,521,940	24,443,346
Average Price	19,457	0	20,494	19,259

For the Carry All collection Taobao has the most listings, although there is significantly more revenue generated on DeWu. When we consider the price gaps of one of the specific SKUs within the collection, we can start to piece together the Daigou reality of this collection. The large price disparity in China and France (shown in Figure 9), coupled with LV's claimed focus on managing wholesale has led to minimal price discounts available through Daigou. In the case of DeWu, the price comes in at above RRP on the brand side, potentially reflecting a lack of availability in the market at the time.



Figure 9: Benchmark pricing as of September 2023 on LV.fr and LV.cn against August grey market pricing on Taobao and DeWu for the Carry All M46203 - assuming a 12% tax rebate on the claimed .fr price at an exchange rate of 7.8 RMB / EUR

# CHANEL

## Classic Flap

				
Listings	861	95	69	421
Units Sold	211	0	2	675
Revenue (RMB)	6,545,956	0	95,799	32,007,367
Average Price	44,806	0	33,675	41,045



The Classic Flap in comparison to the Carry All has a much wider array of products available. Additionally, the revenue generated is skewed much more toward DeWu - generating over 32m RMB in revenue in a single month. The collection is also centred around a few key SKUs, with the top 5 products on DeWu accounting for 20m of the 32 m RMB generated - (~62.5%). All of these products are different size variations of the SKU in black - further highlights the desire for core SKUs through Daigou channels.

DeWu offers their users a suggested retail price for each item, and if we benchmark the current pricing of the items on DeWu against this suggest retail price, we find that for Chanel often items come in at or above the retail price. In some instances, this can be in excess of a 50% premium on the item.

This is likely a reflection of the result of maintaining exclusivity and desirability from the brand, coupled with a strong focus on wholesale/reseller control.



Figure 10: The top 5 Chanel Classic Flap bags during August 2023 and the price difference versus the suggested RRP as stated on DeWu

# BALENCIAGA

## Track



	淘	京东	抖音	得物
Listings	455	282	112	401
Units Sold	284	26	20	3,663
Revenue (RMB)	1,274,577	180,610	96,510	18,220,133
Average Price	5,847	13,497	4,126	5,128

Within Shoes, brands such as Balenciaga are also facing a significant challenge in keeping their revenues within the Chinese P&L. With over 18m RMB generated on DeWu from the Track collection alone, the platform appears to be favored with sneaker purchasers. From an experience angle, DeWu is able to offer a greater variety in sizing, virtual try-on (across all brands, not just on a single WeChat mini-program for that brand), as well as a huge assortment of different SKUs as illustrated from the top 30 SKUs on DeWu in Figure 11.



Figure 11: The top 30 different Track sneakers selling on DeWu during August 2023 - randomised order.

# SAINT LAURENT

## Niki

				
Listings	244	42	37	137
Units Sold	100	20	5	527
Revenue (RMB)	1,409,659	422,581	71,046	8,475,704
Average Price	17,689	20,276	13,937	15,573



The Niki collection has been the cornerstone of Saint Laurent's success over the past years, with members of the collection often found in the top luxury bags on TMall. The product has achieved great success and therefore Saint Laurent has increased the price many times over the past 18-month period, equalling to an overall increase in excess of 15% in the China market.

Looking across the grey market, the Niki appears to be a specific collection where consumers can enjoy the benefits of currency fluctuations and disparity in prices straight to their doorstep. The average price of the bag on the DeWu platform and the highest revenue generating link of the same product on Taobao puts it below the price a consumer could obtain the same SKU in France, with a tax rebate of 12%. Given over 500 units have sold throughout August at this price, it can be safe to say that the flow of goods for the Niki collection are unlikely coming from our proposed Individual Daigou model.



Figure 12: Benchmark pricing as of September 2023 on ysl.com/en-fr and ysl.com/zh against August grey market pricing on Taobao and DeWu for the Niki Medium 6331580EN041000 - assuming a 12% tax rebate on the claimed .fr price at an exchange rate of 7.8 RMB / EUR

# Conclusions

## Moving Forward

The Daigou market in China is inevitably going to undergo significant changes moving forward due to the interplay of economic uncertainty, professionalization of Daigous as an entity, and the reaction to Daigous by the wider luxury industry and political apparatus. Economic uncertainty, both domestically and globally, has the potential to alter consumer behavior and reshape the landscape of Daigou in China. The dynamics of the markets will shift with more price cautious consumers.

Depending on the depth of this uncertainty, it could lead to an increase Daigou usage, due to the price discounts they are able to offer, or potential a reduction in usage as consumers may drop discretionary spending altogether. Additionally, fluctuations in exchange rates, brand pricing strategies, and trade policies could further challenge the viability and sustainability of the Daigou model.

Furthermore, the professionalization of the Daigou industry is expected to drive notable transformations. As the market becomes more competitive, consumer expectations will increase in terms of not only product quality, authenticity, and customer service, but also the overall experience itself. This will necessitate greater transparency and accountability within the industry, pushing the standardization of practices to build trust with customers. Additionally, this may also facilitate innovation beyond what brands themselves may be capable or willing to do, further enhancing the potency of the industry.

