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US affordable luxury brands' problems run deeper than the trade war

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A problem often overlooked is the weaning desirability among Chinese consumers whose knowledge of affordable luxury brands started to shift long ago. Image credit: Shutterstock

By Ruonan Zheng

China in 2010 was markedly different from how it is now. Consumers would flock to stores from the likes of big U.S. marketers Michael Kors and Kate Spade often bypassing Prada and Louis Vuitton in the process.

Now, a decade later, it feels like the warm glow of these brands is fading. Increasingly mature consumers are shifting their preferences and shopping elsewhere.

Rising tariff costs are only adding to the woes of these brands, meaning they need to up their game in 2020 or risk losing a valuable market share.

Despite the latest 2020 Capri Holdings Limited's Q2 results showing positive store sales for Michael Kors, revenues continue to suffer and only posted slight gains in Asia.

Worse yet, rival group Tapestry lost both its CEO and CFO in 2019. The latest earnings reported that Kate Spade lowered the group's overall performance with continued single-digital growth decline.

Meanwhile, as the two underperformers in the group, both Michael Kors and Kate Spade continue to attempt to position themselves as lifestyle brands with wider product offerings.

So far, there has been little in the way of results so far and this revamp mission is not without constant challenges.

Amid the ongoing trade war, U.S. brands are further challenged by the additional tariff burden on imports from China.

But even more importantly, a problem often overlooked is their weaning desirability among the Chinese consumer whose knowledge of affordable luxury brands started to shift long ago.

Consumers know better now

Consumers in China are now among the most sophisticated in the world.

Take Fan Fan, who is 27 years old and works as an HR consultant in Beijing. She will not buy Michael Kors or Kate Spade, as according to her, those brands are considered for her "parents' generation."

Sherry Wang, a Daigou who lives in New York echoed this sentiment that the era of desiring U.S. affordable luxury has gone: "These American brands used to be very popular when I started doing Daigou a few years ago, now my clients want more independent labels."

According to her, Mansur Gavriel, Proenza Schouler and Philip Lim are some of the most requested.

Indeed, affordable brands are losing their relevance to younger consumers like Ms. Wang's clients.

Instead, they are hanging on to older consumers for revenue, who have yet to catch up to the latest trends and still want logo goods at a reasonable price.

However, worryingly enough for these brands, even this lucrative consumer base might move on quite soon.

"Consumers now have so many brands available to them," said Benjamin Cavender, managing director of China Market Research Group, which provides strategic market intelligence for foreign firms in China.

"It is very difficult for a brand to stand out if it doesn't have a clear design ethos or is not working hard to product innovation," he said.

When did it start?
This consumer awakening to affordable luxury did not happen overnight.

In our conversation with Daigou and industry experts, we found it can be traced back to early 2010.

The business model at that time was quite simple: brands made catalogs, copied and pasted high luxury brands' styles and marked it to a cheaper price.

Budgets were spent on marketing and retail store locations as brands were packaging products with high-end luxury appeal. These brands were then able to leverage the informational gap primarily targeted at consumers in developing countries looking for the best quality-price.

And this worked: From 2013 to 2014, brands such as Michael Kors, Coach and Kate Spade quickly expanded to second- and third-tier cities.

"Five years ago, this worked because consumers wanted to follow a certain look," Mr. Cavender said. "In the case of accessible luxury brands that latch onto trends and offer them at a slightly more accessible price point, like Michael Kors, [sic] create a challenge because consumers now feel like they are buying a copycat product."

In addition, Chinese consumers who were starting to travel realized the true price of those U.S.-originating goods.

As they caught up to the global awakening of the affordable luxury brand, it created a competitive landscape.

Now the affordable luxury sector welcomes a new chapter the so-called third wave of affordable luxury.

Authenticity and innovative products win
Pierre-Arnaud Grenade, CEO of the French affordable luxury brand ba&sh, explains: "The third wave of affordable luxury brands is all about authenticity."

Mr. Grenade suggests that while different from their American predecessors, French brands such as Maje, Sandro and ba&sh focus on making ready-to-wear affordable and have a different outlook.

"When Barbara and Sharon [co-designers of ba&sh] created the company, they wanted to have something authentic. This coincided well with consumers who were waking up to the trend in China," Mr. Grenade said.

But what makes ba&sh different from Maje and Sandro is their retail strategy.

In sharp contrast from U.S. brands' declining stage, smaller market players are slowly gaining footprint through compelling experiences.

Ba&sh has grown its China business to 10 percent within two years and is on track to grow 20 percent in the next two to three years.

Yet, many experts interviewed agreed that there is hope.

Coach, for one, has started to revamp, primarily on product innovation.

"We saw Coach undergo a series of product innovation in 2018 and create many IP-based goods," said Zhou Ting, head of Chinese research company Yaok Institute.

Coach's effort in product innovation was indeed evident.

For example, its collaboration with Disney on a Dumbo-themed bag released earlier this year was a hit in the Chinese market.

The brand registered eight straight quarters of comparable-store sales growth led by digital and international channels, with a strong performance across Europe, Japan and mainland China.

Back to NYC
Besides lacking innovative designs and more accurate demographic targeting, experts suggest that traditional U.S. affordable luxury brands are losing their identity.

Jerry Clode, founder of consulting company The Solution, argues that what makes these brands stand out is their DNA, which is intrinsically linked with New York and therefore a powerful draw for consumers.

"The expectation of their post-90s audience is essentially postmodern," he said. "But at the end of the day, New York is the equity they must push. NYC is an inspirational city for young, urban citizens."

The trade war has yet to influence consumers' sentiment towards U.S. goods, so affordable luxury brands should double-down on their American identity, and work on the emotional connection with the consumer.

"The biggest challenge for Coach and Michael Kors is they must develop a more embedded strategy for China and focus on allowing Chinese fashion influencers to engage with the brand more closely, through time in NYC or as co-creators," Mr. Clode said.

IF THESE strategies can work remains a question.

Some argue that it is already too late for big, established brands such as Michael Kors and Coach that lack the flexibility to adapt to the direct needs of Chinese consumers.

Nevertheless, this is necessary.

Affordable brands from the U.S. must answer consumers' evolving demands. Otherwise, they are at risk of losing out to their competitors. And a trade war will not be the only thing that keeps them up at night.

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