



2019 Bain Case Competition

# Growth Strategy for Chow Sang Sang

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# Agenda

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1

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Market shares expansion

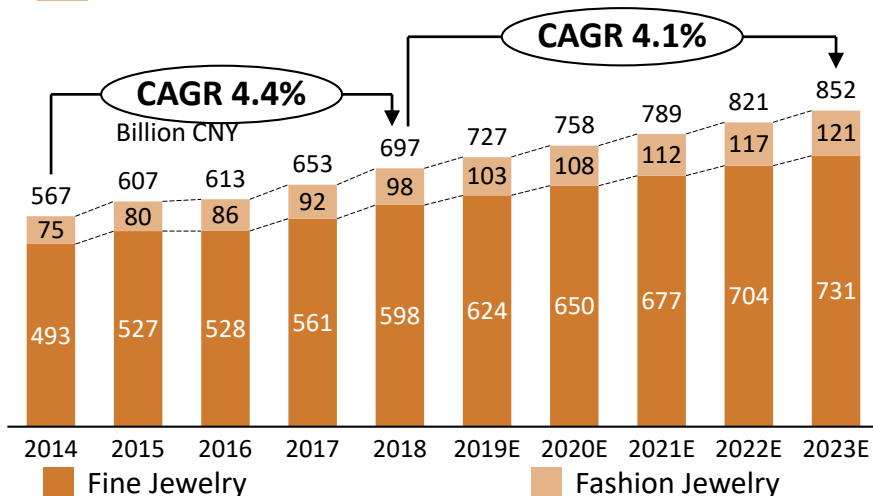
Product portfolio optimization

Offline business layout

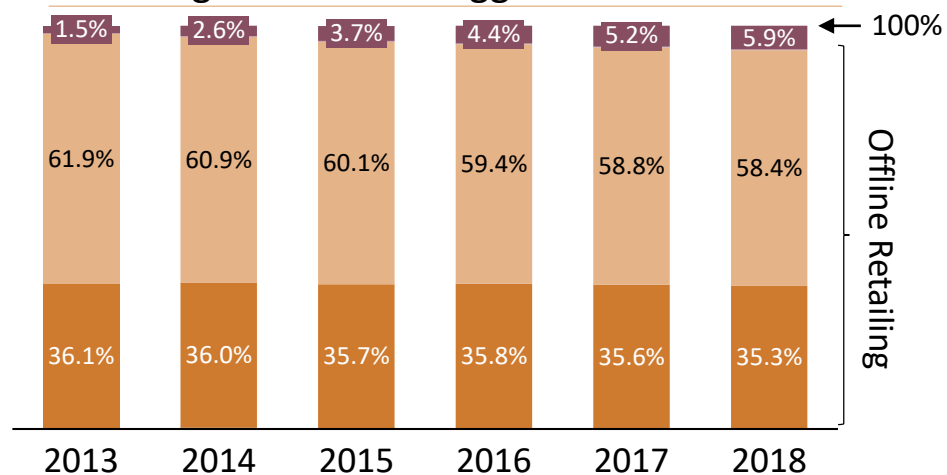
Online channels integration

# The China Jewelry market still shows potential for the next 5 years, while the offline market retains its domination

## 1 Jewelry market shows steady growth

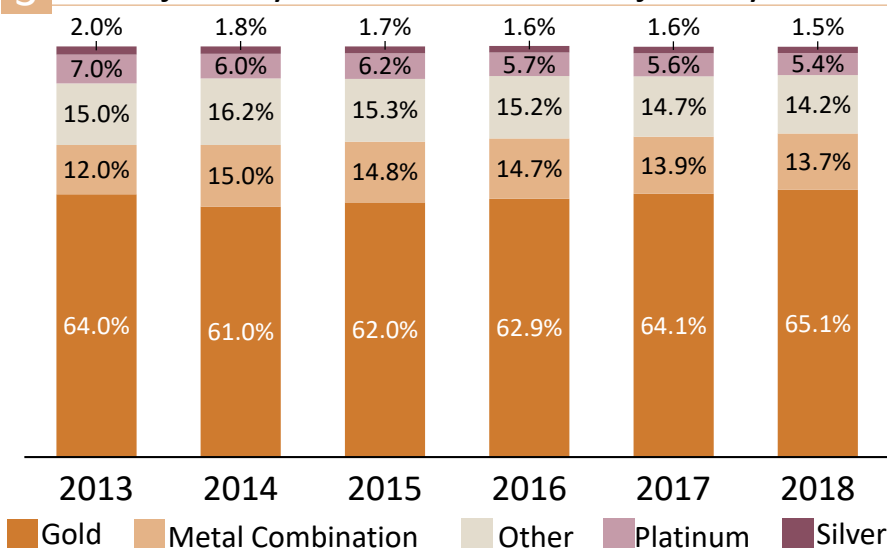


## 2 Online market shows potential, while offline retailing remains the biggest market



Note: Category: Offline Retailing (Grocery Retailers, Non-Grocery Specialists -- eg. jewelry and watches, Mixed Retailers -- eg. department stores) and Online Retailing (Internet Retailing, Home Shopping)

## 3 Gold jewelry dominates Chinese jewelry market

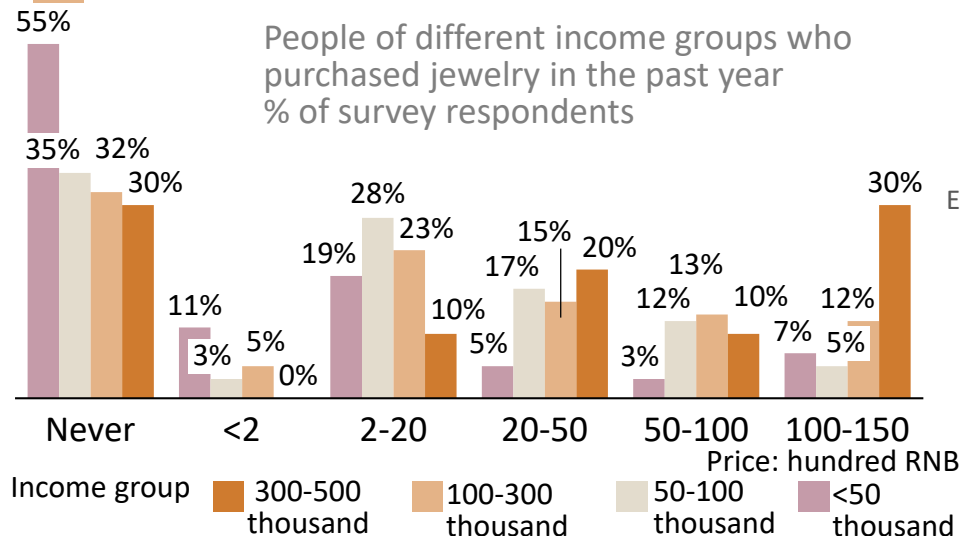


## 4 Comments

- **The fashion jewelry segment** is expected to have **higher growth**, with 2013-18 CAGR=7.3%, while fine jewelry CAGR= 4.0%. 1
- **Offline retailing** is still the **main battlefield** for players, despite the slowly enlarging online market. 2
- Gold will **sustain its popularity** in the future, considering gold jewelry covers over half of the whole market. 3

