UNIVERSITE CATHOLIQUE DE LOUVAIN

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PERSONAL LUXURY BRANDS "MADE IN CHINA":
WHO ARE THEY AND WHAT IS THEIR INTERNATIONAL PRESENCE?
A CASE STUDY OF FOUR CHINESE PERSONAL LUXURY BRANDS

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0. INTRODUCTION

"*In each of these passing decades, we have walked, along with our nation, a path from self-awakening to self-sufficiency, and from independence to prosperity. Accompanied by the peaceful emergence of the Chinese nation, we are now embracing with confidence a new era of renaissance and revitalization in Chinese luxury civilization: that is the revitalization of the ancient Chinese luxury civilization and the development of Chinese luxury brands*" (Jing Daily, 2010). – Zhang Zhifeng, founder of NE-Tiger

Thousands of years ago, in Ancient and Imperial China, "Made in China" was known for craftsmanship and high quality products such as silk, porcelain and jade, and luxury goods constituted the main export commodities (Armoudom, 2012; Cotterell & Buller, 2006). Today, however, the contrast cannot be more stark: with China's rapid economic growth, industrialization and increased trade, many people associate "Made in China" with cheap and poor quality products – anything but luxury. Nevertheless, Chinese luxury brands do exist. Having emerged only a few decades ago, some of them are ambitiously trying to become the next "Chanel of China" or "Chinese Rolex". This Master thesis aims at investigating these Chinese personal luxury brands; "Chinese" in the meaning of Greater China, thus comprising Hong Kong, Macau and Taiwan as well, and "personal" in the meaning of wearable (apparel, shoes, bags, jewelry, watches, perfumes, cosmetics, etc.) as opposed to experiential luxury such as hotels, spas, yachts, wine and restaurants.

Whereas the subject of this Master thesis is Chinese personal luxury brands, its purpose is twofold: finding the answers to the questions "who are they?" and "what is their international presence?". First, it aims at unveiling the identity of these brands. Unknown to many people today, it is interesting to discover that many Chinese personal luxury brands actually do their best to establish themselves on the market and are characterized by certain traits. The second objective of this thesis is to investigate their degree of internationalization. Therefore, amongst others, the worldwide distribution of retail stores, nationality of target consumers and expansion strategy will be analyzed.

The study is structured as follows. Part 1 is a literature review comprising several elements. First, luxury will be defined, the luxury goods market will be investigated in terms of categorization, size, growth, geography, consumer nationality, brands, companies, key drivers and change areas, and different types of luxury brands will be explained. Second comes an analysis of China in terms of geography and economy, “Made in China” goods, China’s brand value, international strategies and Chinese globally competitive brands. The last chapter of the literature review considers luxury in China in terms of the Chinese luxury market, luxury brands in China and, last but certainly not least, Chinese home-grown luxury brands. This last subchapter elaborates on some concrete examples of Chinese luxury brands, the degree of internationalization of Chinese luxury brands, and multiple authors’ findings about their potential to succeed in China and abroad. The literature review ends with a thorough conclusion. Part 2 presents four case studies about four Chinese luxury brands (Shanghai Tang, Shiatzy Chen, NE-Tiger and Longio), an analysis aiming at answering the twofold research question, an acknowledgement of limitations, and suggestions for further research. Last, a general conclusion will discuss the key takeaways of this thesis.

