

# RETAIL IN CHINA

HUEN + thecarlsongroup

## FORWARD

The Carlson Group's (TCG) approach to retail solutions is based on a process that delivers Total Program Value (TPV), which takes a comprehensive view of retail implementation.

TCG has been operating in Shanghai for 9 years, and has developed a well-established network of retail manufacturing and implementation partners. Recently TCG obtained FICE\* status in China, which is a substantive consideration when choosing partners for the China market.

Successful retail strategies for US brands in China are informed by three areas of information layered together: consumer, brand and category. TCG partners with Huen, a creative strategy firm, to develop strategic retail plans that offer consumer and market insights, design directives, communication strategies and product merchandising to set the stage for impactful and profitable retail programs.

\*Foreign Investment Commercial Enterprise

**WITHOUT QUESTION,** Asia remains one of the world's fastest-growing economic regions. There continues to be huge potential in the China market, but it's by no means the sure-fire, all-roads-lead-to-success opportunity it was recently. A survey identified fear of an economic slowdown in China as the top risk of doing business there.\* As the astonishing pace of growth in China slows, only brands with the right strategies can continue to succeed. Here is a snapshot of 4 trends driving the China market, as well as 6 essential areas that we see as critical to winning in China.

\*Wall Street Journal, 11/6/2012

## TRENDS

### **1: FOREIGN BRANDS WHICH ARE SUCCESSFUL IN CHINA SHARE A KEY CHARACTERISTIC, REGARDLESS OF CATEGORY.**

Luxury and high concept brands with a strong global reputation are the winners in creating demand among China's newly wealthy consumers. Any foreign brand in China must drive awareness through its brand reputation, rather than through the look and feel of its products, since local imitators easily and instantaneously reproduce them.

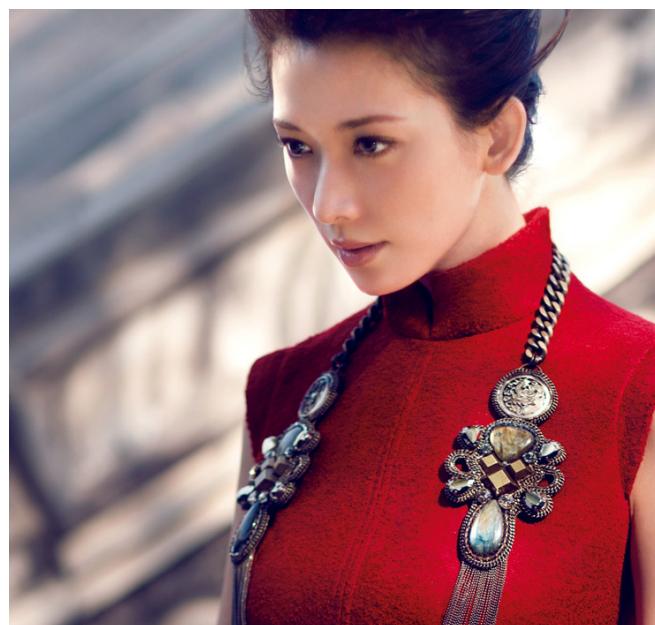
- Without eroding the brand culture, brands need to adjust for the China market. Keeping up with the pace of change is critical, and the most successful brands experiment, measure and adapt as they learn. Our keys for success outline some of the primary areas in which brands need to tailor their approach to create a profitable brand presence in China.



### **2: "...THE ATTITUDES OF CHINESE CONSUMERS ARE CHANGING. COUNTERFEITERS ARE NO LONGER POPULAR. NOT LONG AGO, CHINESE SHOPPERS APPLAUDED THE FAKERS FOR SAVING THEM MONEY. NOW THEY SCORN THEM."**

– The Economist, January 14, 2012

The long-standing dominance of imitation in the Chinese culture is beginning to give way to an interest in authenticity, which is a favorable trend for established brands. For the time being, at least, this plays in favor of physical retail. Given the dominance of counterfeit products, consumers of high-end items are reluctant to purchase an item until they've seen for themselves that it's the genuine article.



### **3:THE SMART MONEY SAYS TO FOCUS ON HIGH-END BRANDS AND TOP-TIER MARKETS.**

While growth is slowing, China continues to gobble up huge shares of the world's luxury goods. China's share of the global luxury market is expected to reach one third by 2015.\* Those luxury goods consumers are increasingly sophisticated about brands and products. As their tastes mature, they show increasing preference for the elegance and simplicity of luxury products.