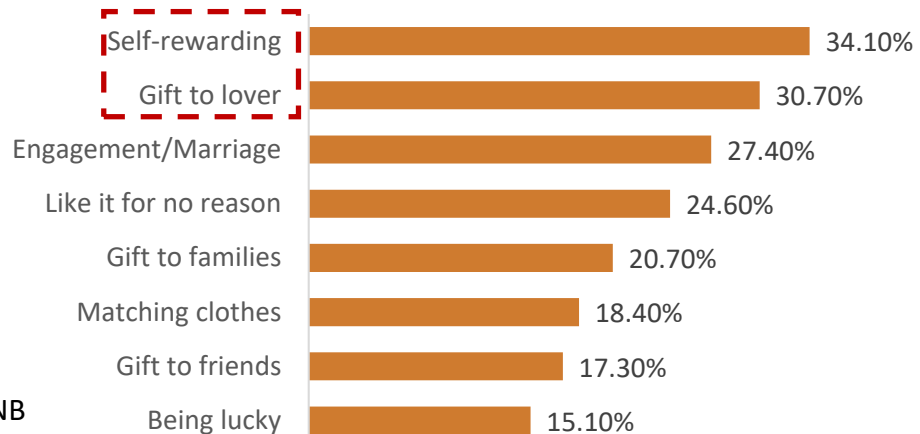
# People from different income groups have different price preferences; self-rewarding becomes a key purchase driver

## 1 Higher income motivates more purchasing

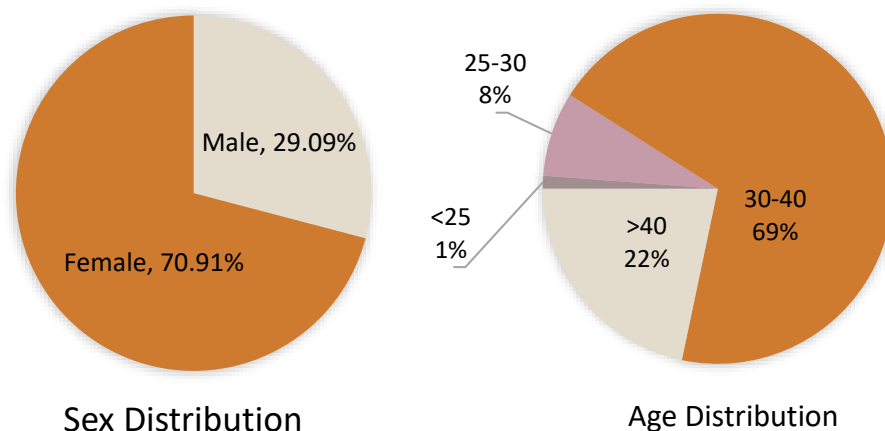


## 2 Self-rewarding and gift-giving are main drivers

Reasons of purchasing jewelry (% of survey respondents)



## 3 Consumers are mostly female & mid-age people

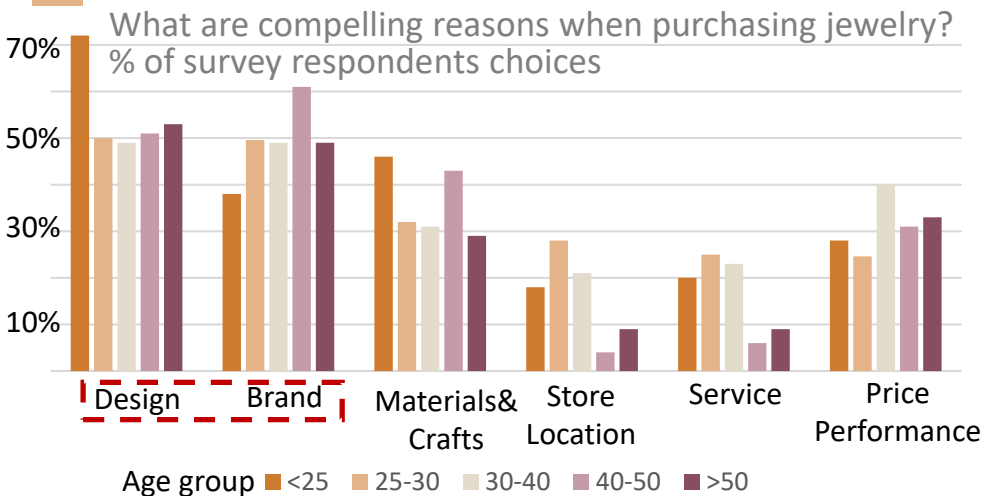


## 4 Comments

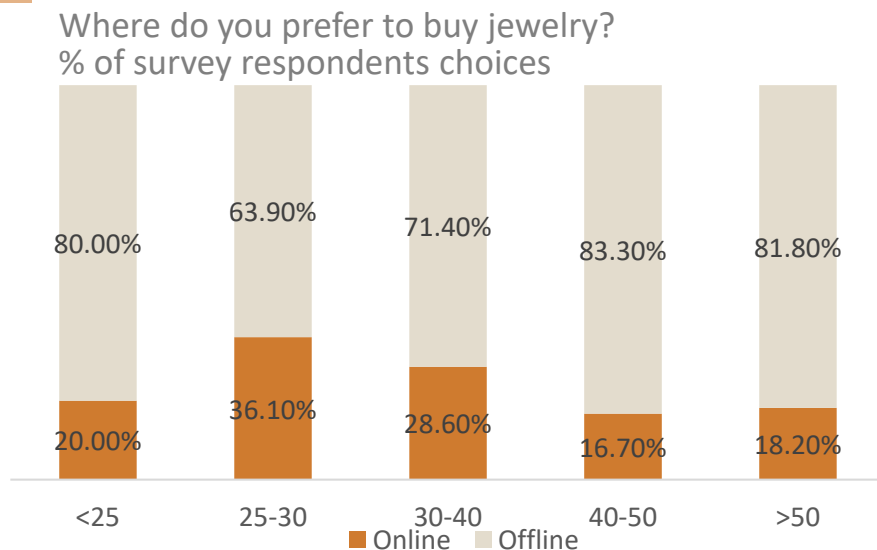
- Most people from different income groups have the need of purchasing jewelry, while they **prefer different price ranges.** 1
- The jewelry **consumption penetration** rate is expected to **increase** with increasing per capita disposable income.
- Drivers of purchasing jewelry **shift from rigid demand (investment, engagement) to daily consumption.** 2
- Male and mid-age groups** account for a larger proportion than expected, which needs special attention. 3