The choice for this research topic has been motivated by several factors. First of all, strong personal interest for China and its economy has undeniably played a big role. Since its free market reforms and opening up to foreign trade in 1978, the country has been one of the world’s fastest growing economies (Morrison, 2014). Just as thousands of years ago, it has emerged as a major power again, being the world’s largest manufacturer and overtaking the US as world’s largest economy in 2014 (Morrison, 2014; Bird, 2014). Second, while much research has been conducted about Western luxury brands such as Louis Vuitton, Chanel and Gucci, and about their internationalization and “conquest” of developing countries such as China, it appeared to be interesting to investigate it the other way around: what about Chinese luxury brands? Who are they? Are they international as well? China has already been able to catch up in many industries, such as in the consumer electronics industry with brands as Lenovo and Huawei, but will it be able to, despite being depicted as a major manufacturer of low cost goods of poor quality, compete in the luxury sector as well? All of these motives and questions have sparked my interest in Chinese luxury brands and lead me to choose this as a subject for my thesis. The first research question, “who are they?” has been chosen as a somewhat “logical” follow-up of the research topic given the fact that Chinese luxury brands are still very unknown to many people and received limited research attention. The second research question, “what is their international presence?”, has been chosen for two main reasons. The first reason is the essential need for every luxury brand worldwide to be international in order to be successful (Chevalier & Mazzalovo, 2012). Indeed, luxury buyers want their product to be recognized and valued by other people around the globe. Moreover, many luxury consumers buy luxury goods when they are travelling far away from home, which makes it almost impossible for a brand to succeed without being present in all major luxury cities in the world. The second reason is related to the Chinese luxury brands specifically. Knowing the fact that about one third of all luxury consumers is Chinese and that 75% of their spending on luxury goods happens abroad, if a Chinese luxury brand wants to capture its own population, it would be a huge opportunity loss not to sell its goods overseas (Ortelli *et al*., 2015).

The relevancy of this thesis lies in three major contributions. First, this thesis aims at increasing the public awareness of the existence of Chinese luxury brands, which, from my own experience, seem to be almost inexistent to many people. Second, it serves as a possible warning for today's successful Western luxury brands. Many of these are enjoying a comfortable, somewhat monopolistic position and are assuming that Chinese brands will never be associated with luxury. However, emerging Chinese luxury brands might become a threat – if not soon, then in the long run. This will have implications on the strategy of these established brands if they want to continue pre-empting competition. Last, acknowledging the existence and international relevance of Chinese luxury brands can help to destroy the negative connotations associated with what is "Made in China" and uplift the country's global image to its previous pride.

1. PART 1: LITERATURE REVIEW

1.1. Luxury

1.1.1. Defining luxury and luxury goods

Although there has been an ongoing discussion and attempt to find a consensus about what is truly meant by the word "luxury", no consistency can be found between author's definitions of the word (Heine, 2012a). Oxford and Cambridge dictionaries define luxury as "*an inessential, desirable item which is expensive or difficult to obtain*" or as "*something expensive which is pleasant to have but is not really necessary*" (Oxford Dictionaries, n.d.; Cambridge Dictionaries Online, n.d.). Heine (2012a, p. 40) defines it as "*anything that is desirable and more than necessary and ordinary*". Luxury goods, in turn, can be defined as "*the aggregation of designer apparel (ready-to-wear), luxury accessories, luxury electronic gadgets, luxury jewelry and timepieces, luxury travel goods, luxury writing instruments and stationery, and super premium beauty and personal care. […] Luxury goods will usually have higher unit prices and/or be distributed through selective channels and/or carry a designer brand name and/or be produced from high quality/priced or rare ingredients/materials along with premium packaging*" (Deloitte, 2014).

According to Heine (2012a, pp. 72-80), luxury goods share six main characteristics: price, quality, aesthetics, rarity, extraordinariness and symbolism. Each of these individual characteristics can be observed in either the manufacturing, concrete product or abstract product characteristics, or in all three of them. Quality, for instance, can be attributable to the manufacturing process, to concrete product attributes themselves and to abstract product benefits. The six characteristics are described as follows (Heine, 2012a):

- Price: this is the most obvious criterion. "*Luxury products are high-priced in an inter-categorical comparison*" (Heine, 2012a, p.73).
- Quality: the manufacturing of luxury products requires expertise (technical and stylistic competences) and some degree of complexity. The product itself must be made out of precious materials, its construction must be well thought-out, and it must offer more features than ordinary products, with an appropriate size and excellent service (purchase experience and after-sales customer relationship management) (Heine, 2012a). The

abstract quality characteristics are durability and value, comfort and easiness-to-use, high level of safety and superior functionality and performance.

