Emerging Luxury

- An Explorative Study of the Major Current Challenges Facing International Luxury Fashion Companies in China

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In recent years a significant increase in growth of the Asian luxury market, of which China has clearly come to make up the new major market, has occurred. As the strategic considerations for international companies differ between countries, an individual approach needs to be adopted to customize operations. With this master’s thesis, the author aims to map out the key current challenges for international luxury fashion companies in China. Through in-depth interviews with industry experts, the study identifies and analyzes a set of thirteen challenges, and finds unique issues within each of the challenges investigated. While further research is needed to further validate the findings of the study, its results points towards a broad spectrum of challenges and considerations, thus purposely acting as a springboard for future research.

Keywords: Fashion, Luxury, Luxury Fashion Brands/Companies, Emerging Markets, Strategy, China, Challenges,

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1. Introduction

The luxury industry is a sizable part of the world’s retail business, and was in 2006 estimated to have exceeded 220 billion USD in global retail revenue (Keller, 2008). Huge fashion conglomerates dominate the market, which has traditionally targeted top income segments of societies. Contrary to many other businesses, luxury companies often employ strategies to exclude rather than include customer segments. ‘Keep non-enthusiasts out’, ‘don’t respond to rising demand’, and ‘make it difficult for clients to buy’, are just some of the key marketing strategies central to luxury brands (Kapferer and Bastien, 2009).

Today’s luxury market is no longer concentrated only to the Western economies. In recent years the Asian economy has experienced vast growth, a development that has resulted also in extensive growth opportunities for luxury businesses. The recent economic downturn that escalated in late 2008 has suppressed already stagnating Western markets. This development has made several emerging markets, including Asia, even more attractive. Some firms have already begun to grow and transition successfully into new markets, despite the more recent volatile times. The luxury goods industry, earlier depending on sales in Europe and North America, has along with the growth of the Asian market entered a new growth momentum (Lee, 2003). Asia is now the largest market for luxury brands, accounting for more sales than any other region, including Europe and the United States, and the concerns within the fashion luxury goods industry regarding expansion into emerging economies have for years been widely spread. In particular, the economic growth of China leads to a significant increase in the consumption of luxury goods (Debnam and Svinos, 2007). However, despite vast opportunities for growth, operating in the luxury goods industry can be tough. Strong internal competition exists for each product range and new forms of external competition are evident. This requires firms to assess their own capabilities, strengths and limitations (Bruce and Hines, 2008).

Several researchers have pointed towards a multitude of challenges facing luxury fashion companies aiming to enter and operate in the Chinese market, that while showing attractive growth numbers also is a market that differ significantly from Western markets (see Debnam and Svinos, 2007, Ibid 2008, Atsmon et al, 2009).
1.1 Problem Statement
Emerging markets have in recent years come to be regarded as the main engine of growth for international luxury fashion companies, with China being the prime example for most industries. However, market conditions in China have proved to differ greatly from those Western countries, as well as also between regions in the country. Thus any international luxury fashion brand considering launching scaled Chinese operations need to carefully consider the unique challenges connected with the new market.

1.2 Purpose
The purpose of this thesis is to map out the key challenges facing international luxury fashion brands in China.

1.3 Delimitations
In emerging markets, the strategic issues and alternatives for firms are multiple. In this study, key challenges for luxury fashion brands entering China are investigated. Whether these challenges are applicable or not to other emerging markets are not investigated herein. Further, market entry processes and individual strategies depend also on the internal characteristics of the firm.

Within the luxury fashion market, there are also several different sub-markets. Challenges may differ individually between luxury fashion brands focusing on these different sub-segments, such as female or men’s clothing, shoes, accessories etcetera. These markets need specific investigations to better suit these individual markets and companies operating within them. Readers of this thesis should be aware that further research identifying the individual aspects of each issue is needed, as the aspects elaborated upon in this thesis are by choice general and broad in scope.

1.4 Structure
The disposition has been chosen so as to satisfyingly present all relevant areas of the research project. Essentially, there are seven main parts to this study. In the Introduction the aim of the study and the relevant problem area is identified. Furthermore, a brief background is given to orient the reader. In the subsequent Current Research (…), theoretical sources aimed to provide a background to the operations of international luxury fashion companies, as well as
previously identified challenges, are presented and explained. In the next part, entitled *Methodology*, the research method is introduced together with the considerations made in relation to the collection and processing of data. In the fourth part, the *Empirical Findings* are presented.

Next, the theoretical and empirical dimensions are combined as *Thirteen Challenges*, which implies a breakdown of the investigated material into manageable pieces. The *Synthesis* puts these pieces together into a model of value for researchers or professionals approaching similar research questions. Based on the analysis, and the synthesis thereof, the last part offers *Conclusions* from this study.
2. Current Research on Luxury Fashion Brand Characteristics and Challenges in China

This chapter aims to provide the thesis with an overview on today’s challenges that relate to China specific to luxury fashion companies. Several different perspectives are presented to provide an overview of current findings within the area. Section 2.1 aims to give an overview of the internal challenges facing luxury fashion companies in general, as well as to provide an introduction to some of the most critical aspects of luxury fashion brands, while section 2.2 contributes with the most frequently quoted research on challenges facing these companies on the Chinese market. The theoretical framework is concluded by a table demonstrating the main implications from the before-mentioned subsections.

2.1 Current Research on Luxury Fashion Brand Characteristics and Strategy

Current research relevant to luxury and luxury fashion brands in emerging markets is still limited, and has been considered under-represented within the academic literature (see for example Jackson (2004), Kapferer (2008), Moore et al, (2005)). Instead, the research examining the marketing of luxury goods has tended to take a consumer perspective, specifically in terms of the reasons behind acquiring luxury goods, largely focusing on counterfeiting (Grossman et al., 1998, Nia et al., 2000). Due to the lack of research regarding both luxury brands in general, as well as luxury fashion brands in particular, this chapter involves strategies from both these perspectives.

The luxury brand requires a relevant, clear and defined strategy (Moore et al, 2005). The strategy should be created to develop the global reputation and presence, as well as to increase the brand status and create awareness (Phau et al, 2000). A successful strategy has several different aspects that each need consideration. Some recent academic research has provided insights in key strategic issues for the operation of luxury brands in particular. Okonkwo (2007) identifies 10 characteristics of a successful luxury fashion brand, providing an insight into strategic considerations facing the businesses in the industry. The ten characteristics mentioned by Okonkwo are: a distinct brand identity, global reputation, emotional appeal, innovative, creative, unique and appealing products, consistent delivery of premium quality, heritage craftsmanship, premium price, exclusivity in goods productions, high visibility, and tightly controlled distribution. Similarly, Fionda et al. (2008) mentions seven different overall
dimensions that are critical for luxury fashion brands, these being: brand and/or marketing strategy, product and design, price exclusivity, communications strategy, brand leadership/designer, distribution strategy, and heritage. Moore et al (2004) identifies five critical factors contribute to the success of an international luxury fashion brand. These are: a clear brand positioning which communicates a definite set of attractive brand values and lifestyle associations; a coordinated distribution strategy which assure maximum market coverage; a strong brand identity to extend into adjacent product areas either through internal capability or via licensing agreements; a flexible approach to the management of important foreign markets – such as in the form of delegating marketing activity through licensing agreements; and media relations management to promote the creation and maintenance of a credible luxury fashion brand reputation through, among others, advertising, fashion shows and editorial placement.

Continuous expansion poses two challenges to luxury brand owners: how far to globalize the product design and assortment, the distribution of merchandise, and the communication of brand image; and how far to democratize the brand through line extensions, junior product lines, affordable accessories, and expanding distribution. In responding to these opportunities, the owners must remain aware that their brand names are their most important assets (Nueno et al, 1998). According to Corbellini et al (2007), for luxury fashion companies, the marks of success are those that, while respecting their history and identity, are able to transform complexity into opportunities for growth, putting the experience of customers at the center of their strategies.

Market expansion has raised the competitive stakes and overall marketing expenditures, making it harder for small, family-owned firms to survive. In order to continue expanding, many brands has either teamed up with strong partners or sold their brands to larger conglomerates with more extensive resources (Nueno et al, 1998). Investments in distribution and communication are very heavy, since they are strongly qualitative, and are only profitable over the long term; it is therefore necessary to make them without worrying about the short term. Falling profitability may however force a reduction in structural expenditure for maintaining the brand. Given the importance of investments to be made in creation, communication and distribution, a very high gross margin, in the order of 80 per cent, is crucial to the brand’s survival (Kapferer et al, 2009).

Strongly linked to the profitability of luxury goods are the pricing models these companies apply. What most, if not all, luxury companies have in common are prices that are higher than the majority of the competitors within the same product or service category. To maintain a
luxury brand’s status, the brand has to employ a marketing program that supports, through limited distribution and premium pricing, a market positioning that combines emotional appeal with product excellence (Nueno et al., 1998). Contrary to the recommendations by Nueno et al., many brands have employed different approaches in order to expand sales volume. To reach new customer segments as well as to broaden their product range, companies may launch new product lines that at a lower price, still enjoy a reasonable level of perceived prestige, which differentiates them from middle-range products, but while sold at prices that are only slightly above those of comparable middle-range products they are able to reach a broader target than the niches of traditional luxury brands (Silverstein and Fiske, 2005). A ‘masstige’ positioning strategy (For a definition of ‘masstige’, please see Appendix 7) is according to Truong et al. (2008) innovative and effective because it combines a successful prestige positioning with a broad appeal but with little or no brand dilution, and has promoted growth especially among new luxury brands.

In search of increasing profitability, luxury fashion companies may also face additional risks. Some of the most profitable goods are also the ones that might dilute brand equity. Products of low complexity, such as T-shirts or sunglasses, are among the most copied by counterfeiters, due to maintaining the high margins also on these products. A ‘downwards extension’, for an easy profit, might therefore be very dangerous and weakens the brand diluting brand equity and/or by either facilitating or promoting counterfeiting (Hines and Bruce, 2008). Thus, marketers must proactively protect their brand in as many ways as possible, and vigorously counter any infractions (Keller, 2008).

Internationalization, and then globalization, is common within all luxury sectors. For instance, all the French major luxury houses have a percentage of foreign clients above 90 per cent (Kapferer et al., 2009). In international luxury management, distribution plays a key role. Distribution is the most difficult part to manage on a daily basis. Once the distribution has global reach, ensuring that strategy and brand image stays intact and remaining profitable, when you are embedded in countries that are totally different culturally and economically, requires considerable engagement and energy from management. Furthermore, the distribution is often entrusted to local partners, which in fact comes down to entrusting client service and client experience to them (Ibid, 2009).

The luxury environment and experience of a brand is showcased in the flagship store, which is defined as a major outlet generally located in a capital city, retaining the full collection of a fashion brand’s merchandise. These stores typically enjoy significant financial investment, and are considered crucial to a brand’s marketing communication process and reputation, and
as a support for the wholesale business (Moore et al, 2000). Most, if not all of the international luxury fashion retailers are committed to maintaining international flagship stores. While few luxury fashion companies will admit to a loss-making operation, the significant capital investment required to open a new store and the high operating costs has led many analysts to predict that these stores are costly showcases that function rather as a market-entry method, support for partner relationships, focus for marketing communication, and/or as a blueprint for store development (Hines and Bruce, 2008).

Owning and operating stores allow the companies to manage the customer experience at the sales level (Jackson, 2004). Customer service is also vital in the luxury consumption experience (Okonkwo, 2007), and the human aspect is key. The sales personnel in an own store are really a part of the brand; the quality of the link with the clients is therefore very strong (Kapferer et al. 2009). During the sale, a personal relationship must be created between the brand and the client. This relationship is vital in luxury, as it has a strong human, purely relational dimension. The importance of stability of the staff in boutiques and the continual training of sales personnel are key to succeed in this relationship, and thus consequently, also with sales (Ibid. 2009).

2.2 Previous Findings on Challenges and Important Considerations for Luxury Fashion Brands in China

In recent years, several large global revision and consulting firms with activities in China have conducted research on the Chinese luxury/luxury fashion market. In this section, some of the major previous research findings relating to this thesis are presented. Providing the main reference ground for this section are the findings from Debnam and Svinos’ “Luxury Brands in China” report, presented in 2007 jointly by KPMG and Monash University.

The report identifies some of the major strategies of luxury brands in China, as well as challenges unique to the market. These are presented below, complemented by additional findings from recent reports by the before-mentioned authors, as well as excerpts from other similar research sources. Starting from 2.2.9, a set of additional challenges and considerations not discussed individually in the 2007 report are presented.

2.2.1 IPR Regulations

While the Chinese luxury goods market is growing rapidly, an equally fast-growing segment of local industry has been counterfeiting (Debnam and Svinos, 2007). Weak enforcement of
China’s intellectual property laws is now the biggest problem luxury brands face in the country (Debnam and Svinos, 2008). On average, 20 percent of Chinese consumer products are counterfeit. With counterfeits the guarantee of quality offered by luxury brands is being undermined. However, some market experts believe that the availability of counterfeits has helped to make the genuine product more sought-after, as well as increasing general awareness of luxury names (Debnam and Svinos, 2007).

2.2.2 Long-Term Returns
Despite the fact that luxury sales in China are on the rise, luxury brands should not expect a quick return on their investment. The costs of setting up, training staff and building brand awareness can be high, while demand remains limited in the short term (Debnam and Svinos, 2007).

2.2.3 Shortage of Service Providers
As with other sectors, the pace of change in China’s retail industry has created bottlenecks and the need for new and professional services. For instance, there are still few credible local specialist developers of retail property in Mainland China (for definition, please see Appendix 7) (Debnam and Svinos, 2007).

2.2.4 Ineffective Advertising and Media
While luxury brands have been placing advertisements in internationally renowned magazines, they often find the message is lost. While a marketing effort in one city may yield results there, it will have little to no impact elsewhere. Media costs in China can however be very expensive, particularly in first-line cities Beijing, Shanghai, Guangzhou and Shenzhen (for definition, please see Appendix 7). Complemented by heavy communication disorder and difficulty in reaching targeted audiences, building brand equity can be a costly exercise for luxury fashion companies in China (Debnam and Svinos, 2007).

2.2.5 Staff Shortages
Some luxury retailers, initially attracted by the low cost of labour in China, have struggled because of a lack of local management talent. A good counter-strategy, according to Debnam and Svinos (2007), is to find trained staff or to train and develop staff once employed within an organisation. However, in some cities, there is also a clear shortage of trained staff in sales and service positions related to luxury goods (Debnam and Svinos, 2007).


2.2.6 Brand Positioning

Product, presentation, packaging, promotion, distribution, merchandising and advertising should all contribute toward an essentially simple, unified purpose: delivering genuine brand value to customers. The most successful luxury brands began the process of building their brands long before they entered the market (Ibid, 2007).

According to Debnamn and Svinos (2007), this is a very important consideration for the Chinese market where consumers know little about luxury brands. Within apparel, several executives observed that brands need to carefully position themselves, citing examples where companies have been successful in the sales of premium casual wear, but struggled to retain the connection to their origins in more high-end couture and ready-to-wear (Debnam and Svinos, 2008).