# Design, brand and materials are the most attractive criteria; most people adore gold products

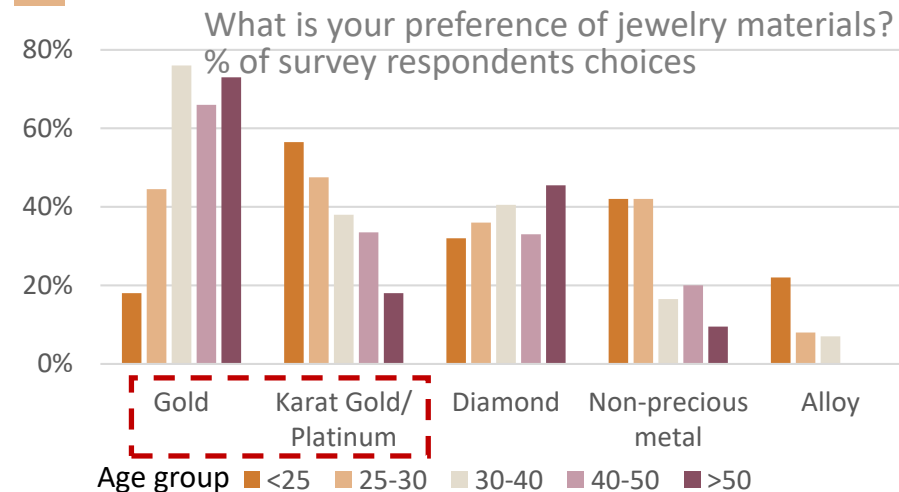
## 1 Design & brand are most attractive factors



## 2 People show less willingness to buy jewelry online



## 2 Gold is favored by people of all ages



## 4 Comments

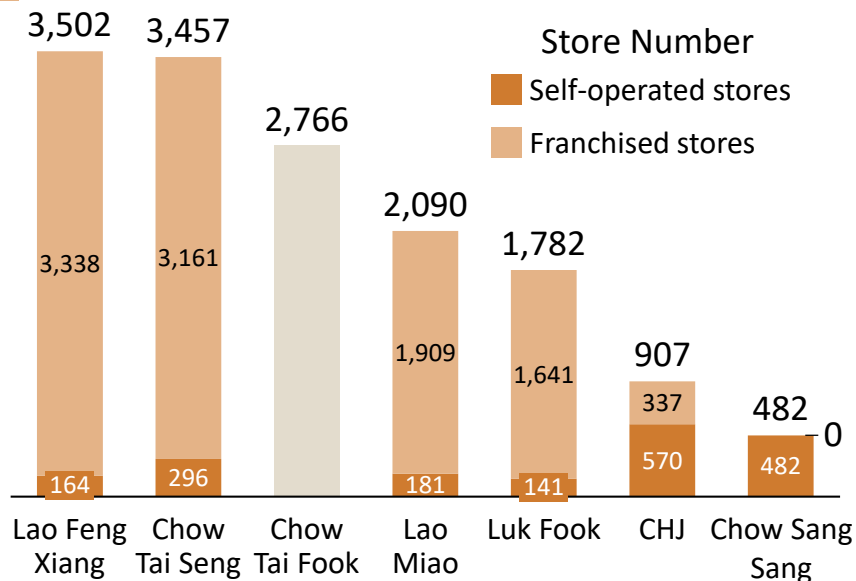
- **Product design, brand reputation, materials and price performance** are key reasons attracting customers. 1
- **The young generation** are more willing to pay a premium for **design**, while **elder people** focus more on **brand**.
- Main buyers of jewelry (age > 30) have a strong preference for **gold, karat gold, and diamonds**. 2
- Jewelry consumption still shows strong preferences of **offline channels**; preempting offline channels is a key factor in competition. 3
- Online purchase can be further **guided**, especially for **post-80s and post-90s**. 3





# Players adopt various expansion and layout strategies based on company's different positioning

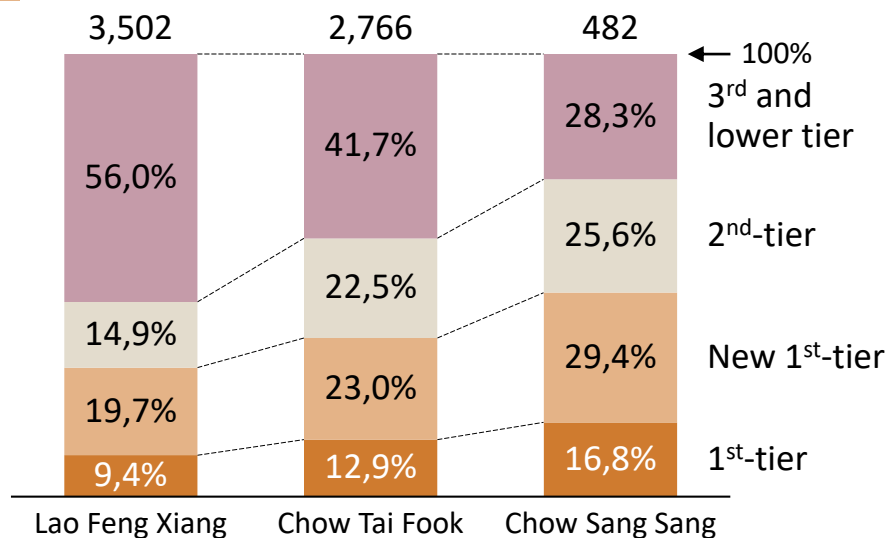
## 1 Players accelerate stores' expansion process



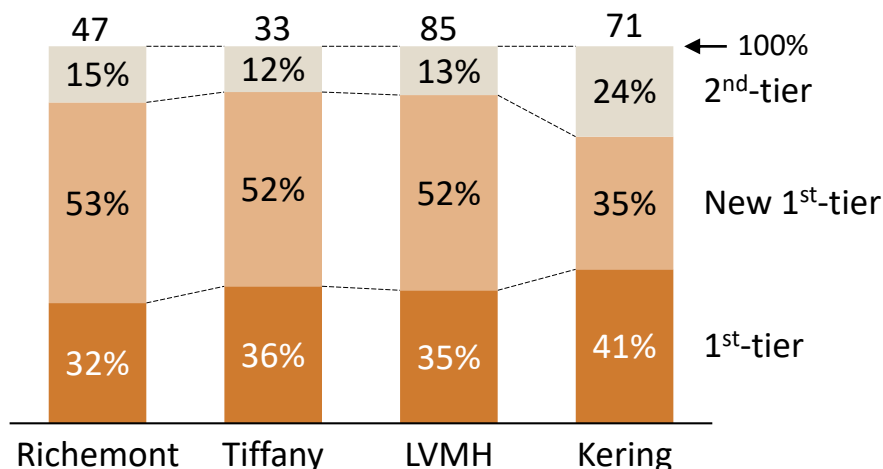
## 4 Comments

- Main business mode: **self-operated + franchised.** 1
- A high proportion of self-operated stores will **encumber** the pace of market expansion. 1
- **Seizing high-tier cities' market shares** has become a consensus, while Lao Feng Xiang values more lower-tier cities than others. 2
- All foreign high-end brands **focus on high-tier cities**, which sequesters them from gaining potential customers in low-tier cities. 3