- US brands need to be wary of China's lower-tier markets, with their underdeveloped and haphazard retail landscapes. In addition, brands need to consider the growing power of China's giant e-retailers, who are eroding the opportunity in these markets faster than foreign brands can establish themselves.
- As real estate and labor costs continue their rapid escalation there's added reason to focus on a limited fleet of great retail experiences in the first-tier markets.

\*McKinsey Chinese Luxury Consumer Survey, December 2012



### **4:BIG NAME US BRANDS SHOULD CONTINUE TO LEVERAGE THEIR ADVANTAGES OVER CHINA-BASED BRANDS.**

The cachet that US brands offer is a significant aspect of their appeal to China's consumers. Even the most successful local brands cannot deliver the aspirational appeal which China's consumers associate with global luxury brands. Consumers crave connection and access to these icons.

- Premium brands in the US are accustomed to catering to the desire of fashion-savvy consumers to use their products as representative of their individual tastes and point of view. As an increasing number of China's wealthiest consumers express an interest in individualism, smart brands will be pioneers in bringing one-of-a-kind and limited edition products to the China market to satisfy the desires of these new individualists.



## KEYS FOR SUCCESS

Our focus here is on aspects of success that can be affected by sound retail strategy, design and approach for implementation – key components of TPV. These areas are outlined under Design, Implementation and Brand Presence. In addition, Awareness, Assortment Strategy and Retail Partner Strategy deserve mention as being critical metrics for winning in this market. The final aspect of TPV – evaluation – is essential in fine-tuning the program to the China market. The most successful brands to date in China have consistently monitored, evaluated and adjusted based on the key metrics outlined here.

### 1: DESIGN

- The first phase of TPV, discovery, ensures that the stage is set to address the realities of the China market. Awareness of its unique qualities, from consumer preferences to typical retail space characteristics, will help to tailor a brand's approach.
- Design programs to work in typical retail spaces which are smaller, and often have highly irregular footprints. Larger elements, such as cash/back wraps will need to be scaled down – or, in some instances, eliminated, as most transactions may be executed through a mobile device.
- Build in the greatest degree of flexibility to allow for easy changes of configuration as your brand retunes its assortment.
- Documentation of programs must be geared for partners who may not read English. Extensive illustrations or photography to guide construction will help realize a seamless

translation. Full illustration of merchandising and product presentation standards will ensure continuity.

- Highlight technical details, which are important to this market. These details service product perception – not actual performance. Address details, innovative design attributes or history and information about athletes.

### 2 : IMPLEMENTATION

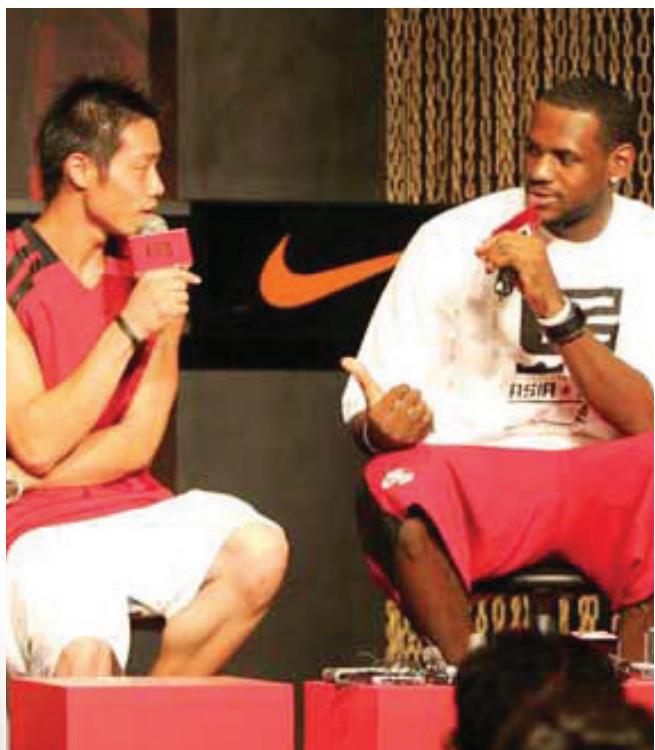
- Manufacturing and sourcing in China comes with a unique set of complexities. Among these are incorporation of rules specific to foreign-owned firms who are directly able to import and distribute in country. For effective logistics and cost control, contract with a US-based retail fixture manufacturing partner. This partner should have an operating office with foreign national staff working with vetted supply chain resources.
- Ensure material and finish choices are within the range of the country's manufacturers. Worn and aged finishes, for example, are difficult to reproduce. Certain woods may not be available in China. Acceptable substitutes should be identified and sampled in the program documentation.
- The US brand's role should be one of guidance and consultancy. Resourcing, implementation and construction are best carried out by local partners with depth and experience in working with local supply chain partners.

