RETAIL

What are the vulnerable luxury sectors in China?

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Surprisingly, some luxury brands are scoring double-digit sales in China post-COVID-19. But rising local brands in specific sectors could upend their trajectories. Image courtesy of Youngor

By Gemma A. Williams

A year after the outbreak of COVID-19, China is on fire. So said Patrick Pruniaux, CEO of Kering's Girard-Perregaux, to *The New York Times*.

Yes, online sales for numerous luxury brands, from Prada to Herms, are seeing double-digit growth in China, and accessories sales at 11.11 were ruled by big global conglomerates such as Coach and Michael Kors.

However, if luxury brands grasp only one takeaway from 2020, it should be that tastes are changing, and many could get burned.

Niche Western luxury names are now topping younger consumers' wish lists on the Chinese mainland, thanks to authentic engagement and more attuned sizing think of brands such as By Far and Manu Atelier. But China's local brands are right there, too.

COVID-19 means that Chinese people are now shopping at home, and the Boston Consulting Group calculated that overseas spending has dropped to 30 percent. Of course, analysts had anticipated this shift.

In fact, Bain & Company predicted that by 2025 the disparity between luxury shopping at home and abroad would even out.

The catastrophic events of 2020 only accelerated brands' inevitable need to focus more on mainland China. But analysts failed to anticipate how well equipped domestic brands, conglomerates and it must be added independent designers would be when this time came.

A failure to take stock of these facts means that, as we enter 2021, brands will decrease their overall lifespan and fight harder to maintain their followers and gain new fans.

Whether it is the popularity of dynamic companies such as the intimates brand Neiwai or beauty disruptors including Perfect Diary, successful homegrown brands have now revealed vulnerabilities in certain industry sectors. As such, *Jing Daily* has looked at the beauty, tailoring and lingerie sectors, all of which are vulnerable to domestic takeovers in China in 2021.

The vulnerable sector: Beauty
The beauty industry in China is the second-biggest market globally and has weathered the COVID-19 storm surprisingly well.

The top slots at the Tmall 11.11 festival still went to global names such as Este Lauder, Lancme, L'Oreal and South Korea-based Hou, but mid-range local name Winona came in at No. 9 and Yatsan Global's darling Perfect Diary at No. 13.

How domestic brands are dominating
In June 2020, Forbes called Perfect Diary the biggest threat to global cosmetics brands in China. That could be said of many local brands that have been quicker to position their products in a way that helps their customers with new post-pandemic realities.

One vulnerability for Western brands is competitive pricing.

According to research from Chemlinked, many prices are due to go up 10 percent on top names such as Chanel, Tom Ford and Guerlain.

In fact, Chemlinked's Ye Chen posted that several rounds of price increases have made Chinese consumers feel that high-end cosmetics are becoming too expensive.

Tmall remains the main destination for consumers who want to research products and prices. But when it comes to being swayed on their product choices, they are still reliant on China's beauty influencers.

Danielle Bailey, managing vice president at Gartner, stated that Chinese beauty consumers are heavily influenced by big-name KOLs such as Austin Li.

Yet, homegrown Chinese brands often have a better knowledge of trending micro-influencers, such as Melilim Fu, who can often yield greater long-term results.

What Western brands should address
Laura Puricelli, a digital strategist in beauty and cosmetics, outlined several ways that international brands can compete, including personalization, one-on-one beauty advice, transparent storytelling and a seamless, consistent shopping experience.

"The key tech innovations are about AR/VR, like the try-on feature to new color palettes and styles," Ms. Puricelli said. "Main in-store innovations are about experiencing the product in-store and buying it online, much like in Sephora and Ulta retail stores in the U.S. and E.U."

She went on to explain why bigger brands, in particular, are having a hard time competing.

"In my opinion, for Western beauty brands, there is a polarization between digital native indie brands and traditional big brands in terms of the level of engagement of their audience," Ms. Puricelli said.

"Big brands are still struggling to engage customers and lock them into a consistent and transparent shopping journey with sustainable storytelling," she said.

The vulnerable sector: Lingerie
According to CBNData's Underwear Industry Trends Research, China's underwear market reached close to 200 billion RMB in 2019.