## 2 Layout strategies vary among different players



## 3 Few foreign brands venture into low-tier cities



Players have diverse performance on leveraging online channels; most of them are active in brand-owned channels, while slumbering in B2C e-commerce and luxury verticals

Brand	Brand-owned channels				Mainstream B2C e-commerce		Luxury verticals		
	Brand.com	Brand App	WeChat public account	WeChat mini program	JD.com	Tmall	Vip.com	Secoo	Mei.com
CHOW SANG SANG	Active e-commerce presence	No official presence	Function error	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	Active e-commerce presence	No official presence	No official presence
CHOW TAI FOOK	Customized services	Active e-commerce presence	Interactive community	Multiple functions	Active e-commerce presence	Online exclusives	Active e-commerce presence	Limited products	No official presence
LAO FENGXIANG	Branding only	No official presence	Low update frequency	No official presence	No official presence	No official presence	No official presence	No official presence	No official presence
Cartier	Active e-commerce presence	No official presence	Exclusive Service	Attractive activities	Active e-commerce presence	No official presence	No official presence	Limited products	No official presence
Tiffany	Branding only	No official presence	Branding only	No official presence	Watches only	No official presence	Active e-commerce presence	Limited products	Limited products

More brand control ← → Less brand control

Active e-commerce presence
  Limited e-commerce presence
  No official presence

### Brand-owned channels

- **Few** brands (only Chow Tai Fook) have chosen to establish a **comprehensive presence** across multifarious channels.
- **Developing an App** is **no longer a preference** for brands.
- **WeChat public account and mini program** are **avored by all brands**, considering their high popularity.

### Mainstream B2C e-commerce

- Mainstream B2C platforms offer brands the potential to generate **high traffic volumes** for relatively **low initial costs**.
- **Flexible and distinctive** sales strategy: optimizing based on traits of purchasing FMCG.

### Luxury verticals

- **Less influence over brand image and customer experience**  
Omni-channel and singular brand experience could be spoiled.
- **Less control in merchandising and price**  
The deep discounts of selected products (70%) arouse lingering questions over product authenticity.

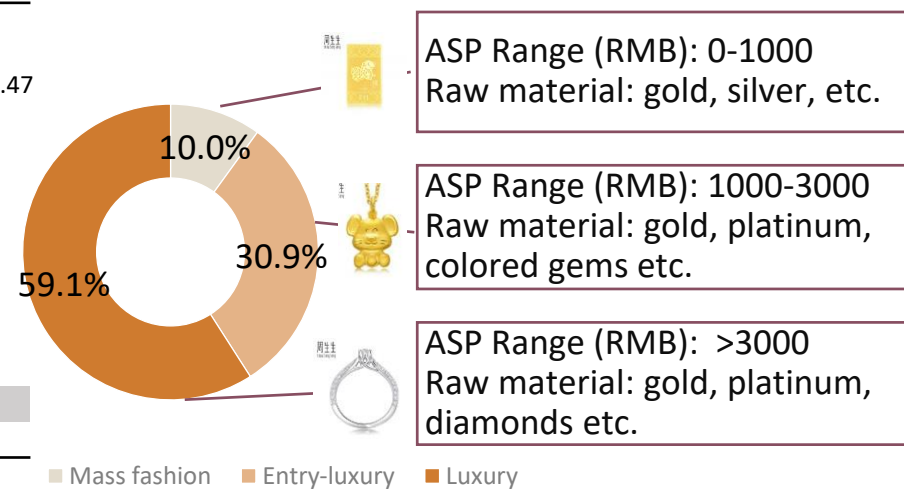


# Under fierce competition, Chow Sang Sang's revenues and market shares declined drastically

## 1 Brand positioning: high-end luxury brand

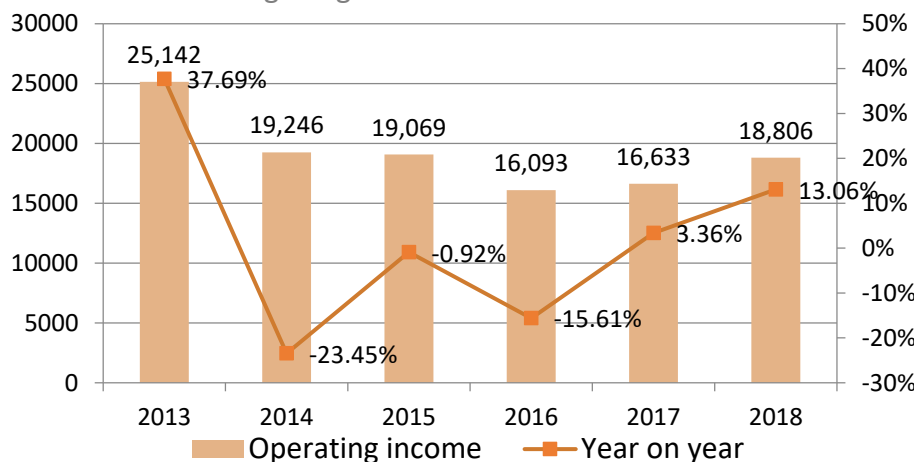
Ranking	Region	Brand	FY2018 Global Luxury Brand Sales (100 million US dollars)	
1	France	LVMH		234.47
2	United States	Estee Lauder	118.24	
3	Switzerland	Richemont	116.77	
4	Italy	Luxottica	100.51	
5	France	Kering SA	93.69	
...	...	...	...	...
10	Hong Kong, China	Chow Tai Fook	66.04	
13	China	Lao Feng Xiang	47.68	
16	United States	Tiffany & Co.	40.02	
30	Hong Kong, China	Chow Sang Sang	18.09	
35	Hong Kong, China	Lukfook	15.72	