2.2.7 Managing Risks

In an effort to leverage better distribution channels and the market knowledge of local dealers, as well as to lower operating costs, many foreign luxury companies choose to license to Chinese retailers. Unfortunately, this strategy has led to failure for many who subsequently found that distribution channels are not being adequately controlled, particularly with retailers selling counterfeit goods alongside genuine products (Debnam and Svinos, 2007).

2.2.8 Promoting a Culture of Luxury

For luxury brands in China, the focus should not just be on selling products. Luxury brands need to seed their success through establishing a luxury culture in the Chinese market. Such culture will define the context in which luxury brands operate. Many Chinese customers have little sense of luxury culture with much of the nation still living in relative poverty, and while there is a growing cohort of rich Chinese most are yet to have a full understanding of and appreciation for the “luxury lifestyle” (Ibid, 2007).

2.2.9 Tax and Regulatory Issues

The process of importing, distributing and selling luxury goods in China raises further challenges for companies, including a number of difficult questions regarding tax treatment, customs duty, logistics and the transfer of intellectual property (Debnam and Svinos, 2007). Central to luxury fashion products are Chinese import taxes, which make retail prices in China higher than in other markets. Prices are 20 to 30 percent higher on mainland China
compared to Hong Kong (Debnam and Svinos, 2008). Only a few years ago, Chinese consumers made most of their luxury good purchases abroad. Today, about 60 percent of purchases are made in Mainland China (Atsmon et al, 2009).

2.2.10 Using Local Partners
The use of local partners has for long been a common method for luxury fashion companies to enter the Chinese market. Since 2004, China has removed restrictions on the foreign ownership of retail and distribution businesses, so foreign companies no longer need to establish a joint venture to enter the luxury market (Debnam and Svinos, 2008). For well-known brands such as Louis Vuitton, entrance to the Chinese market has been aided by access to significant financial resources through its parent, LVMH. However, for smaller or more independent brands, the move to China can entail risk and require immense patience. Many luxury brands find a local or regional partner or adviser to help navigate the market (Debnam and Svinos, 2007).

Among luxury fashion brands, there is a growing willingness to invest directly in China’s luxury and retail sectors, but distributors and joint venture partners can still play a valuable role in helping develop a brand’s presence (Debnam and Svinos, 2008).

2.2.11 Store Formats
Most Western luxury brands have made the choice to not alter their formats when operating in China as they seem to believe that even minor adaptations could seriously damage the parent company’s brand and global positioning (Debnam and Svinos. 2007). In China, stores need to be conveniently located within a cluster of stores, and preferably luxury-oriented ones. (Atsmon et al, 2009)

2.2.12 Consumers
According to Debnam and Svinos (2008), China is not a single, homogenous market for luxury and is showing increasing signs of segmentation and differentiation, with consumers motivated by more diverse factors and seeking satisfaction in different ways. Key challenges for targeting customers include raising brand awareness, target their perception of beauty, mapping out attitudes towards counterfeit goods, and competing with overseas purchases (Debnam and Svinos. 2007). China’s customers have in general several characteristics that are unique on the luxury market compared to elsewhere. One of the most significant factors that distinguish China’s wealthy consumers from their foreign counterparts is their youth. Some
80 percent of luxury customers are under 45 years old, compared with 30 percent in the US and 19 percent in Japan. Because these customers are newer to the consumer market and to wealth, they are also less knowledgeable about luxury brands (Atsmon et al, 2009).

Further, China is the only country where men consume more luxury than women (Dirk Jemlich, October 2008). Among most segments, brand loyalty is extremely low (Atsmon et al, 2009). China’s biggest and most economically developed cities are where a disproportionate number of the wealthy are to be found, and thus also the majority of luxury fashion companies. But, according to Atsmon et al (2009), this is changing and companies will have to adapt accordingly.

2.2.13 Marketing
Luxury brands are investing large sums of money in heavy marketing to not just promote their brand and products but also to inform Chinese consumers about “luxury” and why they should pay a premium for products offered by luxury brands. Brand building is occurring on a massive scale, not only through print and television advertising, but also through luxury events and shows and customized lifestyle publications (Debnam and Svinos. 2007).

As most Chinese consumers have low levels of brand awareness, they also have low levels of brand loyalty (Debnam and Svinos. 2007). Except for a few leading brands, unaided brand awareness remains quite low in China. Improving brand awareness is critical to improving the entire performance of a brand in China (Atsmon et al, 2009).

2.2.14 Overseas Purchases
Chinese nationals have shown a strong preference for purchasing luxury products overseas for two reasons. First, shopping at the designer boutiques in Europe guarantees that the goods they buy are not counterfeit, something they cannot be sure of when shopping in some malls in China. Second, higher taxes and duties mean that mainland prices can be 30 percent higher than elsewhere in the world (Debnam and Svinos. 2007).

2.2.15 Competitive Environment
China now ranks ninth among all countries in terms of penetration of international retailers. Luxury companies have been at the forefront of this move, as their high margin/low volume business model has been relatively easy to establish. However, the intensity of competition in China’s luxury market has created challenges for brands looking to deepen their penetration or attract new aspirational consumers to their products (Debnam and Svinos, 2008).
3. Methodology

In this section, the methodological considerations that were made prior to the investigation of the purpose will be presented. The first part will present the scientific approach. The following sections will bring up the data collection and how this data has been processed, respectively. Lastly, the interviewees and the main purpose of each respondent’s contribution will be presented in short words.

3.1 Scientific Approach

In order to investigate the challenges facing luxury fashion brands in China issues, an interpretive qualitative research methodology was adopted, as it is considered to be the most appropriate for an exploratory theory building approach (Yin, 2003). There are three main reasons that support the implementation of a qualitative research design for this study. Firstly, as the key aim of this study is to investigate an assumed broad range of at least partly unknown challenges, the use of the qualitative research method assists in providing in-depth descriptions and illustrations rather than surface-level observations (Gronhaug and Olson, 1999). Thus, within this context, the close proximity with those involved in the management of luxury fashion brands provides the opportunity to obtain an intimate understanding (Yin, 2003), thus providing means to make assessments of previous research and findings within the subject.

Secondly, because of the lack of empirical work in the area, this approach provides a means of extracting rich and relevant data. Yin suggests that the qualitative research method can assist in compensating for a lack of established theory and/or where accepted principles and constructs have not been established and are clearly inadequate.

Thirdly, there is a lack of conceptual development within this field, thus shown by the previous theoretical research and demonstrated within its structure in this thesis. The collected research data should facilitate the identification and construction of a new framework of challenges for luxury fashion brands in China to be used by future researchers.

3.2 Collection of Data

3.2.1 Background Data

The first step in the process of gathering the data for this study was an extensive study of previous research in several databases. Also, additional research was made studying available
data regarding the establishment of fashion luxury companies in China and in other emerging markets. As the collection of secondary-source data came to include a wide array of sources published at a time horizon stretching from current day back to the 1990’s, supplementary data collection with insights from current sources was necessary. The main databases used in this thesis were JSTOR, EBSCOHost, Science Direct, and Emerald Online Journals, complemented with other publicly available Internet sources.

3.2.2 Primary Source Data

3.2.2.1 Choice of Interview Respondents

The author’s chosen tool for the thesis’ primary data collection was through interviews with persons believed to obtain key insights primarily within the luxury fashion business, strategy formulation and execution, and emerging market challenges. The luxury industry is characterized by extensive reluctance towards disclosing information that could be used by competitors, and the author concluded at an early stage that relevant data from persons employed within any of the dominant firms or conglomerates would be difficult to obtain. The author chose to interview a set of ten respondents with different backgrounds as to avoid strongly biased answers. A choice was made not to include respondents employed directly by luxury fashion companies for two reasons: 1) the likelihood of participation, as previous research have shown a resistance from luxury fashion brand spokespersons towards part-taking in studies, and 2) the same respondents showing similar reluctance towards disclosing any key information about the brand operations. Instead, respondents in close proximity and/or with previous experience from the business were identified and contacted.

A list of the persons contacted, presented together with their main area of current employment, are shown in Appendix 1. Out of the 33 potential respondents contacted, ten agreed to participate in the study.

The ambition of the data collection was to gain a broad understanding of the topic from initiated sources.

The criteria for choosing the industry experts were the following:

- The interviewees should inhibit relevant knowledge and experiences about the fashion, luxury and/or luxury fashion market.
- The interviewees should be familiar with challenges for these companies/brands on emerging markets in general and/or in China in particular.
3.2.2.2 Primary Data Collection Process

The primary source empirical evidence was collected in three phases. In order to identify interviewees meeting these conditions, an initial set of research was conducted. Multiple sources of additional evidence, such as documentary evidence and interviews, were also used in the preparatory data collection phase to protect the research from bias. The respondents mentioned are further introduced in Appendix 2.

*Interview Phase One*

The first phase of interviews aimed to provide a broad general understanding of the challenges of luxury fashion companies in China. To provide a wider array of views and experiences on the topic, a set of four respondents with different backgrounds were asked to provide their opinion on which challenges luxury fashion companies face in China today. These respondents include China-based consultant Inga Yoshida, luxury professors Stefania Saviolo and Salvo Testa, fashion professor Håkan Preiholt and consultant/market researcher Nick Debnam. For interview template, please see *Appendix 3*.

*Interview Phase Two*

The second phase of interviews were conducted to provide the thesis with feedback on the information gathered in the first interview phase, as well as with comments on current research relating to the challenges of luxury fashion brands in China. Interviewees were also given the opportunity to name additional challenges not identified thus far. The respondents selected for this second phase all had in common in-depth experience within the luxury fashion market in China. The respondents were luxury brand consultants Radha Chadha, Vladimir Djurovic and Francis Gouten, all of which had different background within the industry. For interview template, please see *Appendix 4*.

*Interview Phase Three*

By the third phase, a broad range of views on luxury fashion brand challenges in China had been collected. To provide additional depth to the study, interview respondents were asked to comment on all major challenges identified thus far, as well as discard those challenges that they did not find relevant to brands. Respondents in the third phase included luxury brand consultants Francis Gouten, Eric Douilhet, Denis Morisset, Vladimir Djurovic and Inga Yoshida. For interview template, please see *Appendix 5*.
After the each interview, the answers were transcribed, and all the data and case materials analyzed, so that a general sense of the data could be established. The important themes, the frequency of occurrence, relative importance to the interviewee, emergent patterns and areas of contradiction were identified in accordance with established protocols. The empirical findings from these interviews are presented in Chapter 4. Empirics.

3.3 Data Processing

After conducting the interviews, the results were evaluated to map out the main challenges. The challenges were categorized into thirteen different sets. Each of these sets was then presented separately in the Chapter 4. This data was structured into tables showing the ranking of each variable in these two respects, and presented next to each challenge. To give a more nuanced picture of each challenge, comments from the interviewees were presented under each challenge section. For more information about the design of the interviews, please see Appendixes 3-5.
4. Empirical Findings

The gathering of information aiming to map out the key challenges for luxury fashion brands in China has been conducted through an explorative, qualitative study of the main challenges identified in previous research together with early empirical findings (For more information about the methodological choices, please see sections 3.1-3). These explorations have revealed a number of key themes emerging from the data. While the proposed themes were identified as the challenges in following chapter, the empirical data is structured in accordance with these findings to provide a clearer overview. Within each of these key themes, various sub-themes emerged during the interviews which are briefly stated in the left column of Table 1.

5.1 The Chinese Luxury Fashion Market and its Main Challenges

The following presentation of the key research findings is developed as thirteen principal categories, or “challenges”, with the evidence from the data collected through interviews. The variables presented are the broad subject areas that have emerged from the qualitative data collection. The quotes from interviewees are represented by quote numbers (Q1, Q2…), and then cited from each respective source. In Table 1, each challenge is presented and elaborated upon. Further comments from the interviewees on the luxury fashion market in China can be found in Appendix 6.
5.2 Case Study Evidence

Below (in *Table 1*) follows the empirical findings collected through the interviews conducted.

<table>
<thead>
<tr>
<th>Table 1: Case study evidence</th>
<th>Case study evidence – Quotes from Interview Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Considerations for luxury fashion brands in China</strong></td>
<td>QA1: Brand positioning is critical on China’s luxury fashion market (Debnam: 2009-05-12). QA2: Most companies aim to maintain the same brand positioning as they do in their home markets (Yoshida, 2009-06-02). QA3: Several fashion companies, especially those strong in home markets, tend to associate their brand with other values than the customers. This might lead to a total misjudgment of the customer behavior, affecting other key areas as well. Therefore, companies entering any new market should carefully design a strategy to prepare for such a scenario (Preiholt, 2009-05-18). QA4: Some brands, with a strong enough brand equity, does not have to adapt much to the local market, while others may need to do so to specifically target certain customer segments (Morisset, 2009-06-02). QA5: The key is for the brand to correspond with the cultural values of the market. Sometimes brands care less about keeping the brand value to better adapt locally (Douilhet, 2009-05-22). QA6: A focus on logos and monograms has been a successful strategy in spreading the luxury brand’s collections in entire Asia, including China. Many luxury brands have therefore introduced special logo collections for the Asian markets (Chadha, 2009-05-18). QA7: To the Chinese customer, “a big shop means a big brand”. Therefore, flagship stores, their presentation and size is very important (Gouten, 2009-05-26). QA8: Leading luxury brands generally do not position themselves differently in China, as they are more careful with upholding core values such as for example brand heritage. Some companies focus more on brand extensions. QA9: Those usually introduce more high-end lines first, such as Dolce Gabbana introducing its signature line before the less exclusive D&amp;G. To uphold values in China, the best is usually showed first (Morisset, 2009-06-02). QA10: Brands must educate their customers about the brand and its history, as these are important arguments to build brand position on the market (Gouten, 2009-05-26). QA11: The culture behind the brand is often not understood, which contributes to low brand loyalty (Djurovic, 2009-05-28).</td>
</tr>
<tr>
<td><strong>Brand Positioning</strong></td>
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<tr>
<td>• Brand positioning is critical</td>
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<tr>
<td>• Maintaining the same brand positioning as in home market is common</td>
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<tr>
<td>• Best brands should be introduced first</td>
<td></td>
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<tr>
<td>• Potential customers associate brands differently than expected</td>
<td></td>
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<tr>
<td>• Brands with strong brand equity need less adaptation, and focus on heritage</td>
<td></td>
</tr>
<tr>
<td>• Education about the brand and its history is key, also to promote brand loyalty</td>
<td></td>
</tr>
<tr>
<td>• Some brands focus on brand extensions</td>
<td></td>
</tr>
<tr>
<td>• Chinese customers are affected by visible luxury, such as logos, to a larger extent</td>
<td></td>
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<tr>
<td>• Important for brand values to match with the local culture</td>
<td></td>
</tr>
<tr>
<td>• Flagship stores important for brand status</td>
<td></td>
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<tr>
<td>Resources</td>
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<tr>
<td>-----------</td>
<td></td>
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<tr>
<td>- China is no longer cheap, and set-up costs are significant</td>
<td></td>
</tr>
<tr>
<td>- Company size and budget is key to maintain competitiveness</td>
<td></td>
</tr>
<tr>
<td>- Major costs include marketing, real estate, staffing and training, legal advice and local administration</td>
<td></td>
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<tr>
<td>- Investments should be seen in long term perspectives</td>
<td></td>
</tr>
<tr>
<td>- Conglomerates, who share many resources, are favoured</td>
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<tr>
<td>- For many companies, the price does not justify itself. Smaller independent brands have to work harder to establish, which may keep some companies from entering the market, or not having sufficient resources to compete</td>
<td></td>
</tr>
<tr>
<td>- Local partners might provide additional resources and lower financial risks</td>
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</tbody>
</table>

**QB1:** To maintain competitiveness in China, company size and budget are important factors. Without these, it will be impossible to target customers (Gouten, 2009-05-26).