Women's underwear accounts for more than 60 percent of the total market size and 112 new underwear-based companies were added in 2019 a 38 percent increase from the year before.

How domestic brands are dominating
In 2020, lingerie brands that focused on engaged younger consumers have had exceptional growth.

Female-backed lines promoting intuitive, unisex fits are upending the industry.

Neiwai, which has transitioned from Taobao hopeful to cult leaders, is one of the best examples of this new breed of China's growing number of labels, yet there are many more.

Ubras, a digital-native brand specializing in one-size-fits-all, topped Tmall's 11.11 sales in lingerie, while Bananain founded in 2016 by a Shenzhen tech company became one of Tmall's top-five performing brands by featuring gender-neutral underwear with bright colors and no skin-scratching labels.

Another popular intimates brand, Jiaoxia, has just opened its first store in China with its similarly understated appeal.

What Western brands should address

But it is the disruptive approach to advertising that is worrying global competitors such as Victoria's Secrets and Agent Provocateur.

"Emerging, modern, local brands are offering unique value propositions," said marketing consultant Amber Wu. "Their branding and creative campaign message inspires women to be themselves and be authentic, which resonates with young consumers."

Closer proximity to supply chains, better integration into these local digital infrastructures and clear value pricing means homegrown brands are becoming increasingly more attuned to the needs, tastes and ways of browsing that citizens prefer.

Ms. Wu's advice to global names was sharp: "From product offering to marketing content, international brands need to be humble, adapt and localize."

The vulnerable sector: Tailoring

Everbright Securities estimated that China's tailoring market would be worth $31 million (200 billion yuan) by 2020 almost twice that of 2016 and roughly 80 percent of the business would come from the mid-price sector. It accounts for about one-third of the total apparel market and is projected to surpass $95 billion by 2023.

How domestic brands are dominating

One of the most prestigious landmarks in tailoring, London-based Savile Row, has been upended by the pandemic.

The bespoke suit has long been the preserve of its tailors and is based on human contact and numerous fittings.

Though mid-level Chinese names may not yet offer the experience and quality of a Savile Row fit, the ease at which local menswear names are adapting to the market could be cause for concern.

A Tmall ranking for suiting sales in China lists the top three as local names Youngor, Firs and Goldlion while niche companies such as Match U are attempting to redefine the tailor-made market through digital initiatives.

During 2020, some even diversified, as China's Xiamen-based luxury label Ms Min launched a relaxed menswear line called Xian Sheng.

What Western brands should address

Taj Phull, head of retail at Savile Row tailor Huntsman, said a lack of travel kept his customers from receiving the full Huntsman treatment, from its top-notch customer service to even the distinctive scent of the cutting room. But surprisingly, the lockdown has not hindered sales as much as he had expected.

"We were proactive early on when it came to social and saw an increase of over 20 percent in ecommerce," Mr. Phull said. "We think outside of the box and are not afraid to upset the traditional tailoring industry."

This disruption has allowed Huntsman to lead its industry by launching a robot that can measure clients thousands of miles away. Coupling this procedure with video tools lets Huntsman offer a nearly "phydigital" service.

"Everything is more digital in Asia," Mr. Phull said, "but we have always looked into innovation and pushing the boundaries."

In design terms, this includes a pivot to custom-made loungewear, often with a formal touch.

Other luxury tailoring brands such as Canali are teaming up with local designers. It recently announced a capsule with independent favourite 8ON8.

Additional sectors to watch

While China burns for some luxury brands and sectors, the years ahead will only prove more challenging.

The desire for newness and "guochao" is already spreading across additional sectors.

For instance, the Chinese mainland is the largest market for Swiss watches in the world. But the rising popularity of Chinese-made watches has become the latest potential threat to the Swiss watch industry.

COVID-19 sent international brands flocking to online platforms in the hundreds, but that is not necessarily resulting in sales, as the outbreak has reset many of them to ground level.

With little time to waste, luxury leaders must aggressively watch what local brands are coming up within their sector. And with more price increases on the horizon, heritage is not necessarily going to be a save-all.

Fashion's niche players such as the accessories brand Manu Atelier have the luxury of being reactive to what organically works in the market and following where it takes them. This is proving a bonus in an unpredictable and always-shifting landscape.

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