### 3: BRAND PRESENCE

- Develop an approach that allows the brand to showcase the best of its products. With small spaces being the rule, one of two distinct strategies is recommended:
  - A 'best of brand' strategy, with a carefully curated selection of the brand's most style-driven items across multiple categories, with a focus on lifestyle and sport expression.
  - A category-specific presentation, which may change seasonally, offering a deeper consumer experience of a single facet of the brand.
- More than other consumer groups, China's consumers are heavily influenced in their purchase decisions by the in-store experience. A significant percentage of purchases are made on impulse in the store. This is attributed in a large part to two factors. The first is the consumers' reluctance to select any high-value product without seeing it first-hand (not surprising given the pervasiveness of counterfeit items). The second is the authoritative role of store staff in helping consumers make their purchase decisions. Differentiated and personalized experiences for a brand's most loyal customers have increasing traction with China's consumers.
- Consistency with a brand's global presence is critical. Nearly half of China's luxury purchases are made abroad. These high-end consumers expect brands to deliver the same premium experience at home that they've come to expect from their global travels.

### 4: AWARENESS

- It's a simple equation – brands with the highest level of global visibility get the most traction in China's market. Create demand by elevating awareness of the brand and its key associations with athletes, musicians, entertainers and international trendsetters.
- The most successful campaigns offer multiple ways of reaching out to new markets. In introducing Brand Jordan, and later LeBron James, to China Nike implemented exclusive press events, pop-up consumer experiences in malls, athlete appearances and in-store invitational events to build awareness and demand for the brand.



HUEN/LEBRON JAMES ASIA TOUR FOR NIKE

## 5: ASSORTMENT STRATEGY

- While the difference in taste between US consumers and Chinese consumers is diminishing, there's still a need to balance consideration of brand consistency with an awareness of global variations in product preference. As tastes continue to evolve, brands must constantly monitor and fine-tune their assortments for the China market.
- For athletic brands, there's vast difference between the US target consumer, who is often an athlete/participant first and a fan second, and the China consumer, a fan first with few occasions to participate in team sports. This difference demands an assortment approach with far more emphasis on style than on performance.

## 6: RETAIL PARTNER STRATEGY

- A well-developed protocol for establishing partnerships in the China market is a must. Retail partners, who may own multiple locations, are the key to keeping a consistent brand profile throughout the market. Brands must ensure that partners are fully introduced and brought into the brand's ideology – that they have visibility to their strategic importance in building the brand in China.



THE CARLSON GROUP/NORTHFACE BEIJING STORE

## TAKE-AWAYS

- > Bring your brand's authenticity with you. It is the essential and inimitable advantage you have over established brands that are based in China. Use every possible channel of delivery to leverage your brand's equity.
- > Be aware of and respond to changes in the market. Focus on premium locations in the top-tier markets, and use those locations to offer the best possible brand experience.
- > Tailor for the China market, but not at the expense of a globally consistent brand presence. Brands that don't maintain consistency risk losing their traction with China's savviest and most influential consumers.
- > Address the realities of retail in China, and design a program with those parameters in mind. Visually document your program thoroughly to aid your China partners in expertly translating your brand presence.
- > Develop an implementation strategy that harnesses the retail expertise of the US brand to a China partners' knowledge and connections in the local markets. Ensure your expertise is present to partners on an ongoing basis to promote maintenance and development of your retail presence in the China market.

### HUEEN

1911 NW Quimby Street  
Portland, OR 97209  
503 224 4836  
[huenspace.com](http://huenspace.com)

A Portland, Oregon based consultancy offering strategy and design services for consumer obsessed brands.

AUTHOR: Rebecca Huston - Principal, Strategy

### thecarlsongroup

350 E 22nd Street  
Lombard, IL 60148  
630 613 5000  
[carlsongroupinc.com](http://carlsongroupinc.com)

As a strategic partner, The Carlson Group incubates, builds and sustains smart custom programs that deliver value across consumer retail experiences.