**QB2:** China is no longer cheap (Gouten, 2009-05-26).

**QB3:** Resources are important, to a certain extent. Companies need resources to be in control the development of the brand as well as their destiny in China, rather than depending on partners (Morisset, 2009-06-03).

**QB4:** Compared to other markets, China is more complex, time consuming and expensive. Lawyers and marketing are some of the major costs demanding resources from companies (Morisset, 2009-06-03).

**QB5:** The costs for setting up a business and operating in China are in most cases significant. Proper real estate and the costs of recruitment should be considered carefully before launching in China. The marketing costs are today very high compared to what you get. In general, all media expenditure, including advertising and PR, are usually a great burden (Douilhet, 2009-05-22).

**QB6:** Locations, office/local administration and staffing are major costs together with advertising. Office/local administration costs may be avoided for those companies that let partners take main responsibility of business in China (Gouten, 2009-05-26).

**QB7:** Companies need to spend relatively large amounts of money to train staff at all levels, especially at the management level (Douilhet, 2009-05-22).

**QB8:** The best shopping malls are now expensive, as well as acquiring the best locations within them (Morisset, 2009-06-02).

**QB9:** Some companies tend to focus less on marketing through traditional media, and thereby avoid many major costs. Still, Internet as a communications medium is relatively cheap, but prices should be increasing soon (Douilhet, 2009-05-22).

**QB10:** It is important to be able to invest long-term in China today. If a company is less mature in terms of experience or capacity, growth and long-term establishment will be limited. To succeed in China today, you need money and a lot of patience (Douilhet, 2009-05-22).

**QB11:** It took 15 years for top French brands to turn profitable in China. Today, while demand is also higher, it is a lot more costly to acquire good retail locations, for instance (Douilhet, 2009-05-22).

**QB12:** As China is a strong market, and there is a general feeling that "everyone has to be there". However, for many companies, the price does not justify itself (Douilhet, 2009-05-22).

**QB13:** Brands belonging to bigger groups are favored, as they share many services. For independent brands, costs are a bigger burden, as operations in China will not bring immediate profits despite big investments. Still, the investments made have in general shorter pay back times than they did 10 years ago (Morisset, 2009-06-03).

**QB14:** For those companies entering alone, resources are
important as huge costs usually incur. Teaming up with local partners might, despite the other challenges that this may pose, be one alternative to decrease financial risk (Yoshida, 2009-06-02).

| Customers | QC1: This is the area where many improvements can be done: from Asian fit regarding the physical product, to CRM programs, to service quality... The top brands are generally good but all the other brands have much to do in this area (Djurovic, 2009-05-28). QC2: Luxury does not want to adapt to foreign customers, except for sizes (Gouten, 2009-05-26). QC3: China’s market is still growing, but becoming increasingly complex. However many companies tend to see the Chinese luxury consumers as a homogenous group, classifying them as a “show off” group (Chadha, 2009-05-18). QC4: New segments of customers emerge continuously, and the market is now very differentiated. Both sophisticated & unsophisticated customers now exist (Chadha, 2009-05-18). QC5: Consumers in general often differ significantly between first-, second- and third tier cities, and may have reached different levels of appreciation of luxury goods (Chadha, 2009-05-18). QC6: Companies must have the capacity to adapt to consumers. This is a great difficulty, especially for small- and medium-sized brands. The more business a company has in Asia, the easier it usually is to operate, as the company may be more organized to cater to the Asian market (Douilhet, 2009-05-22). QC7: The Chinese market is made up of five, six or seven different segments of potential luxury customers (Douilhet, 2009-05-22). QC8: The middle class are today also clients to luxury brands. Despite their lower income levels, they are becoming an increasingly important target market (Morisset, 2009-06-02). QC9: Generally for China, more conspicuous consumption, or “show off” consumption, is a way to show success. Logos, and accessories that may show success more clearly are important for sales. This is also largely the case in many other emerging markets (Morisset, 2009-06-02). QC10: Beyond the conspicuous customer segments, new customer groups have evolved that have an opposite view, and buying patterns. For them, exclusivity and quality is more important (Morisset, 2009-06-02). QC11: In China, accessories are more popular, especially among younger customers (Gouten, 2009-05-22). QC12: Consumer buying behavior has changed slightly with the recent economic downturn. Now, fashion durability is increasingly important; consumers want to be able to wear the brands for a longer time (Chadha, 2009-05-18). QC13: Demand is not the big problem today. The Chinese market now inhibits a lot of potential clients. Chasing of clients is now more of an issue in Europe than in China (Morisset, 2009-06-02). |

| Customers | • The Chinese market comprises of several customer segments, not one • Companies choose to adapt to a different extent to local customers; some do not adapt at all • Customers differ between regions and cities • Show-off consumption big in China, but quality awareness is increasing, especially with the economic downturn • The middle class becomes increasingly important to LFB • Easier for companies with more resources and business in Asia to adapt businesses • Especially smaller companies have yet to improve their customer approach • Despite Chinese customers being different, luxury fashion companies resist adaptation • Demand is high in China today, and while prices in China are higher than elsewhere, |

| Customers | QC1: This is the area where many improvements can be done: from Asian fit regarding the physical product, to CRM programs, to service quality... The top brands are generally good but all the other brands have much to do in this area (Djurovic, 2009-05-28). QC2: Luxury does not want to adapt to foreign customers, except for sizes (Gouten, 2009-05-26). QC3: China’s market is still growing, but becoming increasingly complex. However many companies tend to see the Chinese luxury consumers as a homogenous group, classifying them as a “show off” group (Chadha, 2009-05-18). QC4: New segments of customers emerge continuously, and the market is now very differentiated. Both sophisticated & unsophisticated customers now exist (Chadha, 2009-05-18). QC5: Consumers in general often differ significantly between first-, second- and third tier cities, and may have reached different levels of appreciation of luxury goods (Chadha, 2009-05-18). QC6: Companies must have the capacity to adapt to consumers. This is a great difficulty, especially for small- and medium-sized brands. The more business a company has in Asia, the easier it usually is to operate, as the company may be more organized to cater to the Asian market (Douilhet, 2009-05-22). QC7: The Chinese market is made up of five, six or seven different segments of potential luxury customers (Douilhet, 2009-05-22). QC8: The middle class are today also clients to luxury brands. Despite their lower income levels, they are becoming an increasingly important target market (Morisset, 2009-06-02). QC9: Generally for China, more conspicuous consumption, or “show off” consumption, is a way to show success. Logos, and accessories that may show success more clearly are important for sales. This is also largely the case in many other emerging markets (Morisset, 2009-06-02). QC10: Beyond the conspicuous customer segments, new customer groups have evolved that have an opposite view, and buying patterns. For them, exclusivity and quality is more important (Morisset, 2009-06-02). QC11: In China, accessories are more popular, especially among younger customers (Gouten, 2009-05-22). QC12: Consumer buying behavior has changed slightly with the recent economic downturn. Now, fashion durability is increasingly important; consumers want to be able to wear the brands for a longer time (Chadha, 2009-05-18). QC13: Demand is not the big problem today. The Chinese market now inhibits a lot of potential clients. Chasing of clients is now more of an issue in Europe than in China (Morisset, 2009-06-02). |
lowering prices might hurt business

QC14: High prices are not a problem, however, if you lower your price, you commit a big mistake. Chinese luxury fashion customers are used to high prices, which are usually 20-40% more expensive in China than elsewhere (Gouten, 2009-05-26).

<table>
<thead>
<tr>
<th>Marketing Communication</th>
<th>QD1: China is simple: the more you communicate, the more successful you are (Djurovic, 2009-05-28).</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>QD2: In China, the brands have to spend money to be visible. This leads to heavy marketing costs (Chadha, 2009-05-18).</td>
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<td></td>
<td>QD3: Marketing in China is expensive; if you don’t spend money, you don’t exist (Gouten, 2009-05-26).</td>
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<td></td>
<td>QD4: Building brand equity is expensive in China because of the ineffective media and advertising, resulting in many of the luxury brands having to place numerous advertisements or find other ways to promote their products (Douilhet, 2009-05-22).</td>
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<td></td>
<td>QD5: To uphold a European/Western image, white persons are frequently used in visual campaigns (Gouten, 2009-05-26).</td>
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<td></td>
<td>QD6: PR, advertising and product pricing are all key challenges. How companies handle the marketing challenge, along with how they evaluate the customer segments, may often mean the difference between success and failure on the Chinese market. This challenge is largely linked to the consumer challenge, as these two aspects often are mutually dependent (Douilhet, 2009-05-22).</td>
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<td></td>
<td>QD7: Important for Chinese are logos and price – “if it is expensive, it is good” (Gouten, 2009-05-26).</td>
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<td></td>
<td>QD8: Companies need to have a local approach when it comes to marketing issues. For China, it is virtually impossible to design a strategy that may be adapted to fit the entire market (Douilhet, 2009-05-22).</td>
</tr>
<tr>
<td></td>
<td>QD9: Locally, there is a huge difference between the first and second tier brands. While the first line brands are often well known even in China, the second line brands have to make greater efforts to market themselves and establish in customers minds. These involve major costs, and while the bigger brands usually have great resources for marketing issues, smaller brands tend not to (Douilhet, 2009-05-22).</td>
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<td></td>
<td>QD9: Internet marketing will absolutely grow, and will be important in China as the luxury fashion customers are younger than in Western markets (Gouten, 2009-05-26).</td>
</tr>
<tr>
<td></td>
<td>QD10: Using traditional marketing means are not easy in China. There is a big complexity within the Chinese market for advertising, as multiple channels exist through magazines, radio, TV and such. For luxury fashion companies, it is difficult to choose between these channels, as the vast majority is not focused enough (Morisset, 2009-06-02).</td>
</tr>
<tr>
<td></td>
<td>QD11: To succeed, companies have to communicate differently. PR and events have come to be a major marketing tool within the business in China rather than using the traditional media (Morisset, 2009-06-02).</td>
</tr>
</tbody>
</table>
QD12: “Everybody” are employing PR strategies today, which makes it increasingly difficult to differentiate. Without standing out with the PR, there is “no point” for companies to do it. One way to do this may be to focus on the brand values, heritage and/or history, to make the company unique to customers. For example, Hermès designed a campaign with a “Silk Road”-theme, connecting the values of the brand with Chinese culture and history (Morisset, 2009-06-02).

QD13: Instead of only adapting communication to the Chinese market, many companies try to integrate their marketing campaigns to fit Chinese customers. Some companies praise Chinese culture in their campaigns, and sponsor cultural events. For example, Louis Vuitton sponsors a historical veteran car race each year in China (Morisset, 2009-06-02).

Retail Locations

- Locations are very important, especially for major brands.
- Locations are expensive, especially the best ones.
- Costs have increased in recent years, and is predicted to continue appreciating.
- Infrastructure is getting better, but lacking quality especially in 2nd and 3rd line cities.
- Lack of infrastructure & costs may keep small & medium brands out.

QE1: For international luxury fashion brands, good locations are extremely important (Gouten, 2009-05-26).

QE2: Many failed initially, as a lot of malls were built while the market was still in its infancy. This led to overdevelopment, as all malls wanted to attract luxury fashion brands (Chadha, 2009-05-18).

QE3: Infrastructure is getting better fast. 1st tier cities have right retail spaces, high brand awareness among consumers, and local VIP celebrities wearing it. The situation is significantly different from 10 years back (Chadha, 2009-05-18).

QE4: Prices for acquiring good retail locations in China have in recent years increased dramatically, as the owners of good retail locations have started to realize the value. It is no longer easy to find bargain locations, especially not in malls and other strategically important points of sale (Douilhet, 2009-05-22).

QE5: The best shopping malls are no longer cheap, neither is acquiring the best locations within them. The biggest and best brands require the very best locations (Morisset, 2009-06-02).

QE6: Most, if not everything, is very expensive. Before, the situation was the opposite, with few locations at bargain prizes, and the luxury brands were begging to enter into the best locations (Gouten, 2009-05-26).

QE7: Today, retail locations are more expensive than before, and will continue to increase in price (Yoshida, 2009-06-02).

QE8: Getting the right store locations often a struggle. Typically major luxury brands are focused on tier 1 cities, but some more mature players have also moved into 2nd - and 3rd - tier cities (Chadha, 2009-05-18).

QE9: Generally, 2nd and 3rd-tier cities lack proper distribution channels and -infrastructure, requiring high investments to refine or to build these points of sale. This may work as a barrier to entry especially for small- and medium sized luxury fashion brands (Preiholt, 2009-05-18).
| **Staffing** | **QF1:** Recruitment is a very big issue. Quality people are hard to find at all levels, and companies fight hard to keep staff (Yoshida, 2009-06-02).
**QF2:** There is today a shortage of both well-trained sales- and management staff (Debnam, 2009-05-12).
**QF3:** Staffing is very difficult, as competence is low and training is required. Even though there are large pools of cheap labor in China, there is a shortage of local management talent and staffs who have experiences in luxury goods service positions (Douilhet, 2009-05-22).
**QF4:** Companies need to spend relatively large amounts of money to train staffs at all levels, especially the management level or find qualified people from elsewhere so as to empower them to become ambassadors of their brands (Douilhet, 2009-05-22).
**QF5:** Training is most important for sales staff, as majority of current sales staff are not familiar with luxury and fashion (Gouten, 2009-05-26).
**QF6:** No trained staff make very difficult to educate the final consumers to the heritage and quality of luxury brands (Gouten, 2009-05-22).
**QF7:** Training of staff is important, but is made difficult as there are few educators locally or catering to the Chinese market (Morisset, 2009-06-02).
**QF8:** Insufficient investments in the training of staff is one of the most common mistakes that luxury fashion brands in China make (Gouten, 2009-05-22).
**QF9:** On the Chinese market, the best people are often to be found working for competitors, which leads to a vicious circle as brands try to steal employees from each other (Morisset, 2009-06-02).
**QF10:** Keeping employees with the company is an issue, as Chinese employees have a strong tendency to change work for better pay (Gouten, 2009-05-26).
**QF11:** Generally, staff in China is not loyal, and do not hesitate to change employer for a higher pay elsewhere, despite having worked for only up to a year (Morisset, 2009-06-02).
**QF12:** Employees with experience of two or three years are often lost as they start new companies within the industry and become competitors. In these cases, pay raises are not enough (Morisset, 2009-06-02).
**QF13:** It is difficult to find personnel, and convince them to work in especially 2nd and 3rd tier cities. Whereas still difficult, the situation is still better in 1st line cities (Morisset, 2009-06-02).
**QF14:** To fill management positions, recruitment is most often done externally, from other countries (Morisset, 2009-06-02).
**QF15:** Talent may come from Taiwan, but cultural differences between Taiwanese and Chinese may be a problem with sales. Today, expatriates are more frequently sent over to fill management positions (Gouten, 2009-05-26). |
<table>
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<tbody>
<tr>
<td>• Lack of staff at all levels, despite China’s pool of cheap labor</td>
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<td>• Extensive training of staff needed, which can be expensive</td>
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<tr>
<td>• Training important especially for management and sales staff</td>
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<tr>
<td>• Keeping staff with the company is difficult</td>
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<tr>
<td>• Expatriates frequently sent over to fill management positions</td>
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<tr>
<td>• Positions are especially difficult in 2nd and 3rd line cities</td>
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</tbody>
</table>
### Competition
- Big at home often means big in China
- Lack of brand loyalty makes competition for customers more intense
- Generally, there is still room for new competitors in China, and companies now enter China to maintain growth
- Competition varies between product categories
- Competitive noise as many less exclusive companies “try to be luxury”, which confuses customers
- More difficult for new luxury brands
- Gaining and maintaining market position is essential
- Domestic luxury fashion brands may enter the market in the future

**QG1**: In China, the big luxury fashion houses tend to take the position that they have in their home markets, consequently, big at home usually means big in China (Douilhet, 2009-05-22).