## 2 Product positioning: luxury gold series



## 3 Massive decline in turnover and slow recovery

Unit: million Hong Kong dollars

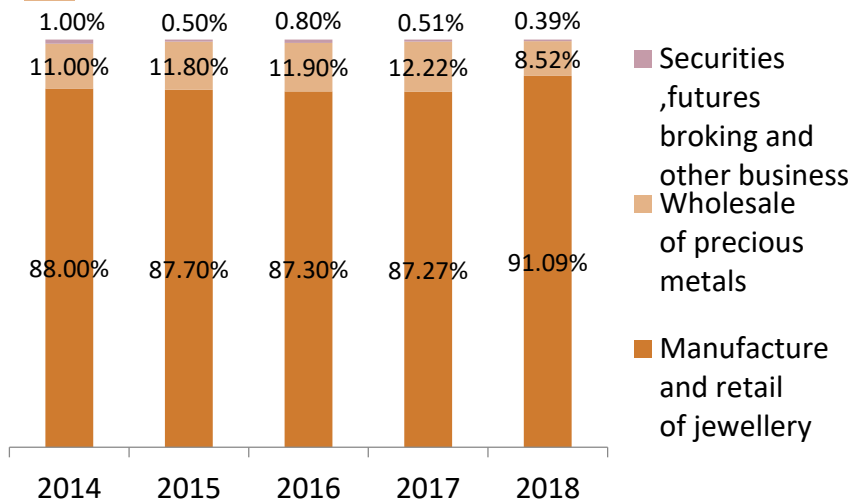


## 4 Comments

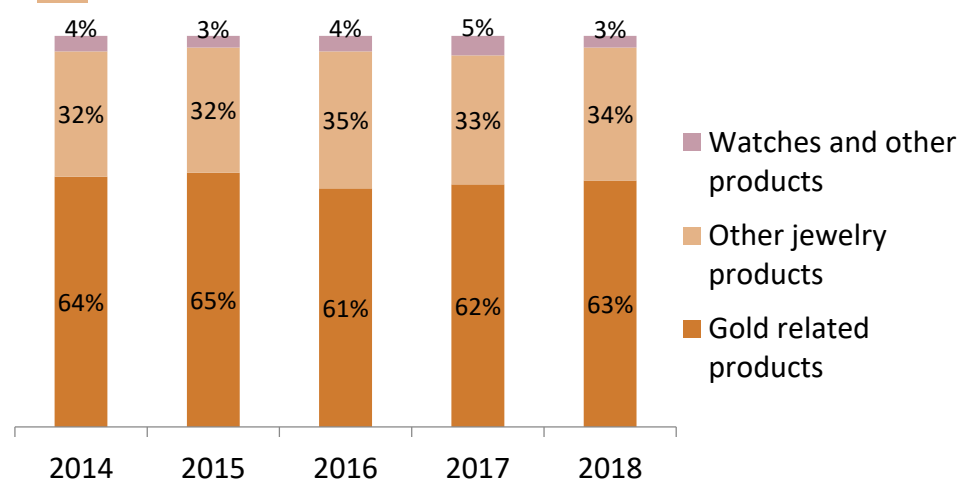
- Chow Sang Sang is a well-known jewelry company with a **high-end brand positioning**. 1
- The high proportion of luxury gold products in portfolio determines its target customers - **middle class and high income groups**. 2
- Chow experienced a **sharp slump** in terms of income (from 2014 to 2016), and has not returned to its previous average level. 3
- Chow's market shares slipped from **1.3% in 2013** to **1.1% in 2016**.

# Analyses in terms of business and product composition and regional contribution unveil the root of Chow's slump

## 1 Changes in business composition

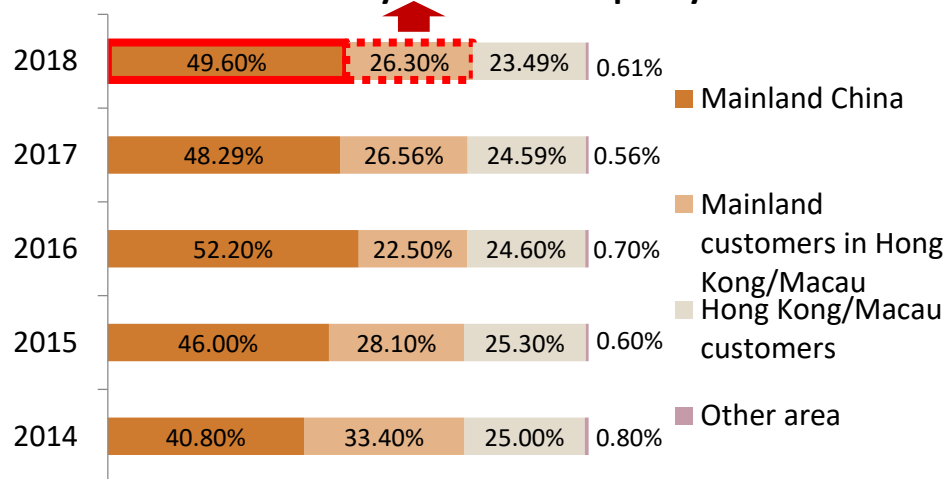


## 2 Changes in product composition



## 3 Changes in regional contribution

Attracted by favorable tax policy



## 4 Comments

### • Core source of profit: manufacture & retail business 1

Weak risk resistance capacity

Tiny slump in sales value would cause huge income decrease

### • Main product: gold related products (>60%) 2

Fluctuations in gold prices exert a huge impact on corporate sales.

International gold prices slipped by **38%** from 2013 Jan. to 2015 Dec.

### • Main customers: mainland customers (>75%) 3

The number of mainland tourists visiting Hong Kong **drastically dropped in 2015** due to the fermentation of Occupy Central movement (in 2014).

# Insufficient financial leverage and marketing inputs, and slow pace of store expansion lag Chow's further development

## 1 Higher operation efficiency compared with others

	Chow Sang Sang	Chow Tai Fook	Luk fook
Inventory Turnover Period (day)	190	331	257
SSSG-Gold product	8%	4.90%	-1.0%
SSSG-Jewelry products	-7%	-5%	-2.0%
SSS Volume Growth	7%	-0.8%	-1.8%

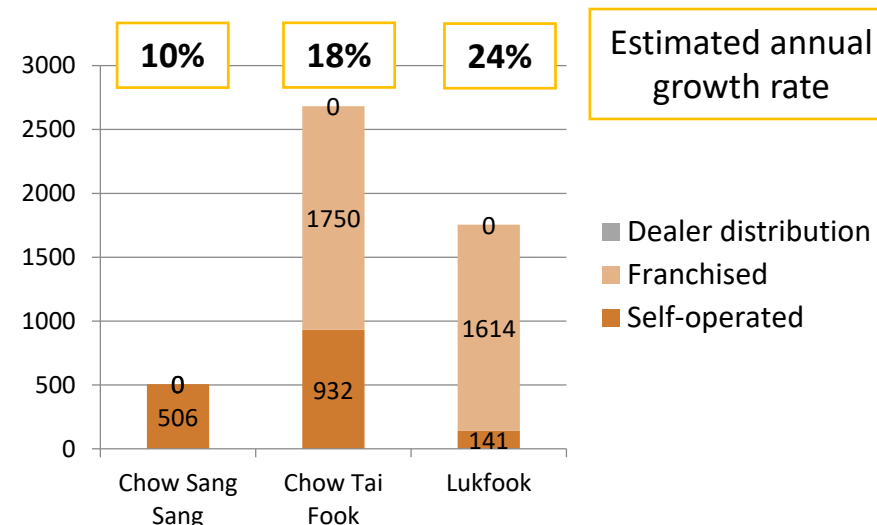
Note: 1) SSSG is the sales comparison of the same self-operated stores operating on the full day of the comparable period. The relevant data does not include the sales of brand stores (franchisees) and e-commerce business in Mainland China.  
2) SSS Volume Growth is also the same.

