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Decoding China: A Western perspective of the China opportunity

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All roads lead to China: Luxury's future. Image credit: Luxury Society

By Iris Chan

For many brands, China has become one of, if not, the most important market as it can have a significant impact on global performance.

However, as the largest economy in the world, being active in the U.S. market alone can be more than enough to keep a brand busy.

Yet, North American brands are aware of the opportunity that exists in the China market and those who have not yet joined in can only watch from the sidelines as others gain at scale and FOMO (fear of missing out) is real.

Understandably, brands are keen on China, but it can be overwhelming to pinpoint the right strategy for this market, let alone figure out where to start.

To begin with, brands in North America are not necessarily in the right mindset to jump into a market like China.

Unlike Europe and the UK, where brands within their home market have had to cross borders, languages and cultures early on in order to find growth, North America has encountered less friction and fewer hurdles when expanding from state to state and coast to coast.

Then just thinking about the time and effort needed to understand this market from language and culture to legal business registration and who to trust can make your head spin.

On top of this, there are the geopolitical elements that, on the surface, are enough to deter brands, the most current of which being the U.S.-China trade war and the Hong Kong and Mainland China conflict.

Yet brands continue to pursue the China opportunity. Both classic players the likes of Michael Kors, Coach, and Ralph Lauren, as well as new players Rothy's, Fenty Beauty, Goat and Everlane are all trying to make headway in China. Why?

Growing demand

This year's Singles' Day gave way to more than $38 billion in sales across Alibaba's platforms.

Despite concerns of Chinese consumers boycotting American brands ahead of Singles' Day, sales from the event indicate no shortage of demand and interest for American brands such as Nike, Adidas, and Este Lauder.

Shift in consumption patterns
The effects of the Hong Kong and Mainland China conflict felt by retail brands is not a signal of lowered levels of consumption among Chinese consumers. What we are seeing is simply a shift in consumption to other areas in the region when it comes to travel retail.

Similar responses to geo-political activities happened back in 2017 as J-Beauty took over K-Beauty in popularity amongst Chinese consumers due to tensions with South Korea, and before that in 2016 when travel to South Korea peaked as the Korean culture wave hit China. In 2019, both destinations are seeing increased travelers from China.

Changing policies
China has also taken steps to make the conditions for market entry more attractive and feasible.

The 2019 ecommerce policy requires all ecommerce sellers to register with business licenses with proper reporting of their transactions and tax filings, which means brands can focus on establishing an official presence rather than fighting grey market sellers.

China currently requires animal testing to be carried out on domestic and foreign goods sold in the local market, and this has been a significant barrier to entry for North American beauty brands that plan to remain cruelty free.

However, changes to this policy are now in the works. While this may take some time to take effect, cross-border platforms such as Tmall Global and Kaola, coupled with the impact of the ecommerce policy, offer a strong proposition for brands to invest and reach consumers in China.

The opportunity in China is real. So where does that leave us?

Chinese consumers' digital-savvy makes the market an attracting feeding group for luxury brands to test new ideas and concepts, as well as anticipate trends traveling to other geographical areas. Image credit: Luxury Society

China has one of the largest landmasses and is the most populated country in the world. So it should be expected that the level of investment required should match the size of the opportunity.

It is important to recognize that a brand's chances of success in the market is directly linked to its capacity to invest and find the partners to operate and scale their efforts.

Working with marketplaces, technologies, media and KOLs (key opinion leaders) is par for the course as it is hard to go at it alone in this huge market.

It can be tempting to think of opening a Tmall store as a one-off investment, or handing off the keys to the business to a distributor.

But if you are looking to truly invest in China for the long term, investments should be made strategically and planned in phases.

Brands should also learn to identify the right triggers for building and developing their Chinese presence sustainably.

Lastly, this is a market that is constantly changing.

There is no perfect storm that will allow everything to fall into place. Even if it seems perfect in that moment, it most certainly will change the next.

CHINA IS A digitally dominant and mobile-first market far beyond what we experience in the West.

Under these conditions, the landscape changes at a faster clip, and the only way to keep up is to remain agile in the way you think, the way you operate, and the way you exist.

It is a feeding ground for brands to experiment, learn, iterate and develop new products and services.

All these factors simply point to reasons why brands should get started sooner in China rather than later. There is no time like the present.

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