**QG2**: The bigger brands, that are more recognized, have an advantage as these have started to build closer ties with customers (Yoshida, 2009-06-02).

**QG3**: Competition is of course a challenge. Usually, the competition is not a problem among luxury brands, that often believe in their own brand as something unique from others (Douilhet, 2009-05-22).

**QG4**: Competition is not the most critical issue. The market is still wide open, and many brands are entering (Morisset, 2009-06-03).

**QG5**: Compared to other markets, competition is a bigger issue in China, not due to over-establishment, but rather due to customer behavior. Companies fight hard to build close links to customers, who lack the brand loyalty that is experienced in other markets (Yoshida, 2009-06-02).

**QG6**: In certain product categories, competition may be more intense than in others. This might force companies to diversify into new product categories (Douilhet, 2009-05-22).

**QG7**: Gaining market share and maintaining a strong market position are key challenges in China today (Debnam: 2009-05-12).

**QG8**: To introduce an entirely new brand is difficult, as existing brands already have a strong position among Chinese luxury customers who know the brands from experiences abroad (Goutet, 2009-05-26).

**QG9**: There is a lot of “competitive noise”, as “everyone” tries to be “luxury”. Not all brands trying to seem exclusive are luxury brands, which confuses customers. To stand out from this competition, real luxury fashion companies really have to make efforts to convey the right message to customers about the brand (Morisset, 2009-06-03).

**QG10**: In the future, domestic luxury fashion brands may enter the market and make up new competitors (Morisset, 2009-06-03).

### Regulations
- China is a regulated market, with a variety of regulations and restriction affecting international companies, however not worse than many other emerging markets
- R may differ on local levels, forcing

**QH1**: China has opened up its markets in recent years, and is likely to continue to do so gradually. Even China dislikes protectionism, as this often tend to hurt the Chinese economy due to decreased trade (Preiholt, 2009-05-18).

**QH2**: The gradual opening up is a conscious choice by Chinese politicians to avoid domestic turbulence and instability (Preiholt, 2009-05-18).

**QH3**: Tax and regulatory issues are challenges, including import arrangements, transfer pricing, local government approval requirements (Debnam: 2009-05-12).

**QH4**: The biggest problem is how new rules and regulations are imposed by authorities without consulting the industries before or after they are created or imposed. Not even government officials
<table>
<thead>
<tr>
<th>companies to be flexible</th>
<th>sometimes really know when rules are created, changed or eliminated. To avoid unpleasant surprises, firms should consult good advisors and/or law firms with local insights (Gouten, 2009-05-26).</th>
</tr>
</thead>
<tbody>
<tr>
<td>• R are both a challenge and an opportunity</td>
<td>QH5: As the country has continued to open up, it does rather present new opportunities that companies need to be aware of. It is today worse in other, “younger” economies (Douilhet, 2009-05-22).</td>
</tr>
<tr>
<td>• Taxes lead to sales lost to foreign markets, especially for businesses in Southern China</td>
<td>QH6: However, in China, laws and regulations may differ on a regional or local level, so companies need to adapt to those conditions (Douilhet, 2009-05-22).</td>
</tr>
<tr>
<td>• Changes of regulations may come without prior notice</td>
<td>QH7: Companies often need to adapt their business model to fit the certain legal and tax regulations that exist in a new economy, including China. Strong regulations are still present within communication means, such as with Internet. This might also affect marketing strategies or online sales (Douilhet, 2009-05-22).</td>
</tr>
<tr>
<td>• China has opened up in recent years, but it is not yet certain that this will continue</td>
<td>QH8: Legal systems are still problematic, especially when conflicts arise with local parties who tend to be favored in courts (Yoshida, 2009-06-02).</td>
</tr>
<tr>
<td>• Companies in conflict with local parties may be disadvantaged in court</td>
<td>QH9: Companies should be more worried about the legal risks, as the justice systems always tend to favor local parties. International companies should avoid ending up in court at all (Douilhet, 2009-05-22).</td>
</tr>
<tr>
<td></td>
<td>QH10: Compared to many other emerging markets, such as Russia, Brazil or the Middle East, regulations in China are in many ways easier to overcome (Morisset, 2009-06-03).</td>
</tr>
<tr>
<td></td>
<td>QH11: Despite better conditions than earlier, customs and taxes means sales lost to Hong Kong, where taxes are much lower. This holds especially for the southern regions and cities, including Shanghai, Shenzhen and Guangzhou. In the future, it is not certain that the regulations will be better. Government may even raise these taxes and create new barriers if they feel appropriate (Morisset, 2009-06-03).</td>
</tr>
</tbody>
</table>
| **Local Collaborations** | **QI1:** Partnerships with the right local partners are very important. China is “still a “jungle” with many different practices, and you cannot start completely alone” (Gouten, 2009-05-26).
**QI2:** In China, it is important for companies that the right people in the right places help you. The press, trade, politics and business networks are important ones. With right connections and partners, companies may operate more efficiently (Douilhet, 2009-05-22).
**QI3:** When entering China, some companies make direct investments, while others try to find local partners. When collaborating with local partners, different cultures and mentalities sometimes clash. Thus, conflicts of interest may arise (Douilhet, 2009-05-22).
**QI4:** Collaborations with Chinese partners are very common, and many problems often arise when the Chinese try to get around contracts (Yoshida, 2009-06-02).
**QI5:** Often, the brand’s ambitions of upholding brand image conflicts with local partner’s ambitions of profits and business development (Morisset, 2009-06-02).
**QI6:** One common mistake that brands can make today is to still run their business from Hong Kong. Other companies may expect to rely on global distributors to enter the Chinese market. Basically no global distributor can today cover entire China. Neither is this one of the most commonly preferred entry strategies in China today (Morisset, 2009-06-02).
**QI7:** More commonly, some companies have relied on franchise deals in order to expand faster in China. This choice may eventually damage either the sales, the brand (relating to image and identity), or both (Morisset, 2009-06-02).
**QI8:** After five or six years on the market, a company is usually more mature and ready to become more independent (Gouten, 2009-05-26).
**QI9:** Now quite a few brands manage their retail in an autonomous way (Gouten, 2009-05-22).
**QI10:** Today, many brands, including Ralph Lauren, have started to buy back their businesses from local Chinese partners (Morisset, 2009-06-02).
**QI11:** Major local partners, often represented by Chinese companies in Hong Kong, now seek long-term contracts (often five years or more) and majority stakes in collaborations, as they have realized the market growth potential for luxury fashion brands in China (Gouten, 2009-05-26).
**QI12:** It is necessary to have a China expertise, the ideal is to have it inhouse if possible (Djurovic, 2009-05-28). |
| **Domestic Turbulence** | **QJ1:** In China, “you never know what is going on” (Morisset, 2009-06-02).
**QJ2:** Chinese customers are not yet mature in their behavior, and emotional sentiments may prove problematic for international |
<table>
<thead>
<tr>
<th>Terms of Policies</th>
<th>Brands. Companies should really try to prepare for any turbulence scenario (Yoshida, 2009-06-02).</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Governments may pose problems</td>
<td></td>
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<tr>
<td>• Nationalism is not a big worry for luxury fashion companies</td>
<td></td>
</tr>
<tr>
<td>• Legal risks are plentiful, as local parties are favored</td>
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<tr>
<td>QJ3: Although the central government may edit rules, the way regional authorities will apply them is sometimes unpredictable. These issues are, like sales and profit margins, something that brands usually do not want to talk about openly (Morisset, 2009-06-02).</td>
<td></td>
</tr>
<tr>
<td>QJ4: Governments’ actions may have been one of the reasons fuelling recent nationalism outbreaks, and sometimes, this is just a way for officials to demonstrate their power (Morisset, 2009-06-02).</td>
<td></td>
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<tr>
<td>QJ5: Regarding nationalism, the urge for luxury is too strong to suppress sales significantly (Douillet, 2009-05-22).</td>
<td></td>
</tr>
<tr>
<td>QJ6: Nationalism issues are “bullshit to luxury companies”. China is a big country, and problems might always arise in certain parts (Gouten, 2009-05-26)....</td>
<td></td>
</tr>
<tr>
<td>QJ7: Outbreaks of nationalism are most often local, and fuelled by politicians or other interest groups. What happened to Carrefour was largely because it was easier to identify as French, as the company bears the French colors. Luxury stands over passion and politics (Gouten, 2009-05-26).</td>
<td></td>
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<tr>
<td>QJ8: When entering a distant market, the risk of domestic turbulence is something a company should be aware already at the planning stage. However, if you start to think about the risks too much, you will miss a lot of opportunities (Douillet, 2009-05-22).</td>
<td></td>
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<tr>
<th>Corruption</th>
<th>QK1: Corruption exists everywhere in China, as the country has seen too much money in a short time. It was worse 10 years ago, but there is still a lack of laws regulating corruption. In recent years, the government has created efforts to clean up. Also, it is less accepted among the Chinese population today (Gouten, 2009-05-26).</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Corruption may be common at a local level, and with land and property, but diminishing</td>
<td></td>
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<tr>
<td>• It is possible to do business in China today without corruption, especially by keeping a low profile</td>
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<tr>
<td>• To achieve this, companies might need local guidance</td>
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<tr>
<td>• Companies should be aware of the Chinese gift culture, which is also an opportunity in terms of sales.</td>
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<tr>
<td>QK2: Corruption is less of an issue today than earlier (Yoshida, 2009-06-02).</td>
<td></td>
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<tr>
<td>QK3: In China, companies may avoid corruption to a greater extent than in other emerging economies, and things keep improving regularly (Douillet, 2009-05-22).</td>
<td></td>
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<tr>
<td>Corruption still exists primarily when dealing with land and property, and is worse in small cities (Gouten, 2009-05-26).</td>
<td></td>
</tr>
<tr>
<td>QK4: Some issues, such as gifts and such, are just part of the business (Douillet, 2009-05-22).</td>
<td></td>
</tr>
<tr>
<td>QK5: If their products and business are strong in general, luxury fashion companies in China can today succeed without dealing closely with corruption (Douillet, 2009-05-22).</td>
<td></td>
</tr>
<tr>
<td>QK6: For other companies though, bribes might help (Douillet, 2009-05-22).</td>
<td></td>
</tr>
<tr>
<td>QK7: The more you control your operations in China, the less exposed you are to corruption. Some people suspect that local officials may be associated sometimes directly or indirectly with it. To avoid dealing with corruption, companies should pay attention,</td>
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30
<table>
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<tr>
<th>Maintain relationships and keep a low profile in general. Certain local partners, internal or external to the company, may be helpful to lead the company away from such issues (Morisset, 2009-06-02).</th>
</tr>
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</table>

**Counterfeiting**
- Rules and regulations are weak on intellectual piracy
- Bigger brands get copied more
- Bigger issue in China than elsewhere in Asia
- Rumors that CF products are sold in own stores
- Counterfeiting might dilute brand value in China
- While negative overall, CF is more of an image problem than a sales problem
- International brands tend to fight counterfeiting issues alone
- Big at home often means big in China

*QL1*: Counterfeiting is a big issue in China. It is also an area where international brands could collaborate more to fight this, and work together instead of dealing with it internally. Rules and regulations are not clear today, and also weak. Further energy and efforts will be needed to fight it in coming years (Morisset, 2009-06-02).

*QL2*: The copyright protection problems come with success - i.e. the better you perform the bigger the problem (Debnam: 2009-05-12).

*QL3*: Counterfeiting is a big problem, but many companies feel hopeless, as it is hard to do anything about it (Yoshida, 2009-06-02).

*QL4*: There is a stark paradox associated with counterfeiting. Brands that are the strongest are also the most counterfeited. In one way, being counterfeited is a mark of success, as it is proof that the brand is strong. For companies having their products copied in China, it is more a brand equity concern rather than worries that copies affect the sales directly. The people that buy copies are usually not the customers that would by a real item any way. Companies worry that the products might be seen as less exclusive long-term. In several other Asian markets, such as in Hong Kong, South Korea or Japan, counterfeiting is not a big issue at all (Douilhet, 2009-05-22).

*QL5*: Counterfeiting is today a big mafia business in China. While it is upsetting, but does not affect direct sales much, nor the people buying it. It is more an image problem than a sales problem. Likewise with corruption, the government has tried to stop counterfeiting, but is reluctant to eliminate it completely as that would destroy the economy of certain cities and businesses completely (Gouten, 2009-05-26).

*QL6*: Counterfeiting affects both sales and brand image. In China today, rumors are that counterfeited products are sometimes sold even in flagship stores. To prevent this, companies have to increase control of operations (Morisset, 2009-06-02).

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<tr>
<th>Currency Fluctuations</th>
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| *QM1*: The currency fluctuations have recently become one of the major issues for luxury fashion companies, as well as many other businesses, operating in China and the rest of Asia (Douilhet, 2009-05-22).

*QM2*: The appreciation of the Renminbi towards Western currencies has had powerful negative impact for international luxury fashion companies as margins vanish (Yoshida, 2009-06-02).

*QM3*: Companies operating in China and the rest of Asia must have a thought-out strategy to handle these fluctuations, as they are
### Strategies
- Companies may hedge for risks by preparing for fluctuation scenarios.

In many cases the differences between making a profit or a loss (Douilhet, 2009-05-22).

**QM4:** Many companies are today extremely frustrated but these fluctuations, as they have a huge impact on the margins, as well as the operating costs and contracts with local partners (Douilhet, 2009-05-22).

**QM5:** This also has a huge effect on the pricing strategies, as companies have to determine whether they want to follow the fluctuations and constantly change the prices to maintain margins, or keep a consistent pricing strategy leading to increased currency risk exposure (Douilhet, 2009-05-22).