## 3 Low finance costs imply Chow's poor financial leverage

### Income Statement (Forecast)

		Gross margin	Selling expenses %	Administrative expenses %	Finance costs %	Net income attributed to shareholders %
Chow Sang Sang	FY2017	25.0%	15.8%	3.0%	0.1%	5.0%
Sang Sang	FY2018	25.1%	15.8%	2.9%	0.1%	5.2%
Sang Sang	FY2019E	25.1%	15.8%	2.8%	0.1%	5.2%
Chow Tai Fook	FY2017	29.2%	15.6%	4.5%	0.5%	6.0%
Tai Fook	FY2018	28.5%	15.2%	4.1%	0.3%	6.2%
Fook Fook	FY2019E	28.5%	15.2%	3.9%	0.3%	6.5%
Luk fook	FY2017	25.6%	15.6%	1.2%	0.1%	7.9%
fook	FY2018	25.6%	15.4%	1.3%	0.1%	8.2%
fook	FY2019E	25.6%	15.3%	1.3%	0.1%	8.3%

## 2 Stores number fell far behind others



## 4 Comments

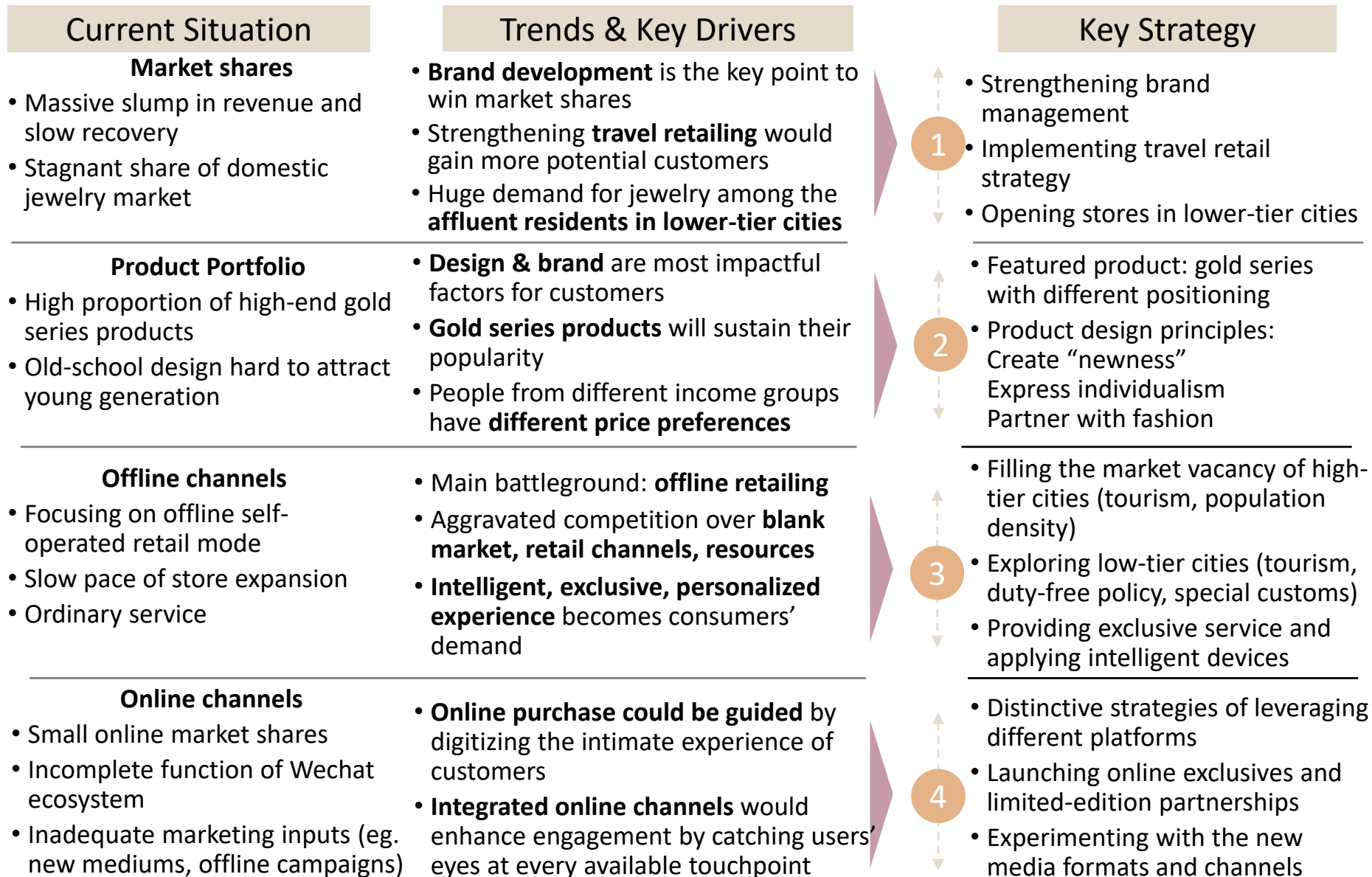
- Similar to international brands, Chow Sang Sang persists in self-operated mode.

→ strong retail management ability, high inventory turnover rate and low management costs. 1

- However, the number of offline stores lags far behind other competitors, which impedes it from gaining offline market shares. 2

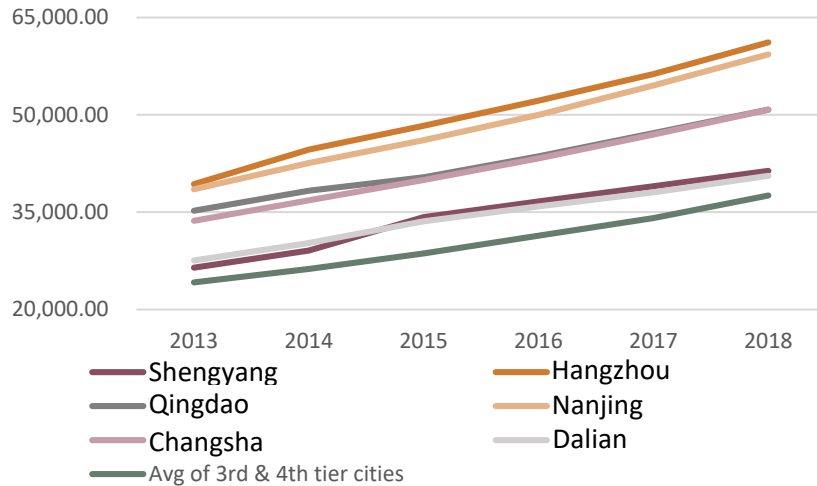
- Based on financial analysis, Chow should improve financial leverage and increase marketing expenses (besides those input in self-oriented stores). 3

# Five-year strategy plan overview for Chow Sang Sang

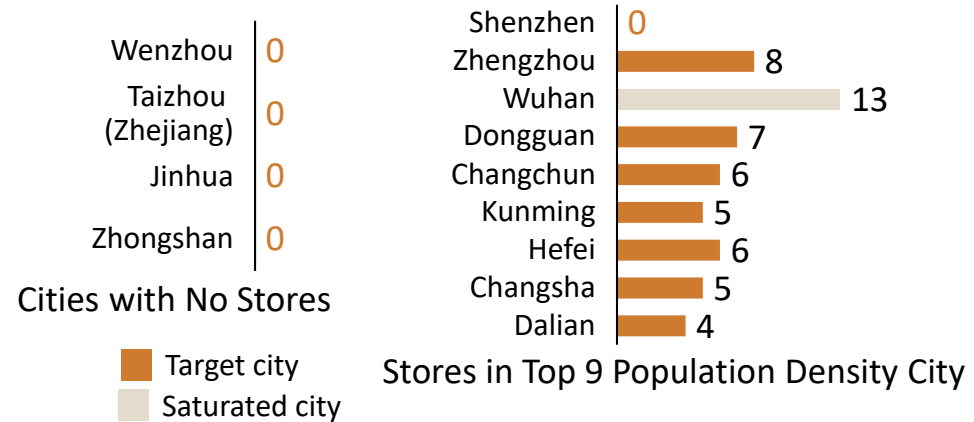


# Layout: fill the market vacancy of 1<sup>st</sup> & 2<sup>nd</sup> tier cities, targeting tourist cities and higher population density cities

