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SOFTWARE AND TECHNOLOGY

Can luxury brands survive in China without online partners?

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With the rise of online shopping in China, it has become increasingly important for global luxury brands to form a partnership with an e-commerce company. Image credits: Prada. Composite: Haitong Zheng

By Adina-Laura Achim

On May 18, Church's, the high-end English footwear brand under Prada's control, officially joined JD.com. With this recent addition, JD is currently representing four labels that are under the Prada Group.

Meanwhile, JD's main competitor, Alibaba, is using its dedicated site for luxury brands, Tmall Luxury Pavilion, as a platform for high-end international brands, hosting big names such as Valentino, Tod's and Versace.

In recent years, both Alibaba and JD.com have stepped up the battle for the luxury goods market, signing deals with heritage and premium brands.

Considering the competitiveness and importance of the Chinese luxury market, one has to wonder if independent, less-well-known luxury brands can become successful without partnerships with domestic ecommerce giants.

Until rather recently, global luxury brands fought to maintain an aura of exclusivity and mystique, mainly by selling their products only in their own boutiques.

But with the rise of online shopping in China, as well as the devastating effects that the ongoing COVID-19 pandemic has had on bricks-and-mortar retail, this business model has become obsolete. Today, most labels are chasing the digital "spotlight."

Given this, it is no longer an option in China to go it alone.

The need to form a partnership with a local ecommerce company has become the most effect way to turn critical challenges into opportunities. And most global luxury brands are jumping on the bandwagon, if they have not already.

Managing hidden costs

Increasing a brand's international footprint is a complex and costly process, and even prominent retail players such as Amazon, Asos, Marks & Spencer, Best Buy and Home Depot can fail when they cross borders.

When global brands expand into new markets, they need to set aside budgets for regulatory procedures, marketing efforts, operating costs and personnel-related costs.

Strategic partnerships with local partners can help bring costs down. Especially if those domestic partners have a strong footprint in the country and understand the market requirements.

Superstars such as Alibaba and JD.com not only know the ins-and-outs of the Chinese market, they can also offer highly personalized experiences to their customers by using their customer-centric data platforms to develop demographic-based marketing strategies for their strategic partners. This leads to a boost in sales and a decrease in customer acquisition costs.

True, there is a price to pay to work partner with the likes of Alibaba and JD.com, but the ROI is usually strong.

Contrast this to an independent global player entering China that does not have access to the same data advantage as the Chinese ecommerce giants customer acquisition, among many other, costs will be higher.

Access to a critical enabling technology infrastructure
Alibaba, Tencent, Baidu and JD.com were early adopters of new technologies, and they embraced the innovations that come with the new digital economy. In fact, their strong IT infrastructure encouraged the development of 5G cloud-based augmented reality and virtual reality services.

Nowadays, thanks to the development of critical technologies and a variety of advanced skills and services, these Chinese companies foster sustainable business growth and profitability even for their international partners.

Without these partnerships, global brands lack the technology infrastructure support in China, and they are constrained to pledge important upfront investments just to get started.

Access underserved submarkets
According to *Luxe Digital*, "Forty-five percent of middle-class consumers in Chinese tier-2 and tier-3 cities are interested in purchasing luxury goods, versus 37 percent in tier-1 cities."

Moreover, a report by the Boston Consulting Group and Chinese Internet giant Tencent emphasizes that more than 50 percent of luxury consumers in China live in cities that are second and third tier or lower. Basically, lower-tier cities have huge potential and yet they are underserved.

Since lower-tier cities do not have an abundance of luxury boutiques and designer stores, affluent consumers are forced to turn to online platforms to satisfy their shopping needs.

For instance, the French brand Herms operates 43 stores in China and it has its own Web site store. However, this is not nearly enough to reach the targeted customer base.

In fact, many of the emerging affluent residents from lower-tier cities still have limited-access to the Herms brand and they are forced to go online to satisfy their luxury needs.

To date, Herms has continued to go at it alone, without the services of either JD or Alibaba to reach affluent luxury clients based in smaller cities or even rural areas.

For such a well-known global brand, this may work for the time being. But given China's increasing role as the world's largest luxury market while America and Europe continue to suffer the effects of COVID-19 Herms may eventually pivot to one of the major ecommence players for additional support to increase their market share.

A global expansion strategy comes with unique challenges such as strong competition, lack of understanding of the local consumer, cultural insensitivity, policy and regulations.

Thus, it is no surprise that many international brands have failed to conquer the vast Chinese market.

By contrast, partnering with a local ecommerce giant means leveraging unique opportunities that can increase brand awareness and engagement, while maintaining relevance and an air of authenticity.

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