**QM6:** Today, majority of products sold by international luxury fashion companies are produced in Euro (€) or Swiss francs. For those companies with control of their own production, which the majority of companies have, the risks in terms of increasing product costs associated with currency fluctuations do not have to be big (Gouten, 2009-05-26).

**QM7:** Most of the big companies today employ various strategies to protect their margins and hedge for these risks (Gouten, 2009-05-26).

**QM8:** It is worse in Japan. The Renminbi tends to appreciate against the Euro and Dollar, however, the magnitude is still reasonable (Morisset, 2009-06-03).
5. Elaborations on Thirteen Challenges

The lack of academic research on challenges for international luxury fashion companies in China has been demonstrated in previous sections (see for example Jackson (2004), Kapferer (2008)). The aim with this section is to make an assessment linking the characteristics of luxury fashion companies together with previously identified challenges, supplemented by key insights from industry experts, to provide ground for an updated set of challenges. The results are presented below as thirteen challenges, and categorized according to previous section. The main findings within each challenge category are demonstrated as bullet points in each section.

5.1 Brand Positioning

- A properly designed Brand Positioning is critical
- Various brand positioning strategies are available in China
- Brand associations differ among Chinese customers
- The level of local adaptation varies between brands
- The number and quality of brand extensions may vary depending on brand positioning.

According to Moore et al (2004) a clearly defined brand positioning which communicates a definite set of attractive brand values and lifestyle associations is critical to the success of an international luxury fashion brand. Likewise, brand status, brand identity and exclusivity are other characteristics that are in most cases essential (see Phau et al. (2000), Okonkwo (2007), Fionda et al. (2008)). Further, Debnam and Svinos (2007, 2008) mentions brand positioning as one of the key challenges for international luxury fashion companies entering China. As Chinese have a short history relating to luxury, promoting a culture of luxury is by Debnam and Svinos (2007) mentioned as one of the main challenges for luxury brands.

A successful positioning is often initiated already before the Chinese market is entered, as this is necessary to create awareness of the company among the customers that know little about luxury brands (Ibid, 2007). Several of the respondents (QA1, QA3, QA5) identified brand positioning as important, as well as several challenges relating to positioning, including the difficulty of upholding the same brand values when launching in China, sometimes without knowing not doing so. Failure to communicate the brand values may however lead to
weaker brand loyalty among customers (QA11). Brand re-positioning is one alternative for luxury fashion brands, but is something that most big brands generally discard as strong brand equity among consumers may strengthen existing positioning (QA2, QA4-5, QA8). To build a strong brand positioning, it is today common among luxury fashion companies to introduce their most exclusive lines first (QA9). Other significant brand positioning strategies include special logo collections (QA6), presentation of retail locations (QA7), introducing brand extensions (often meaning less exclusive mass-market products, or new product lines) (QA8), and focus on brand heritage and values (QA10).

Brand positioning differs from most other challenges identified and analyzed in this thesis. Rather than being a function of external conditions, positioning the brand requires active choices made by stakeholders in the company. Similar to the Resources, brand positioning may largely deal with the existing assets of the company, in this case being immaterial. Nevertheless, brands may choose to position themselves differently in China than in home markets in order to fit in locally. As brought up by Debnam and Svinos (2007), brand positioning consists of a broad spectrum of tools to make the brand unique, including the point of sale (see 2.2.11 Store Formats). On the Chinese market, various strategies may be employed to position the luxury fashion brand. The empirical research indicates that brand associations may differ among Chinese customers, that level of local adaptation varies between brands, and the number and quality of brand extensions introduced by companies may also vary depending on brand positioning.

5.2 Resources

- To launch and operate in China, extensive resources are usually needed.
- Most significant costs include those relating to marketing, real estate, staffing and training of employees, legal advice and local administration costs.
- Brands should consider the timeframe of their operations as well as their attitude towards risk, as profitability is likely not to come instantly.
- Lastly, smaller firms outside conglomerates are disadvantaged as they usually lack extensive resources, and may have to team up with external partners to be competitive.

Similar to Brand Positioning, resources also have to do with the internal conditions with the firm. The availability of resources has been a major concern for luxury fashion brands in recent years. Operating and developing international luxury fashion brand are associated with
several major costs (Nueno et al, 1998; Kapferer et al, 2009; Moore et al, 2000). Despite the fact that luxury sales in China are on the rise, international luxury fashion brands in China should not expect a quick return on their investment. The costs of setting up, training staff and building brand awareness can be high, while demand remains limited in the short term (Debnam and Svinos, 2007).

Several of the interview respondents agree with availability of resources to counter heavy costs being a major challenge for brands in China, as well as largely essential to succeed (QB1, QB4-8, QB10-11). Compared to other markets, China is more complex, time consuming and expensive (QB4). Major costs brought up by the respondents include marketing, real estate, staffing and training of employees, legal advice and local administration costs (QB4-8). Despite more favorable conditions in recent years, investments in China should still be seen in long-term perspective as business takes time to establish successfully, if at all (QB10-11, QB14, see also 2.2.2 Long-Term Returns). Smaller brands, as well as brands not belonging to the big conglomerates, have a disadvantage as they are less financially strong and cannot share resources with other brands as easily. For these companies, teaming up with local partners may provide an alternative way to acquire additional resources (QB10, QB13-14). However, such alternatives may come with a price tag (see 2.2.7, Managing Risks).

‘Resources’ is the second challenge identified that depend largely on the current capabilities of the company. Neither Resources are however static, and may change depending on factors such as company size, attitude towards risk, and eventual local partnerships. Concluding, the study identifies four main findings relating to Resources. To launch and operate in China, extensive resources are usually needed. Most significant costs include those relating to marketing, real estate, staffing and training of employees, legal advice and local administration costs. Brands should also consider the timeframe of their operations as well as their attitude towards risk, as profitability is likely not to come instantly. Lastly, smaller firms outside conglomerates are disadvantaged as they usually lack extensive resources, and may have to team up with external partners to be competitive.

5.3 Customers

- To fully benefit from their operations in China, the findings relating directly to customers indicate that the companies need to identify various customer segments to be able to reach out more directly.
• The characteristics of customers in China differ both compared to Western markets as well as in between domestic cities and regions, and will continue to change as the Chinese luxury fashion market grows.
• Several brands will resist change that alters the companies’ core values.
• For additional challenges relating to customers, please see sections 5.1, 5.4 and 5.12.

The market facing luxury fashion brands in China is to many both new and very different. China is not a single, homogenous market for luxury and is showing increasing signs of segmentation and differentiation among customers (Debnam and Svinos. 2008). According to the same researchers (2007), key challenges for targeting customers include raising brand awareness, target their perception of beauty, mapping out attitudes towards counterfeit goods, and competing with overseas purchases (Debnam and Svinos. 2007). In accordance with the findings of the before-mentioned researchers, the primary empirical sources of this thesis emphasize the various markets segments that have emerged in China in recent years (QC3-5, QC7, QC10).

Chinese luxury fashion customers inhibit various segments with characteristics largely differing from Western customer patterns. These include “show off” customers, who favor conspicuous consumption (QC5, QC7), and a strong interest towards accessories (QC11), but several respondents emphasize a need to go beyond those characteristics, as luxury fashion consumers now become increasingly aware of quality and style (QC3-4, QC7, QC10). Also, buying patterns may vary between 1st, 2nd and 3rd tier cities (QC5). This is confirmed by the previous research of Atsmon et al (2009), who also found that Chinese customers are emerging at an increasing rate in 2nd and 3rd tier cities.

Despite a vast growth in recent years, the Chinese luxury fashion market still appears far from reaching its full potential. Previous studies have identified Chinese customers as younger than in more developed countries (Atsmon et al, 2009) as well making up the only market where men consumes more luxury products than women (Jemlich, October 2008). As China’s market is still growing, it is also becoming increasingly complex. However many companies tend to see the Chinese luxury consumers as a homogenous group (QC3). Despite the various sources pointing towards multiple customer characteristics, the research points towards a resistance to local adaptation (QC2), also in terms of adjusting prices for increased sales (QC14).
The complexity of the Chinese market in terms of customers is well documented as well as very challenging. To fully benefit from their operations in China, the findings relating directly to customers indicate that the companies need to identify various customer segments to be able to reach out more directly. The characteristics of customers in China differ both compared to Western markets as well as in between domestic cities and regions, and will continue to change as the Chinese luxury fashion market grows. However, several brands will resist change that alters the companies’ core values. For additional challenges relating to customers, please see sections 5.1, 5.4 and 5.12.

5.4 Marketing Communication

- Marketing efforts, while critical for a brand’s success, often prove both costly and ineffective in China.
- Central means of communication are PR, advertising and events.
- Marketing messages often aims to communicate a Western image, brand heritage, high pricing and visible logos.
- No matter which media to choose, standing out with marketing campaigns is both essential and very difficult. To achieve this, respondents of this study suggests customized activities linking brand values and heritage with local culture.

Debnam and Svinos (2007) mention Marketing (see section 2.2.13) as a consideration for luxury fashion brands in China. Marketing is a complex issue, as well as very broad. While there is no doubt that marketing is in fact a major issue in China, the concept is today blurry, as well as so intertwined with other issues that such categorization does fit within the scope of this thesis. Here, the Marketing Communication challenge relates primarily to the considerations of companies in terms of design of their brand communications.

For luxury fashion brands, efficient marketing and/or communication is vital (Fionda et al. 2008., Nueno et al. 1998). Likewise, for brands operating in China, designing communication strategies are vital as brand awareness is generally very low for all brands despite a top few (Debnam and Svinos. 2007, Atsmon et al, 2009). However, despite spending huge resources on marketing to raise brand awareness, previous research have also shown that marketing efforts often fail to bear fruit as companies fail to reach targeted customer segments (Debnam and Svinos, 2007). The findings from the primary empirical sources demonstrate that marketing is today regarded as vital, as well as difficult and costly (QD1-4, QD6, QD8-10). Companies must spend large sums to communicate with their customers, but often fail as
either the channels are inefficient to reach the targeted segments (QD4, QD8, QD10, see also 2.2.3 Shortage of Service Providers and 2.2.4 Ineffective Advertising and Media) or the marketing messages are too similar to those of the competitors (QD11-12). Another main challenge is to reach out with marketing campaigns targeting more than regional markets, as these efforts need to be tailored to fit the individual regional markets (QD8). As the success of Marketing Communication is likely to be costly due to the factors just listed, significant investments are likely to be essential to most brands. It is thus clear that the success of Marketing Communication also relate closely to Resources (see section 5.4).

The channels available are, despite often proving inefficient, various. Print, television advertising, luxury events and shows, and customized lifestyle publications are some of the most frequently employed (Debnam and Svinos. 2007). To stand out, companies need to communicate differently (QD11-12). Some ways of doing so may be to design PR campaigns focusing on the brand values, heritage and/or history, to make the company unique to customers (QD12); or to integrate marketing campaigns to fit Chinese customers. For instance, some companies praise Chinese culture in their campaigns, and sponsor cultural events instead of only adapting communication to the Chinese market (QD13). The key characteristics of the marketing messages that are communicated by luxury fashion companies include a Western image, brand heritage, high pricing, and visible logos (QD5, QD7, QD12-13).

Marketing is a complex issue in most markets, and perhaps even more so for luxury fashion brands. Concluding the Marketing Communication challenge, several areas emerge as critical to luxury fashion brands in China, and consist also of several sub-challenges that have been identified in previous research. Marketing efforts, which are essential for a brand’s success, often prove both costly and ineffective, largely due to difficulties of targeting customers and lack of good media channels. Central means of communication are PR, advertising and events. Marketing messages often aims to communicate a Western image, brand heritage, high pricing and visible logos. No matter which media to choose, standing out with marketing campaigns is both essential and very difficult. To achieve this, respondents of this study suggests customized activities linking brand values and heritage with local culture.

5.5 Retail Locations

- Prices and availability of attractive retail locations are likely to continue to be an issue in the future.
Operating flagship retail locations are considered crucial to a brand’s marketing communication process and reputation, and as a support for the wholesale business (Moore et al, 2000). The locations of flagship stores are generally located in a capital city (Ibid, 2000), and in China, main retail locations need to be conveniently located within a cluster of stores, and preferably luxury-oriented ones (Atsmon et al, 2009). Current research on retail locations and store formats relating to luxury fashion brands, especially with regards to China, is weak, also among consulting and advisory firms.

In spite of the apparent lack of current research, several respondents name retail locations a critical challenge in China today (QE1, QE8, see also 2.2.3 Shortage of Service Providers and 2.2.11 Store Formats). For luxury fashion brands, the availability of good retail locations in China has improved much during the last ten years, especially within 1st tier cities (QE3, QE8), which now have “the right retail spaces, high brand awareness among consumers, and local VIP celebrities wearing it” (QE3). However the findings indicate that the retail infrastructure still lacks development in especially 2nd and 3rd line cities (QE8, QE93). Increasing costs of acquiring and running locations are an increasing challenge (QE4-7), and may dampen both overall profitability and act as a barrier for companies of less financial strength (QE9). Along with China’s growth in terms of wealthy customers, good retail locations will be a major issue for companies wishing to increase sales.

Concluding, Retail Locations is an important challenge for companies. Prices and availability of retail locations are likely to continue to be an issue in the future, despite the market development throughout several parts of China. As conditions in 2nd and 3rd tier cities differ from 1st line cities, certain assessments should be conducted before considering entry there. As already stated in section 5.2, heavy location costs may continue to pose challenges especially to small- and medium sized companies with less resources available and ready to use.

5.6 Staffing
Finding employees at all company levels is very difficult, and even more so in 2nd and 3rd line cities.  
Training of staff at all levels is required, which incur heavy costs and is often made difficult due to a lack of service providers.  
Retaining staff with the company, as many employees tend to quit for higher pay elsewhere, is a major issue for luxury fashion brands in China. This has lead to fierce competition for staff within the industry.

Some luxury retailers, initially attracted by the low cost of labor in China, have struggled because of a lack of local management talent Debnam and Svinos (2007). For instance, AmCham Shanghai (2008), names the number one operational challenge faced by U.S. businesses in China to be the hiring and retention of top talent. Thus, the problem is not new, nor unique to luxury fashion brands. Still, the issue is remains problematic.

Several of the interviewees bring up staffing as a major issue (QF1-2, F3, F10). Finding staff to fill vacant positions seems to be a major issue at both sales and management levels of luxury fashion companies (QF1-4), especially in 2nd and 3rd tier cities (QF13, Debnam and Svinos, 2007). Generally, competence among staff is low and training is often required (QF3-5) but is both expensive and made difficult as few such service providers exist in China today (QF4, QF7, see also 2.2.3 Shortage of Service Providers). According to one of the respondents, “insufficient investments in the training of staff is one of the most common mistakes that luxury fashion brands in China make” (QF8). While both finding and training staff is important, keeping staff with the company is also a major challenge today, as employees tend to quickly change employer for better pay (QF10-11). According to one of the respondents, regarding staffing, there is now a vicious circle as brands try to steal employees from each other (QF9, see also 2.2.15 Competitive Environment). The various staffing challenges have led companies to recruit management staff from abroad, despite being more costly (QF14-15). Staffing is also touched upon by Debnam & Svinos (2007), naming Staff Shortages (see also 2.2.5) as one of the major challenges in China today.