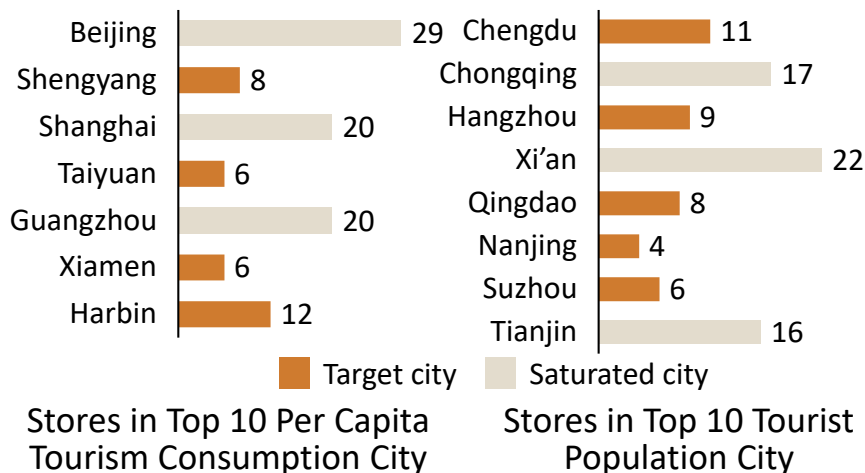
## 1 Higher disposable income in high-tier cities



## 2 Open stores in higher population density and "white" cities



## 3 Open more stores in key tourist cities

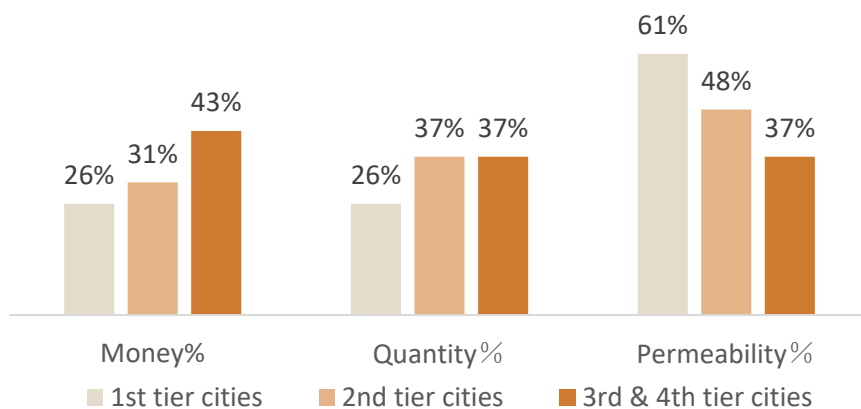


## 4 Layout strategies in high-tier cities

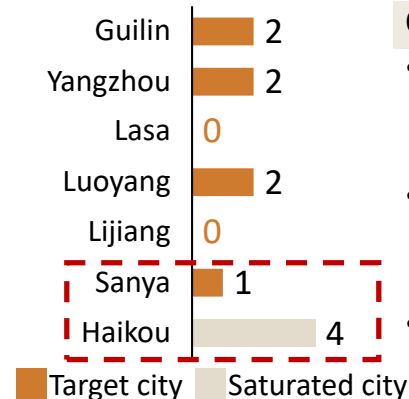
- **Unsaturated market** should be prioritized, especially omitted 'zero store' cities
- **Higher income growth rate**, guaranteeing stable increase in jewelry consumption **1**
- **Higher permanent population density**, containing huge potential demands **2**
- **Higher floating population**, bringing high customer traffic volumes **3**

# Layout: carefully expanding in 3<sup>rd</sup> & 4<sup>th</sup> tier cities, paying special attention to tourist cities and cities with special customs

## 1 3<sup>rd</sup> & 4<sup>th</sup> tier cities has less stores but buy more



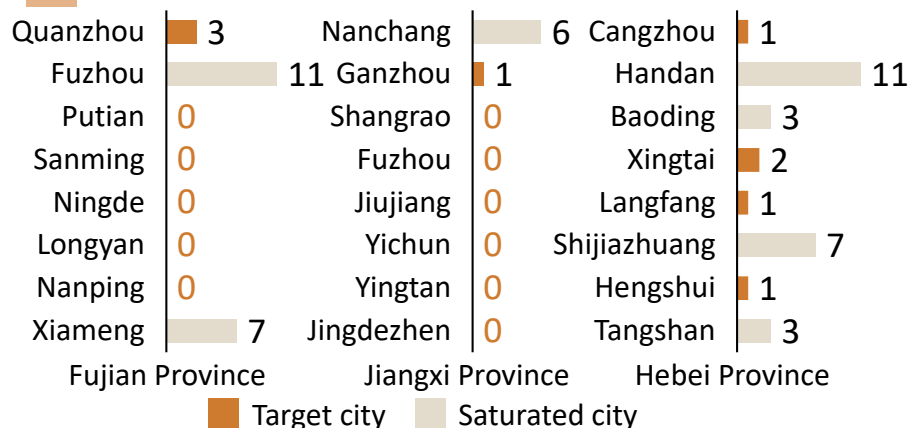
## 2 Open stores in key tourist cities



### Operation strategies

- Product design needs to be **featured with local folk culture and scenery**
- Collaborating with local craftsmen and launching **local limited-edition jewelry**
- cooperating with travel agencies and attracting **tour groups for shopping**

## 3 Open stores in cities with special customs



- The average amount of bride price in these cities **>100 thousand RMB** (descending order)
- Gold jewelry** is an **indispensable part** of the bride price

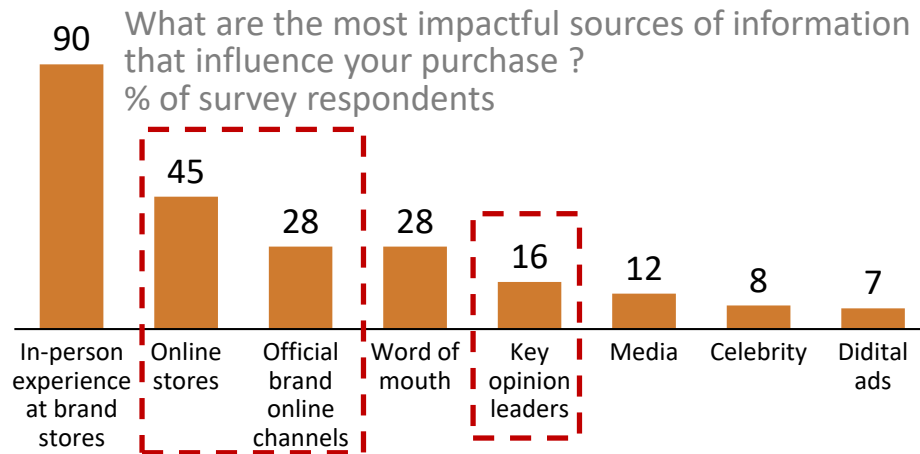
## 4 Layout strategies in low-tier cities