From all the analysis we have conducted on the market, there are no concrete signs that Daigou will diminish, but on the contrary are set to continue their growth. Given the potential revenue impact of the channel we believe that Daigou present one of the biggest threats to luxury brands in the next five years due to the potential brand equity impact and cannibalization of China market revenues that are synonymous with their very existence.

## What can brands do?

Controlling the parallel market necessitates alignment & commitment across all the Brand's 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.** Merchandising, finance, and commercial teams shall consider the discount rate & size of the parallel markets when adjusting retail prices regionally and globally. Brands that have moved toward closer global price parity have been more successful in controlling the grey market.

**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.

**Organization.** The division between the travel retail and domestic teams, operating in parallel, creates a risky strategic gap. The wholesale team focuses on increasing the product supply often with bulk discounts resulting in potential uplift for the Daigou market, the other aims at delivering memorable clients experiences. In the times of blurred boundaries and endless accessibility, is it time to merge teams?

**Retail Operations.** Implement quota systems in boutiques that help to deter and disincentivise bulk purchase for resale.

**Marketing.** The side effect of Daigou control can be a drop in brand exposure in the Chinese market. To compensate the drop in Daigous visibility, an investment in general marketing activities and social media platforms is essential.

**Social Media.** Sales Associates outside China often create their personal Brand account on Red Book and Douyin to keep in touch with their clients and generate sales. While it may be seen as a luxury service, it can easily become an internal Daigou channel posing a significant threat for the Brand's reputation within China. Careful controls should be put in place to ensure the consistency of brand message and avoid potential pitfalls in brand equity.

# About Re-Hub

Re-Hub helps Luxury and Premium brands in China to generate ONLINE GROWTH OPPORTUNITIES at Speed.

Through our three Data&AI tracking platforms - COMPASS, SPECTRUM and SENTINEL 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.



COMPASS

COMPETITIVE INTELLIGENCE



SPECTRUM

GREY-MARKET MONITORING



SENTINEL

SECONDARY MARKET ANALYSIS

**BENCHMARK YOUR PERFORMANCE** against Competitors across Channels

**IDENTIFY PERFORMANCE GAPS** and Opportunities to Prioritize

**GENERATE NEW GROWTH OPPORTUNITIES** at Speed

Learn more at [www.rehub.tech](http://www.rehub.tech)



# Introducing SPECTRUM



Introducing Re-Hub's new proprietary tool – SPECTRUM:

**S**mart  
**P**roduct  
**E**xtraction and  
**C**lassification  
**T**hrough  
**R**obust and  
**U**nique  
**M**achine-Learning

helps brands to identify the full range of products sold across the most important ecommerce platforms in China – accounting for listings that are authorized and unauthorized. Our approach uses the official brands' product information as a source of truth for our machine learning algorithms, that then compares all the information provided in the listing information of a given product. This matches the product on sale to the actual brand product, creating meta products – the combined presence of a given product across ecommerce. This gives the breakdown of sales across each of the platforms for a specific SKU.

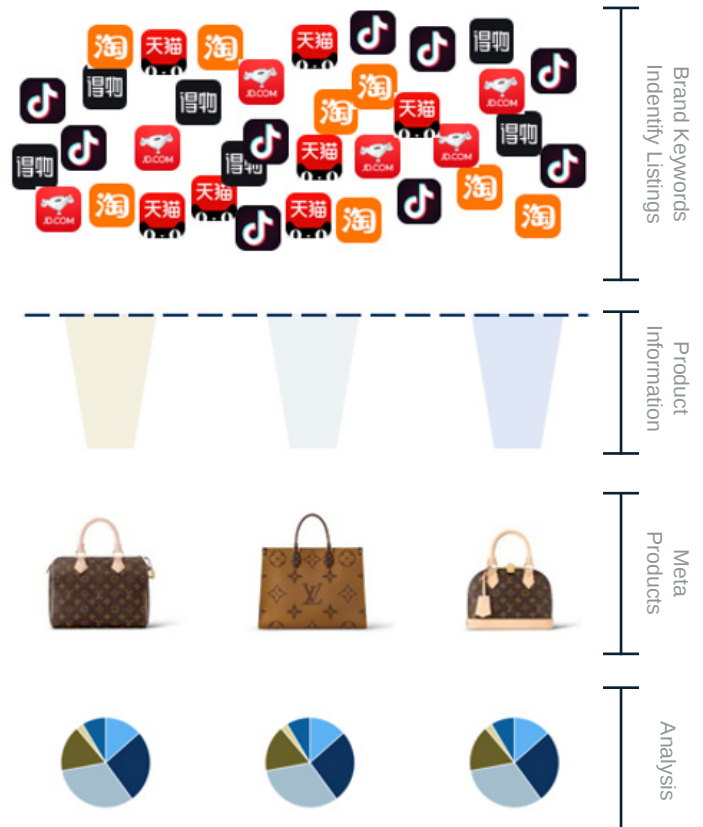


Figure 1A: An illustration of the SPECTRUM methodology for extracting product based insights in the grey market in China.

The platform tracks key eCommerce platforms including Taobao, DeWu, JD.com and Douyin and consolidates the learnings at a brand, category, and product level in clear, easy-to-use, dashboards that can be extracted for monthly monitoring of the situation. In addition to revealing potential sources of grey market goods, the platform can be further used to identify opportunities to optimize merchandising assortment to further increase revenue potential in the Chinese market.

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