The findings of the research indicate that the major sub-challenges relating to Staffing primarily concern finding employees at all company levels, which is even more of an issue in 2nd and 3rd line cities; training staff at all levels, which incur heavy costs and is made difficult due to a lack of service providers; and retaining staff with the company as many tend to quit for a higher pay elsewhere, leading to fierce competition for staff among brands within the industry.
5.7 Competition

- The main findings relating to competition indicate that competition is in fact a big issue, but for various reasons.
- Whether over-establishment is the case in general or only in certain markets and product categories, it is clear that competition poses challenges to luxury fashion brands in China.
- Lack of brand awareness has led to weak brand loyalty.
- Newly entered brands are disadvantaged.
- In certain product categories, competition is more intense than in others.
- Luxury fashion brands may make up new competitors in the future.
- Further issues relating to ‘competition’ may be found primarily in sections 5.2, 5.8, and 5.12-13.

According to Debnam and Svinos (2007), China now ranks ninth among all countries in terms of penetration of international retailers, and luxury companies have been at the forefront of this move as their high margin/low volume business model has been relatively easy to establish. In another study (2008), the researchers also conclude that competition for these companies have intensified in recent years.

The opinions regarding whether competition is a major challenge or not are somewhat scattered between respondents. Several respondents claim that over-establishment is still not the case in China, and that there is still room for more brands on the market (QG4-5), while others consider over-establishment more apparent (QG3, QG6-8). Company resources and history in China provide competitive advantages to other brands on the market (QG1-2, QG7), especially towards brands that recently entered into it (QG8). Among those further emphasizing competition as a core challenge, the reasons for this vary. According to (QG5), the Chinese luxury fashion market is fiercely competitive due to the lack of customer brand loyalty, which overshadows any potential over-establishment. Also, intense competition within certain product categories may be problematic, and force brands launch new product lines (QG6). Furthermore, the efforts of brands normally outside the luxury fashion sector to appear as such confuse Chinese customers and make up alternate competitors (QG9). A future issue affecting the competitive situation may however be the introduction of domestic brands, which have yet to appear in any bigger scale on the Chinese market (QG10). Additional competition may also come from Overseas Purchases (see section 2.2.14) as prices on Chinese luxury fashion goods are higher than abroad due to luxury taxes (QC14).
Competition is clearly a challenge with many different implications, and time will tell how this Chinese luxury fashion market evolves. Before the true implications of Competition will be fully known, companies have to consider being present at the market for some time. Thus, preparedness for Long-Term Returns (see section 2.2.2) should be a concern for brands pondering entry, as operations may be costly to stay competitive.

The main findings relating to competition indicate that competition is in fact a big issue, but for various reasons. Whether over-establishment is the case in general or only in certain markets and product categories, it is clear that competition poses challenges to luxury fashion brands in China. Lack of brand awareness leading to weak brand loyalty; disadvantage of newly entered brands; intense competitions in certain product categories; competition from non-luxury brands; and the possible future introduction of domestic luxury brands are challenges that all need consideration. Further issues relating to Competition may be found primarily in sections 5.2, 5.8, and 5.12-13.

5.8 Regulations

- Previous studies have identified several different regulations.
- This section has illustrated various additional considerations, including several regulations limiting operations in respect to import, profits and marketing, as well as the frustration faced by companies when in conflict with Chinese parties and/or handling IPR issues.
- The Chinese market has continued to deregulate in terms of regulations in recent years.
- Despite recent regulations, brands should also pay close attention to any contradicting trends.
- Further comments on the challenges relating to Regulations may be found in sections 5.7, 5.9, and 5.11-12.

Regulations are several in China today, and among those affecting luxury fashion companies lists tax treatment, customs duty, logistics and the transfer of intellectual property according to Debnam and Svinos (2007), of which Chinese import taxes, which make retail prices in China higher than in other markets, are central. Prices are 20 to 30 percent higher on the mainland compared to Hong Kong (Ibid, 2008), which, together with rumors that products for sale in mainland shops are sometimes counterfeited, in turn has encouraged many Chinese luxury customers to buy their goods abroad (Ibid, 2007, Atsmon et al, 2009, see also 2.2.14 Overseas Purchases).
The primary interview data collected indicate further support to the regulatory challenges identified in previous research, and contributes additional insights and considerations. Several of the respondents brings up various aspects of regulations as important challenges, including import arrangements, transfer pricing and local government approval requirements (QH3); communication regulations, such as with Internet (QH7); regionally different regulations (QH6); lack of working legal regulations and such systems (QH8-9, see also QL1 and section 2.2.1 IPR regulations for counterfeiting); and how new rules and regulations are imposed by authorities without consulting the industries neither before or after they are launched (QH4).

Regulations in China relating to the luxury fashion industry are fewer today than previously, and several of the respondents predict that this trend will continue (QH1, QH5), while one still expresses doubts (QH11). While regulations are often worse in other emerging economies (QH5, QH10) and these regulatory issues are something brands entering into China are largely aware of, companies may benefit from consulting local advisors to better handle these issues (QH4). Laws and regulations affecting international luxury fashion brands seem numerous, and their effect is amplified by Chinese courts being prone to favor local parties to a greater extent (QH8-9).

As there are several additional issues regarding the Chinese regulatory system that do not relate to taxes, this section is called simply Regulations (see section 2.2.9 for Tax and Regulatory issues as defined by Debnam and Svinos (2008)) While previous studies have identified several regulations such as those listed above by (Debnam and Svinos, 2007), this section has illustrated various additional considerations, including several regulations limiting operations in respect to import, profits and marketing, as well as the frustration faced by companies when in conflict with Chinese parties and/or handling IPR issues. While the Chinese market has continued to deregulate in terms of regulations in recent years, companies should also pay close attention to any contradicting trends. Further comments on the challenges relating to Regulations may be found in sections 5.7, 5.9, and 5.11-12.

5.9 Local Collaborations

- International luxury fashion brands now have more opportunities to independently tailor operations for their activities in China.
- Local collaborations pose both opportunities and risk to luxury fashion brands in China.
- These include tradeoffs between control and risk, as well as between profits and upholding brand values.
- Additional risks with Local Collaborations are discussed in sections 5.8 and 5.12.
The use of local partners has for long been a common method for luxury fashion companies to enter the Chinese market. As regulations restricting foreign ownership have now been lifted, companies in China now can operate more freely without local ownership partners (Debnam and Svinos, 2008), which have previously led to failure for many companies for various reasons (Ibid, 2007, see also 2.2.10 Using Local Partners). While some well-known brands such as Louis Vuitton have been aided by access to significant financial resources through its parent company, LVMH, for many smaller or more independent brands, the move to China can entail risk and require immense patience. For these companies, a local or regional partner or adviser to help navigate the market may be essential (Ibid, 2007, 2008).

When studying the empirical findings, two major reasons for companies to enter into China emerge. While foreign ownership restrictions are largely removed, companies may choose to initiate partnerships due to access to certain networks (see QI2), and/or to acquire additional resources for market entry or expansion (QI1, QI3, QI7, Debnam and Svinos, 2007, 2008). With right connections and partners, companies may operate more efficiently within the press, trade, politics and business networks (QI2). Several respondents seem convinced that local collaborations are essential for international luxury fashion brands in China (QI1-2, QI9). One respondent gives brands trying to enter China a timeframe of five to six years before launching individual operations QI8.

Managing Risks (see section 2.2.7) may however create several obstacles preventing successful outcomes when in collaborations are also commonly encountered, including possible tradeoffs between brand positioning and business development and/or profits, sometimes resulting in Chinese partners trying to surpass contracts (QI4-5, QI7), which has also been debated in terms of counterfeiting, particularly with retailers selling counterfeit goods alongside genuine products (Debnam and Svinos, 2007, see also section 5.12). As noted in previous section (5.8), respondents claim a proneness to favor local parties when in conflict with international brands (QH8-9). Recent years have seen trends pointing towards companies running their operations more independently, especially concerning bigger brands (QI9-10, QI12). It may still be too soon to tell if more independently controlled operations in China are preferable or not.

It is clear that international luxury fashion brands now have more opportunities to independently tailor operations for their activities in China. Several considerations making up both opportunities and risk are proposed by previous research as well as by respondents, and
include tradeoffs between control and risk, as well as between profits and upholding brand values.

5.10 Domestic Turbulence

- *Domestic turbulence* seem to pose challenges to companies relating both to the actions of domestic politicians as well as among customers.
- Despite *DT* being largely unpredictable, the core characteristics of luxury fashion brands together with risk awareness and control may prevent international brands from experiencing sudden unpleasant surprises.
- For additional quotes on the legal challenges, see section 5.8.

While not investigated individually in any research relating to luxury and/or luxury fashion brands in China, thus nor by any of the sources cited in this thesis, concerns about market unpredictability and uncertainty, demand factors excluded, in terms of both customers and state were expressed by several of the respondents. While the government in China largely strives for control, turbulence may still arise for several reasons.

The actions of politicians at national as well as regional and individual levels may affect brands’ operations in China, which may the case with recent outbreaks of nationalism (QJ4, QJ7), as well as unpredictable local interpretations of central government directives (QJ3). Also the relative immaturity of Chinese customers may be a cause of stark emotional sentiments affecting luxury fashion brands (QJ2). However, several respondents believe that the very nature of luxury brands will be effective in countering issues such as nationalism (QJ5-7).

One respondent (QJ3) indicates that this potential challenge might be a third rail issue in China; which may be a reason for the issue not being investigated earlier. Others may consider domestic turbulence a risk as any other (QJ8), which may even be a source for opportunities.

Concluding, ‘*Domestic turbulence*’ seem to be a challenge to companies relating both to the actions of domestic politicians as well as among customers. Despite being largely unpredictable, the core characteristics of luxury fashion brands together with risk awareness and control may prevent international brands from experiencing certain sudden surprises. For additional quotes on the legal challenges, see section 5.8.
5.11 Corruption

- It is clear that Corruption as a challenge for luxury fashion brands needs more research for any clear conclusions to be drawn.
- The findings of this study indicate that corruption in terms of bribes or ‘gifts’ have diminished in recent years, but may still have impact on especially local Chinese markets.

Similar to the previous challenge, no current research has been identified discussing the relationship between corruption and luxury fashion brands in China, nor elsewhere. Still, corruption emerged early in the research process as an issue that needs consideration. Several respondents bring up corruption as an issue that has been improving in recent years (QK1-3), while being more problematic in smaller cities, and within land and property (QK3, QK7). Corruption may be avoided if the business is strong and in control (QK5, QK7), and by employing good advisors and/or partners (QK7).

It is clear that ‘Corruption’ as a challenge for luxury fashion brands needs more research for any valid conclusions to be drawn. The findings of this study indicate that corruption in terms of bribes or ‘gifts’ have diminished in recent years, but may still have impact on especially local Chinese markets.

5.12 Counterfeiting

- Counterfeiting remains among the most frequently discussed challenges on the Chinese luxury fashion market, but the reasons for concerns about product piracy are scattered.
- While respondents have different views on how counterfeiting affects the company, there is no doubt that it is still a major issue that poses various problems for brands in China.
- To handle the counterfeiting challenge, more efficient regulations, common efforts by luxury fashion brands and additional considerations when launching downwards extensions may be some efforts to make this challenge less significant.
- For more on Counterfeiting and IPR issues, please see sections 5.8 and 5.9.

Brand values some of the most essential assets of luxury fashion brands, and those values must be carefully protected (Nueno et al, 1998, Keller, 2008), and vigorously counter any infractions (Keller, 2008). Counterfeiting may be problematic within certain markets,
especially for those companies that have introduced downwards’ brand extension facilitating counterfeiting by making less advanced products (Hines and Bruce, 2008). According to Debnam and Svinos (2007), the growth of the Chinese market has further promoted counterfeiting, and the researchers estimate 20 percent of Chinese consumer products to be counterfeited.

In China, counterfeiting is a major issue, which is named as an apparent issue by all interviewees in this study, in particular by QL1-4, and counterfeiting seems to be mostly targeting bigger luxury fashion brands (QL2, QL4). The feasibility for brands to successfully fight counterfeiting appears low, as neither efficient IPR laws nor common efforts by brands are currently in place (QL1, QL3, QL5). As brought up in 5.8 Regulations, concerns that counterfeited products are being sold in luxury fashion brand stores in Mainland China might suppress sales, which may be one negative side effect of partnerships (see also 2.2.7 Managing Risks)

There might however be doubts whether counterfeited products really have a negative impact of the luxury fashion brand’s businesses in China, especially in terms of effects on sales (QL4-5). Contrary to some of the respondents in this study, some market experts even believe that the availability of counterfeits has helped to make the genuine product more sought-after, as well as increasing general awareness of luxury names (Debnam and Svinos, 2007), which, as concluded in section 5.1, appears low among Chinese luxury customers in general.

Counterfeiting remains as one of the most frequently debated challenges on the Chinese luxury fashion markets, but the reasons for concerns about product piracy are scattered. While respondents have different views on how counterfeiting affects the company, there is no doubt that it is still a major issue that poses various problems. To handle the counterfeiting challenge, more efficient regulations, common efforts by luxury fashion brands and additional considerations when launching downwards extensions may be some efforts to make this challenge less significant. For more on Counterfeiting and IPR issues, please see sections 5.8 and 5.9.

5.13 Currency Fluctuations

- No or little research has previously connected luxury fashion brands with currency fluctuations as a challenge.
- Brands have to closely consider how margins are affected by any fluctuations, and hedge for any risks.
• Dealing with financial risks, companies could perform “stress tests”, wherein assuming that heavy currency fluctuations will take place in the future, thus identifying any sensitive areas to minimize overall currency risk.

Similar to sections 5.10 and 5.11, the topic of currency fluctuations as a challenge to luxury fashion brands lacks investigation. Still, the very characteristics of international luxury fashion brands’ in China relate closely to this challenge, as these companies import most of their products.

*Currency fluctuations* affect brands differently in China and at home depending on currency development; for instance, an appreciation of the Chinese Renminbi towards Western currencies including the Dollar and the Euro, have raised operating costs in China, while similarly affecting product margins positively especially for those brands not operating their own business in China (QM2, QM4, QM6). Those running their own stores are faced with pricing challenges as overall margins decrease due to increased operating costs as the Renminbi appreciates (QM5). The importance of a clearly planned strategy to hedge for any currency risks is emphasized by several respondents (QM3, QM5, QM7).

Dealing with the challenges imposed by currency fluctuations, brands have to closely consider how margins are affected by any fluctuations, and hedge for any risks. Dealing with financial risks, companies could perform “stress tests”, wherein assuming that heavy currency fluctuations will take place in the future, thus identifying any sensitive areas to minimize overall risk.
6. Synthesis

This chapter aims to further break down the empirical findings into more manageable pieces, and should provide the reader with deeper insights in order to understand the various challenges on the Chinese luxury fashion market.