- Before expansion, the **purchasing power, customer traffic volumes, costs and profits** of target city should be carefully evaluated. **Pop-up stores** could be tried when feeling uncertainty
- Higher demand, increasing income, but lower permeability** of 3<sup>rd</sup> & 4<sup>th</sup> tier cities ensures a promising consumption prospect **1**
- Mainland customers buy many duty-free jewelry in HK/Macau; consequently, **opening counters in Sanya & Haikou duty-free stores** would attract customers **2**
- Engagement products** remains enormous potential in low-tier cities because of local special marriage customs **3**

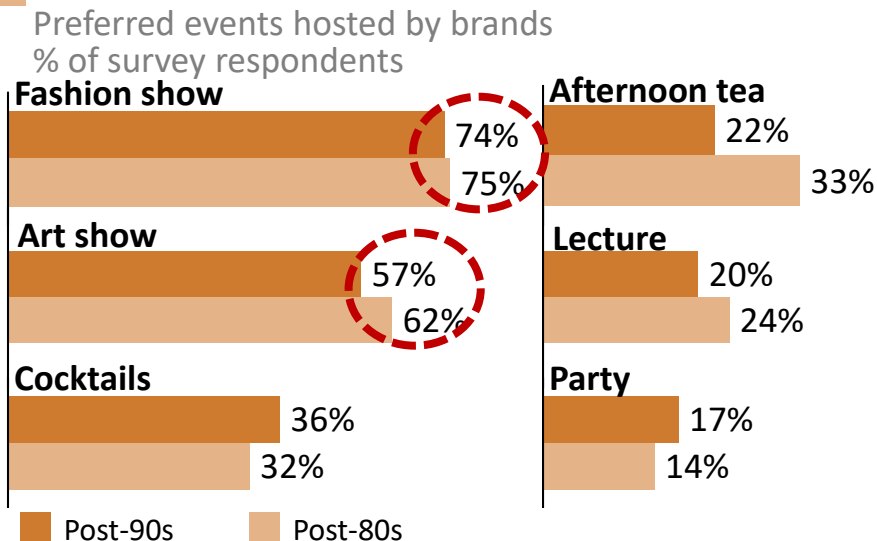


# Online promotion: enhancing customers' engagement through digital mediums and influencers

## 1 Digital channels: most impactful sources



## 2 Strong preference for fashion and art events



## 3 Applying flexible marketing strategies

**Brand-owned channels (Wechat public account, mini program) → All users, especially mid-age group**

- Developing **new functions** of Wechat ecosystem (eg. product trials, service reservations, consumer advice)
- Emphasizing the development of **online user communities** to enhance socialization. (eg. buyers show, in-person meetings of users)
- **Bridging all online channels** in Wechat public account (correcting the error of online store interface)
- **Increasing update frequency** (at least twice a week)  
Headline articles should focus on festival promotion, analyzing fashion trends and recommending featured products
- Hosting **creative offline campaigns** monthly (eg. art shows, pop-up stores, cocktails) to drive a high level of consumer engagement and reward loyal customers

**New Mediums (Xiao Hongshu, TikTok, Weibo) → Young generation**

- Increasing the amount of **digital marketing budget**
- Pushing into new mediums **and partnering with KOLs**. (eg. products evaluation, jewelry matching tips)
- Inviting KOLs and celebrities to make **fancy Vlogs** to show exclusive service and brand concept

# Online sales: providing different portfolios for different customers

## 1 Superior experiences spur online transactions

Would this factor increase your likelihood of purchasing online?  
% of post-80s and post-90s respondents saying "yes"

### Personalized experience

AI recommendation for product 55%

Shopping records 50%

Dedicated sales guide 42%

### Try-on

Virtual try-on service 57%

O2O try-it-on 45%

### Delivery

White-gloves delivery services 51%

Distinctive shopping bag 51%

Fast delivery services (<24 h) 50%

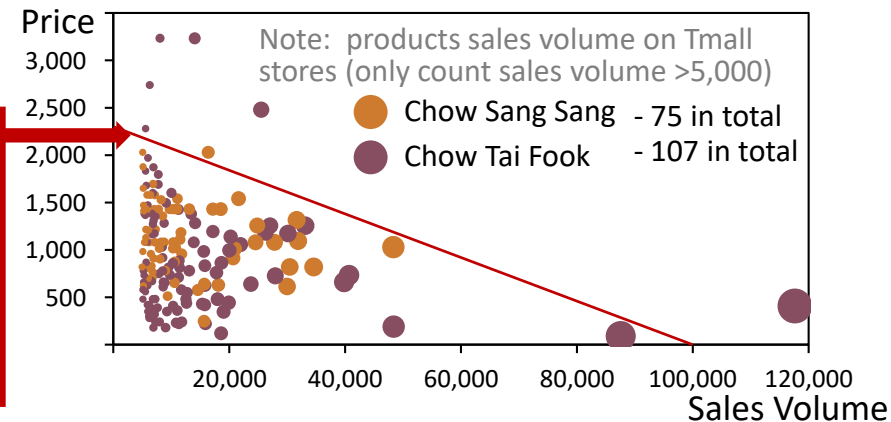
### Convenience

Easy and free return service 12%

- Chow Sang Sang can tempt young customers online by **digitizing the intimate, personalized experience** that attracts them to offline stores
- Developing a **standardized service management system**
- **Breaking niches** of communication and distribution channels to provide a truly **omni-channel and exclusive experience** for customers
- **Not necessary** for developing a self-operated App due to the inconvenience and low customer viscosity

- **Prices of best-selling products < 2,000**
- **500-1500 is preferred price range for customers**

## 2 Applying tailored online sales strategies



### E-commerce (Tmall, JD, Wechat shop) → **White collar**

- Mainly promoting products with **high cost performance**
- Strengthening **crossover cooperation** with popular IP
- Active presence in all **shopping festivals**

### Brand-owned channels (Brand.com) → **Bourgeoisie**

- Taking full advantage of consumers' affinity for **online exclusives** and **limited-edition partnerships** as a means of driving sales
- Implementing **virtual try-on services** and **personalized products recommendations (powered by AI)** to increase the likelihood of online purchase
- **Analyzing customers' purchase data and preference**, and providing tailored products and content for users

### Luxury verticals → **Price-conscious consumers**

- Only for drawing traffic volumes
- Endorsement for the authenticity of special offers

# Chow Sang Sang could take following steps in five years