6.1 Current Challenges on the Luxury Fashion Market in China

As noted earlier, research of the challenges facing luxury fashion brands in general, and China in particular, is still weak. For this thesis, a set of 15 challenges and considerations were identified to provide ground for the research. None of these 15 challenges were completely discarded by interview respondents. However, several additional challenges and considerations emerged, and it became clear early in the research process that the current framework of challenges was weak and needed refurbishing. Thus, the author identified a strong need to make the subject easier to oversee.

The Synthesis (Table 2) shows the main linkages between previous research on luxury fashion brand challenges in China together with this thesis’ findings into a model of value for researchers or professionals approaching similar research questions. Other considerations relating to luxury fashion brands (found in section 2.1) are primarily used as reference material for the challenges elaborated upon. The concluding comments on the linkages between previous and current findings are presented on the following page in Table 2.
Table 2 – Overview of Current Challenges on the Luxury Fashion Market in China

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Resources</th>
<th>Customers</th>
<th>Marketing</th>
<th>Retail Locations</th>
<th>Staffing</th>
<th>Competition</th>
<th>Regulations</th>
<th>Local Collaborations</th>
<th>Domestic Turbulence</th>
<th>Corruption</th>
<th>Counterfeiting</th>
<th>Currency Fluctuations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Positioning</td>
<td>Long-Term Returns</td>
<td>Gaussman</td>
<td>Shortage of Service Providers</td>
<td>P&amp;L</td>
<td>Shortage of Service Providers</td>
<td>Long-Term Returns</td>
<td>Local</td>
<td>Domestic</td>
<td>Corruption</td>
<td>Counterfeiting</td>
<td>Currency Fluctuations</td>
<td></td>
</tr>
<tr>
<td>Promoting a Culture of Luxury</td>
<td>Inductive Advertising Media</td>
<td>Inductive Advertising Media</td>
<td>Store Formats</td>
<td>Staff Stretches</td>
<td>Overseas Purchases</td>
<td>Overseas</td>
<td>Managing Risks</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Store Formats</td>
<td>Managing Risks</td>
<td>Promoting a Culture of Luxury</td>
<td>Marketing</td>
<td>Competitive Environment</td>
<td>Competitive Environment</td>
<td>Secondary Sales Issues</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Table 2 - Explanation

The table above shows the challenges identified in this thesis in blue, while previously researched sub-challenges and considerations are listed in red. This categorization has been made as the current research has lacked consistency, and failed to provide a proper initial ground for both researchers and professionals. Each challenge consists of several additional sub-challenges. These are initially presented in chapters 4, and complemented and summoned in chapter 5. In section 6.2, some of the correlations between the various factors are further commented upon.
6.2 Main Findings and Implications

Table 2 illustrates the various challenges facing luxury fashion brands in China as derived from the findings of the research. The model identifies thirteen key components that should be considered when operating in China as a luxury fashion brand. Further, each challenge consists of a number of sub-categories, which all must be considered in order to optimize the business in relation to the market characteristics. The challenges are not ranked in the study, however, it is clear that while all challenges may be important, certain might have more relevance to luxury fashion companies than others.

The first major challenge presented was Brand Positioning. Findings indicate that a properly designed brand positioning is critical to luxury fashion brands in China for various reasons. This challenge has also been brought up by Debnam and Svinos (2007) and strongly correlates to the several of their other previous findings. Resources refer to the more concrete capabilities of the firm, and the study conclude that extensive resources are often needed to maintain competitiveness in China due to heavy costs, including those relating to marketing, real estate, staffing and training of employees, legal advice and local administration costs. Customers consider the amount and characteristics of demand. Findings indicate that demand structure differs significantly from Western markets, as well as within China, and several considerations are listed. The importance of Marketing Communication was identified by both previous research and confirmed by respondents. Communicating marketing messages is difficult, costly and characterized largely by conformity among brands, thus luxury fashion companies should make big efforts to stand out.

The following component, Retail Locations, relates to accessibility of good sales points throughout China, and while previously having been a problem of few locations, it may now pose problems to especially small and medium-sized brands due to high costs. Staffing relates to the difficulty of finding, training and retaining staff in China, and despite China generally being a low-cost nation, staffing may prove costly to luxury fashion brands.

The subsequent component, Competition, obviously relates to the rivalry between existing luxury brands; however, other issues, such as taxes on luxury brands and customer brand illoyalty also complicates the situation for luxury fashion brands. Regulations limit the operations of brands in China, and apart from taxes on luxury goods, several other regulations complicate activities for brands in China, including weak IPR regulations and subjective judicial rulings. Local Collaborations were earlier mandatory for international brands, but still
prove important to get in-depth access to the Chinese market, even more so for small and medium-sized brands while at the same time bringing certain risks.

The challenges of Domestic Turbulence still remain unexplored in previous literature. However, nationalism and other sources of turbulence may arise through the actions of the Chinese population or through government initiatives. Similar to the previous challenge, Corruption also lacks previous investigation. Respondents suggest that this may still be an issue, while similarly an opportunity as a ‘gift culture’ may in fact promote sales of luxury fashion goods. Counterfeiting remains one of the most associated challenges to the Chinese luxury fashion market. Empirical data suggests ambivalence about whether counterfeiting affects sales or not; however most respondents agree that it affects the biggest brands the most and may dilute brand value. The final challenge identified was Currency Fluctuations.

According to respondents, currency fluctuations affect different companies to a different extent, and brands should thus hedge for any major currency appreciations or depreciations. The Chinese market is complex, and a lack of current research on the subject combined with reluctance among luxury fashion brands in the market to share information and experience may be some of the barriers keeping several brands from entering, as well as optimizing their market performances in China. As no publicly recognized strategic framework for luxury fashion brand challenges in China exists today, the ambition of this research process was to create a springboard for such further studies.

Out of fifteen previously identified challenges, thirteen have been introduced in this study. While no previous research is completely discarded in the thesis, only one of these challenges, namely brand positioning, is kept completely intact and introduced as a major individual challenge. However, several of the challenges and considerations identified by primarily Debnam and Svinos (2007, 2008) are presented as critical sub-challenges to luxury fashion brands catering to the Chinese market.

Empirical data also indicate that there are several potential challenges that still need to be explored. For three challenges (2.2.10 Domestic Turbulence, 2.2.11 Corruption and 2.2.13 Currency Fluctuations), no previous research relating specifically to luxury or luxury fashion brands in China was found, despite several of the interviewees bringing these issues up as important challenges. As the thirteen main challenges introduced in the thesis also interrelate, they may act as a point of reference for companies to better be able to coordinate their activities relating to these challenges, instead of handling each issue separately or trying to assess challenges on their own. With this said, companies should still conduct a proper
analysis of the unique challenges relating more specifically to themselves to maximize the impact of these findings and succeed in countering any difficult issues.

The main findings should rather be seen as indications and interpretations than absolute truths. Further research need to show the validity of the conclusions drawn in this study. Additional limitations to this thesis’ findings can be found in chapter 8.
7. Conclusions

The author’s purpose of this thesis has been to map out the key challenges facing international luxury fashion brands in China. Through extensive background and empirical research, a proposed model was constructed based on the combined findings. Experts with extensive market experience have contributed to the primary empirical findings with first-hand current knowledge, and complemented previous research about a market largely characterized by fast change. The constructed model identifies thirteen key components that should be carefully considered when operating in China as a luxury fashion brand; these being Brand Positioning, Resources, Customers, Marketing Communication, Retail Locations, Staffing, Competition, Regulations, Local Collaborations, Domestic Turbulence, Corruption, Counterfeiting, and Currency Fluctuations. Out of these challenges, Brand positioning and Resources, relate directly to the internal characteristics of the luxury fashion brand, while the remaining relate more directly to market challenges in China. Furthermore, each challenge consists of a number of sub-categories, all of which must be considered in order to optimize the business in relation to the market characteristics.

The challenges are not ranked individually nor in weighted comparatively in the study. However, it is clear that while all challenges may be important, certain might have more relevance to luxury fashion companies than others. Finally, the identification and structuring of thirteen of the most important challenges together with relating considerations could provide a springboard for companies or researchers aiming to investigate current or future challenges facing luxury fashion companies in China.
8. Limitations and Suggestions For Further Research

It is noted that this study has limitations, most notable of which is the scale of the research. Only ten respondents have contributed to the primary data of the study. A wider sample might have led to additional findings. Moreover, due to the difficulty of acquiring information directly from luxury fashion brands, brand consultants were included in the study to make up for the possible loss of first-hand market knowledge. However, even out of the ten respondents are currently or have previously been working as luxury fashion brand consultants, thus providing possible additional bias in answers to favor certain conclusions. Furthermore, as the study aimed to map out challenges facing a broad number of companies, no single-case study was performed. With in-depth single-case studies, other conclusions may have been drawn.

There are a couple of areas that could be considered for future research. Firstly, there is an opportunity to extend the study to a larger number of interviewees, which would help to identify the extent to which these findings have a wider application, as well as to identify new sub-challenges that have been overlooked or have emerged after this study was conducted. Also, efforts ranking these factors in absolute numbers, as well as comparatively with each other, could provide further basis for researchers to valuate the importance if the findings. Secondly, as the Chinese market is a fast-changing environment, the conclusions of this study may need to be complemented to fit current conditions. Thirdly, investigating the establishment of luxury fashion brands in other emerging markets would provide an insight into any national or cultural differences in the internationalization of luxury.
9. Bibliography

9.1 Primary Data:

9.1.1 Interviews
Morisset, Denis. Brand consultant and professor. 2009-06-02 and 2009-06-03. Phone interviews.
Saviolo, Stefania. Professor. 2009-05-12. Email interview.

9.2 Secondary Sources

9.2.1 Books


9.2.2 Research Articles


Pallgrave Macmillan.


### 9.2.3 Presentations and Reports


Debnam, N. and Svinos, G. 2007. *Luxury brands in China*. Australian Centre for Retail Studies & TNS China


Jemlich, D. October 2008, “*To Get Rich is Glorious*” – *Being rich is a state of mind*. PPT Presentation, Trendbuero

### 9.2.4 Websites


### Appendix 1 – List of Contacted Interview Respondents

<table>
<thead>
<tr>
<th>Contact</th>
<th>Main Employment</th>
<th>Date Contacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erica Corbellini</td>
<td>Professor</td>
<td>2009-04-21</td>
</tr>
<tr>
<td>Stefania Saviolo</td>
<td>Professor</td>
<td>2009-04-21</td>
</tr>
<tr>
<td>Inga Yoshida</td>
<td>Consultant</td>
<td>2009-04-21</td>
</tr>
<tr>
<td>Cheryl Krauss</td>
<td>Consultant</td>
<td>2009-04-21</td>
</tr>
<tr>
<td>Michel Chevalier</td>
<td>Consultant/Professor</td>
<td>2009-05-11</td>
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<tr>
<td>Nigel Luk</td>
<td>Brand Executive</td>
<td>2009-05-11</td>
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<tr>
<td>Clay Chandler</td>
<td>Consultant</td>
<td>2009-05-11</td>
</tr>
<tr>
<td>Magdalena Thurin</td>
<td>Consultant</td>
<td>2009-05-11</td>
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<tr>
<td>Franz Kraatz</td>
<td>Brand Executive</td>
<td>2009-05-11</td>
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<tr>
<td>Janet Carmosky</td>
<td>Consultant</td>
<td>2009-05-11</td>
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<td>Maud Errera</td>
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<td>Paul Husband</td>
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<td>2009-05-11</td>
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<tr>
<td>Radha Chadha</td>
<td>Consultant</td>
<td>2009-05-11</td>
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<tr>
<td>Francis Gouten</td>
<td>Consultant</td>
<td>2009-05-11</td>
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<tr>
<td>George Svinos</td>
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<td>Nich Debnam</td>
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<td>Frank Pinto</td>
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<td>Eric Douilhet</td>
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<tr>
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<td>2009-05-11</td>
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<td>Jean-Noel Kapferer</td>
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<td>Vincent Bastien</td>
<td>Professor/Researcher</td>
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<td>Salvo Testa</td>
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<td>Håkan Preiholt</td>
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<td>Jacques-Franck Dossin</td>
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<tr>
<td>Uché Okonkwo</td>
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<td>Vladimir Djurovic</td>
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<td>2009-05-21</td>
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<tr>
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</tr>
<tr>
<td>Dirk Jemlich</td>
<td>Consultant</td>
<td>2009-05-21</td>
</tr>
<tr>
<td>Pierre Xiao Lu</td>
<td>Professor/Consultant</td>
<td>2009-05-21</td>
</tr>
</tbody>
</table>
Appendix 2 – Presentation of Interviewees

Inga Yoshida
Inga Yoshida is a Beijing-based strategy consultant and venture capitalist who has worked with international brand establishment in China for more than 15 years. Her clients have included several major clients in a variety of industries. Inga Yoshida is also co-founder and shareholder of BrainHeart Industries (http://www.brainheartindustries.com/), a company which handles Chinese operations of several international retailers in China within areas ranging from business strategy and marketing to leadership issues. BrainHeart Industries also work closely with well-established Chinese fashion brands and fashion brands overseas, especially in Italy, Germany and Sweden.

Nick Debnam
Nick Debnam is employed by KPMG as head of consumer markets at KPMG in China and Hong Kong SAR. Nick Debnam has several years of experience with the Chinese luxury market, and have also co-authored several research reports on the Chinese luxury market, as well as performed multiple research on Asian consumer markets. Several of his works are also cited in this thesis.

Stefania Saviolo
Stefania Saviolo is Professor in Fashion Marketing at Bocconi University. Stefania Saviolo has been involved in the study of management in fashion and luxury companies for 15 years. In 2000 she founded the Master in Fashion, Experience and Design management at SDA Bocconi, supported by Altagamma. She is frequently involved in international projects on fashion, such as lecturer for European Projects and team leader for one Asia-Link project in China 2004-2007. She is also the author of several research articles and books, including “L’esperienza del lusso (2007)”, which is cited in this thesis.

Salvo Testa
Salvo Testa is Professor of Fashion and Luxury Management at Bocconi University. Salvo Testa is the founder and responsible for the Fashion, Luxury & Lifestyle Platform established at Bocconi in 1991, a research and education interdisciplinary project of SDA Bocconi, targetted to managers and professionals of the industry. Over the past 17 years he has done research, training and counselling on competitive strategies and organizational changes in
several companies of the Fashion Industry, both at national and international level. His publications on Fashion Management include: “Strategic Management of Fashion Companies” (with Stefania Saviolo, 2001);

**Radha Chadha**
Radha Chadha is a Hong Kong-based consultant, and a recognized brand strategy and consumer insights expert within the Asian luxury business. Radha Chadha is the founder of Chadha Strategy (http://www.chadha-strategy.com/about.htm), a brand consultancy agency that specializes in connecting global brands with Asian consumers’ hearts and minds, founded in year 2000. Chadha Strategy advises companies operating in Asia on all areas relating to building a brand and its communication, and provides a range of services from brand strategy development to corporate training and speaking engagements. Chadha is also the author of the commonly cited book ‘The Cult of the Luxury Brand’.

**Håkan Preiholt**
Håkan Preiholt is associate professor in fashion marketing at Stockholm University. His research has focused on primarily the fashion business and industrial marketing. Within fashion, several of his articles have been published in journals such as Corporate Communications, Marketing Management Journal, and Fashion Marketing and Management.

**Eric Douilhet**
Eric Douilhet has been with Bluebell Asia as president for four years, and six years in total. Before joining Bluebell, Douilhet was previously at L’Oreal. Has in total 19 years of experience with working mainly with retail and wholesale operations in Asia, at all major Asian markets. Bluebell works with a total of 95 brands in Asia, including high-end brands such as Paul Smith, Kenzo, Davidoff and Moschino. Totally, it operates 550 stores across Asia. Bluebell focuses on lifestyle products, including fashion, accessories, perfumes and cosmetics, leather goods, homeware, food and beverages. In China, they currently have wholesale operations, and operate through franchise with two major brands, Acanta and Alessi, as well as with Bluegirl. The company has a total of over 2500 employees throughout Asia.

**Francis Gouten**
Francis Gouten is the founder and current CEO of Gouten Consulting
Gouten has been working in the business of luxury goods for more than 35 years. Having spent more than 25 years in Hong Kong, Francis has a special relationship with Asia and understands its complex luxury market, with all its challenges and opportunities. As the former CEO of Richemont Asia Pacific, one of the world's leading luxury groups, he has worked closely with some of the most prestigious names in the business, including Cartier, Van Cleef and Arpels, Piaget, Vacheron Constantin, Alfred Dunhill and Jaeger-LeCoultre, to name a few. Other positions include Managing Director of Cartier France, the CEO of Piaget International, and the President of The Hong Kong Watch Importers' Association from 2004 to 2006. In 2006, Francis retired from Richemont and established Gouten Consulting Limited, to help luxury brands with their marketing and strategic development of their luxury brands in the challenging and rapidly emerging market of Asia-Pacific. He is currently an advisor to several local luxury groups, and also sits on the Board of Directors of several companies.

**Vladimir Djurovic**

Vladimir Djurovic is the Managing Director and main shareholder of Labbrand. Djurovic has eight years of experience in China, of which three within fashion/luxury retail, and five in multi-industry brand consulting, and has had extensive and diverse business experience in France and China. Vladimir has worked for Société Générale (Paris) in their research department, as well as Galeries Lafayette (Shanghai) as their representative in China. Labbrand (http://www.labbrand.com/english/index.php) was created in 2005 by Vladimir Djurovic, and is a consulting agency that blends branding with market research. Labbrand expertise covers brand strategy, brand naming, visual identity and a comprehensive range of market research services. By giving research an important role, Labbrand applies a multi-disciplinary approach to brand building. Labbrand has also implemented semiotics, anthropology, ethnography and sociology in addition to statistical analysis in its research cases.

Labbrand has provided naming solutions for clients such as L’Oréal, Morgan Stanley, Paul, Kenzo, Mercedes-Benz, Yves Rocher, Lafarge, Philips and Accor. Labbrand has also conducted market researches for several companies, including Gucci Group and Peugeot.
Denis Morisset

Denis Morisset is since September 2004 Executive Director of ESSEC MBA in International Luxury Brand Management and Professional Faculty at ESSEC Business School. He is also involved in consulting in Brand Management and Luxury and Fashion Brand International Distribution Strategies, with a particular focus on emerging Markets, through his own consulting firm “Studeo Luxury Consulting, founded in 2004.

Prior to 2004, Denis Morisset worked in the fashion and luxury industry for more than 20 years. He has occupied development and general management positions for brands such as Polo Ralph Lauren, Pierre Balmain and Giorgio Armani. He was for six years CEO in the shoes industry and developed in-house and licensed brands internationally.

Denis Morisset has developed specific consulting and lecturing activities in Mainland China since 2005. He has collaborated with international companies on brand extensions and branding issues, and has advised new brands and designers from emerging markets on their international distribution and retail strategies.
Appendix 3 – Interview Design 1

Respondents: Respondents in the first round of interviews were China-based consultant Inga Yoshida, luxury professors Stefania Saviolo and Salvo Testa, fashion professor Håkan Preiholt and consultant/market researcher Nick Debnam

Please comment on the following topics:
- Which are, in your opinion, the most significant challenges facing luxury fashion brands in China today?
- Which are, in your opinion, the most common/significant success factors?
- Which are, in your opinion, the most common/significant mistakes?
- Are there, in your opinion, any common misconceptions about the Chinese luxury market?
Appendix 4 – Interview Design 2

Respondents: These respondents were China-based consultant Inga Yoshida, luxury professors Stefania Saviolo and Salvo Testa, fashion professor Håkan Preiholt and consultant/market researcher Nick Debnam

Please comment on the following topics:
- In your opinion, please name the most important challenges facing luxury fashion brands in China today?
- Please comment on the following challenges facing luxury fashion brands in China today
  1. IPR regulations
  2. Long-term returns
  3. Shortage of service providers
  4. Ineffective advertising and media
  5. Staff shortages
  6. Brand positioning
  7. Managing risks
  8. Promoting a culture of luxury
  9. Tax and Regulatory issues
  10. Using Local Partners
  11. Store formats
  12. Consumers
  13. Marketing
  14. Overseas Purchases
  15 Competitive Environment

- Do you think any additional challenges should be added to the list of previously identified challenges, and if so, which are these?
- Do you have any additional comments or opinions regarding the questions or topic of study?
Appendix 5 – Interview Design 3

Respondents: Respondents in the third round of interviews were luxury brand consultants Francis Gouten, Eric Douilhet, Denis Morisset, Vladimir Djurovic and Inga Yoshida.

Please comment on the following challenges:

A. Retail Locations (Finding and acquiring proper retail locations)
B. Recruitment (Finding, training and keeping employees)
C. Consumers (Adapting to local consuming patterns and customer needs)
D. Marketing (Designing campaigns, communication means)
E. Brand Value (Maintaining a solid and attractive brand, trade-off exclusivity/affordability)
F. Local Collaborations: (Creating and maintaining collaborations with domestic partners)
G. Domestic Turbulence (Expropriation, nationalism, wars, other)
H. Laws & Regulations (Tariffs, taxes, regulations limiting operations)
I. Corruption (As a barrier of operation)
J. Counterfeiting (Effect on sales and operations)
K. Intense Competition (From other international competitors)
L. Costs of expansion (Rent, marketing, personnel)
M. Currency fluctuations (Effect on margins, prices, transfer pricing, investments)

Lastly, are there any additional challenges that you would like to add to the challenges listed?
Appendix 6 – Interview Drafts - Comments the luxury fashion market in China

China has in recent years come to be regarded as one of the main engines of growth in the world economy in general, and even more so, for luxury fashion companies. According to Francis Gouten (2009-05-26, without China, “the business would be dead”. In market terms, “the US is dead, Europe is sleeping, Russia is suffering and India has multiple problems” due to issues relating to ethnicity, politics, religions and lack of retail locations (Gouten, 2009-05-26). BRIC countries (See Appendix 7 “Conventions & Expressions”), including China, are the only engines of growth. Many luxury fashion companies today put big hopes into the Chinese middle class. In this respect, companies need to be there to maintain competitive (Preiholt, 2009-05-18). Generally, Eric Douilhet believes that there is no general strategic rule or formula for establishing in new markets. Challenges differ between countries, as there is a large palate of different aspects that companies need to consider before entering and while in operation. Some of the general aspects that companies tend to look at are competition, general opportunities, staffing issues and market regulations (Douilhet, 2009-05-22).

In China, many luxury fashion companies are successful today, including Louis Vuitton and Zegna, both of which were early-market entrants in China. Also Cartier, Omega, Dior, Chanel, and Prada are rumored to perform well. Some other brands are now catching up quickly (Morisset, 2009-06-02). Agreeing upon the successes of several of the brands mentioned by Morisset, Salvo Testa claims that "master brands" capable to integrate and manage some key issues and also some paradoxes, are harvesting most success. In the future, he claims the management of complexity and of trade offs will be the winning challenge for luxury brands, also to penetrate and be successful on emerging markets like China (Testa, 2009-05-13). Profits are usually not made fast in China. China is for most companies a market that they enter for profits in the long term (Preiholt, 2009-05-18). However, conditions for turning profitable varies brand by brand. Some brands, such as LVMH, were profitable from the beginning, while others still fail to be profitable. The Chinese market should primarily be seen in a long-term perspective (Chadha, 2009-05-18). According to Morisset (2009-06-02), it is rather difficult not to be successful in China today, at least in terms of growth. While many luxury fashion companies have experienced vast growth in recent years, others have also been rumored to having experienced big losses. Without disclosing any specific brands, some have encountered difficulties. As for profits and numbers, no one knows, as these
brands guards any details closely. Entering in China is an investment for the future (Morisset, 2009-05-22).

According to Douilhet, many companies have excess optimism when it comes to China. Companies often underestimate the time it takes for companies to turn profitable in China. China is today five, six or even seven different markets that each needs to be analyzed, especially in the fashion, food and beverage industries. To adapt its products and strategies while similarly maintaining the international brand image is something that many companies struggle with today in both China and in Asia in general. Still, China is a strong market, and it is a general feeling that ”everyone has to be there”. However, for many companies, the price does not justify itself Douilhet, 2009-05-22), especially for smaller brands. According to Eric Douilhet, there will eventually come a day when 2nd tier brands, smaller than the bigger luxury companies and not backed up by big conglomerates, will be able to enter the market more easily, as the customers become more international and create a ”pull” effect.

One common mistake that brands can make today is to still run their business from Hong Kong. Other companies may expect to rely on global distributors to enter the Chinese market. Basically no global distributor can today cover entire China. Neither is this one of the most commonly preferred operations strategies in China today. More commonly, some companies have relied on franchise deals in order to expand faster in China. This choice may eventually damage either sales, the brand (relating to image and identity), or both (Morisset, 2009-06-02). Without disclosing any specific brands, some have encountered difficulties, especially operating with franchised stores and not having control of their business. Entering in China is an investment for the future, and for several of the brands, the activities in China supports business in Hong Kong and Europe through Chinese tourists buying luxury goods abroad due to the lower taxation (Morisset, 2009-06-02).

The Chinese market differs much between cities and regions. Newcomers on the Chinese luxury fashion market “must” start in Shanghai and Beijing, and build from there. These cities are “island of money”. Also, among Chinese, internal tourism is the biggest form, and these customers tend to visit Shanghai and Beijing for luxury purchases (Gouten, 2009-05-26). Also the challenges differ between cities. 1st tier cities have now been a market for luxury fashion brands for long. In 3rd tier cities, luxury brands come in at a later stage. Still, Chinese customers exist not only in the first-tier cities are luxury fashion consumers today. They are available in tier two and tier three cities as well. In these cities, the awareness is lower, and more education of the customer is needed (Chadha, 2009-05-15).
Even among the 15 biggest luxury fashion brands, only a handful can economically justify more than five or six stores. Eric Douilhet, says, despite not having their numbers available, that he is very skeptical towards the financial justifications for these and other brands spreading widely. However, it is still possible to be profitable, even though profits are likely to be lower (Chadha, 2009-05-15).

Contrary to Douilhet, Denis Morisset believes that the future looks very positive for the next five years, and says most brands have still not reached their full potential. In the coming years, the Chinese luxury fashion market will see a lot more store openings. Many brands are now about to enter a second phase, and will move into second tier cities. Even 1st tier cities have more potential to grow, as demand and standards of living are increasing. However, when it comes to 3rd tier cities, not all brands can justify a move into these markets, as they still need to raise more awareness (Morisset, 2009-06-02).

In general, Asian customers tend to spend a very high percentage of their salary on luxury goods, especially clothing and accessories. Another similarity is that they have all at some point or another been poor. These generalizations hold also for China. China is in the stage of developing into a fantastic market for luxury brands, and despite still being an emerging economy, the country is ahead of many others. Despite several similarities of for example India, China is still far ahead, and less complex (Chadha, 2009-05-15).

While the Chinese luxury market has been growing at a pace of about 20-25 percent last few years, the global economic downturn has suppressed the growth for this year to around 15 percent. Still, Morisset expects that the market will continue to grow, as new entrepreneurs and others will make up new customer segments while others have lost money in especially real estate and on the stock market (Morisset, 2009-06-02). In recent years, most of the luxury brands have suffered also in China, but still less so than in Western countries. Luxury fashion brands are expanding, despite some negative projections about the future among the population (Chadha, 2009-05-18). The global economic downturn has made companies even more eager to enter Asian markets, as growth in Europe and US is declining or is even negative. Companies today expect the Asian markets, including China as a prime example, to be the first major region to rebound. However, the exact growth predictions still remain unclear (Douilhet, 2009-05-22).
Appendix 7 – Conventions & Expressions

1st, 2nd and 3rd line/tier cites – Ranking of the cities in China in terms of size and development. Many companies use these administrative classifications as a starting point when devising their marketing strategy, but many also devise their own tiering or ranking based on economic and commercial indicators (Debnam and Svinos, 2008). Around 800 cities are grouped into four different tiers according to their level of total consumption, and expected future growth of total consumption. The 1st tier cities are Shanghai, Beijing, Guangzhou and Shenzhen, and account for about 30 percent of wealthy Chinese customers (Atsmon et al, 2009). On average, each of these cities is home to around 3 million adults from households with a monthly income of RMB 5,000 and above (KPMG – China Luxury Consumers). McKinsey expects three-quarters of the future growth in the wealthy customer segment will come from consumers who do not currently live in tier-1 cities (Atsmon et al, 2009).

BRIC, or BRIC-countries – A set of emerging economies often mentioned as the most attractive target markets for luxury fashion brands, namely Brazil, Russia, India and China.

Counterfeiting or IPR-violations – Manufacture of false money for gain, a kind of forgery in that something is copied so as to defraud by passing it for the original or genuine article. Because of the value conferred on money and the high level of technical skill required to imitate it, counterfeiting is singled out from other acts of forgery and is treated as a separate crime (Encyclopedia Britannica, 2009-05-23).


Luxury fashion brands/companies – Luxury fashion brands, or -companies, are in this paper defined as those firms that distribute clothing, accessories and other lifestyle products that are: exclusively designed and/or manufactured by or for the retailer; exclusively branded with a recognized insignia, design handwriting or some other identifying device; perceived to be of a superior design, quality and craftsmanship; priced significantly higher than the market norm; and sold within prestigious retail settings.

An illustrative, but not exclusive list of the luxury fashion retailers that fit this categorization would include Chanel, Louis Vuitton, Giorgio Armani, Prada, Hermès, Burberry, Gucci,
Lanvin, Chloé, Mulberry, Fendi, Dunhill and Jil Sander (Bruce and Hines, 2008). While the concept of ‘brands’ may sometimes refer to immaterial values, this Thesis uses the terms luxury fashion brands and –companies interchangeably.

Mainland China – China excluding the more economically developed Special Administrative Regions (S.A.R’s) Hong Kong and Macau.

“Masstige” – Masstige is a marketing term meaning downward brand extension. The word is formed from the words mass and prestige and has been described as prestige for the masses. Masstige products are defined as "premium but attainable," and there are two key tenets: 1) They are considered luxury or premium products and 2) They have price points that fill the gap between mid-market and super premium (Wikipedia, 2009-03-23).