- Aesthetics: aesthetic product design is another abstract product characteristic. According to Dubois, luxury products "*do not only look beautiful but also are (and should be) pleasant to hear, smell, taste or touch*" (Dubois *et al*., 2001, p. 13, as cited in Heine, 2012a, p.77).
- Rarity: luxury products are limited in terms of production units and are often tailor-made (Heine, 2012a).
- Extraordinariness: the products are constructed or designed in an original way, their functional attributes are innovative and they have a unique history (Heine, 2012a).
- Symbolism: luxury products generate many abstract associations and symbolic benefits, often even exceeding functional benefits (Heine, 2012a). An example of symbolism is the high level of prestige many luxury brands incorporate.

Other authors have defined similar but slightly different characterizations of luxury. Gosh and Varshney (2013) concluded that, overall, there are four core dimensions of luxury: (1) (perceived) premium quality, (2) aesthetics, (3) expensiveness and (4) history. While the first three are inherent characteristics, the last dimension indicates that time and patience are required to build a luxury brand.

Chevalier and Mazzalovo (2011, pp. 22-23) state four different essential dimensions ("*values*") for goods to be qualified as luxury by its consumers. First of all, there is the elitism dimension as a social component: the brand must be distinguishable and selective. Second, there is high quality associated with the high cost of living. Third, but to a lesser extent, there is hedonism as a personal component: a brand must generate pleasure and emotions. Last, the brand must be powerful, famous and unique. In addition, both authors argue that a successful luxury product must satisfy three conditions: it must hold artistic content, it has to result from craftsmanship and it should be international (Chevalier & Mazzalovo, 2012).

Heine (2012b, p. 47) also stated that, in microeconomic understanding, *"the luxuriousness of any good is not determined by its characteristics, but by people's reaction (changes in demand) to exogenous stimul*i". Luxury goods have high price elasticity (demand decreases relatively strongly when prices are rising) and high income elasticity (demand increases relatively strongly when income rises).

1.1.2. The luxury goods market

1.1.2.1. Categorization, market size and market growth

Luxury goods can be divided in two categories: personal luxury goods and impersonal luxury goods, of which the biggest part is named "*experiential luxury goods*" (D'Arpizio, 2013; Abtan *et al*., 2014). Personal luxury goods include four main subcategories: beauty (perfumes and cosmetics), hard luxury (jewelry and watches), soft accessories (shoes and leather, the leading category) and apparel (textile and eyewear) (D'Arpizio, 2014). Experiential luxury goods include hotels, wines and spirits, food, furniture, yachts, etc. This thesis will focus on personal luxury goods.

In 2014, personal luxury goods worldwide amounted to ca. EUR 223 billion of the EUR 800 billion worldwide luxury market (see figure 1) (D'Arpizio, 2014; D'Arpizio, 2013). This shows a growth rate of about 2% (at current exchange rate) compared to 2013, when the personal luxury goods amounted to EUR 218 billion. From 2012 to 2013 the growth rate was 3%. These rates are significantly lower as compared to previous years: from 2009 to 2012, the yearly growth rates reached 13%, 11% and 10% respectively. Growth in personal luxury goods thus seems to be slowing down. According to Ortelli *et al*. (2015), 2014 was a difficult year for the luxury goods sector due to several factors, among which political instability in some countries, softening tourist flows, China's weakness because of slowing economic growth and continued impact from the government crackdown on gifting measures, and poor consumer confidence in Europe. In 2015, however, the expected growth rate of the personal luxury goods market is 5%. The categories showing strongest expected growth are soft accessories and hard luxury's jewelry subcategory. Hard luxury will benefit from this strong jewelry growth but this will be counterbalanced by a weaker watch growth.

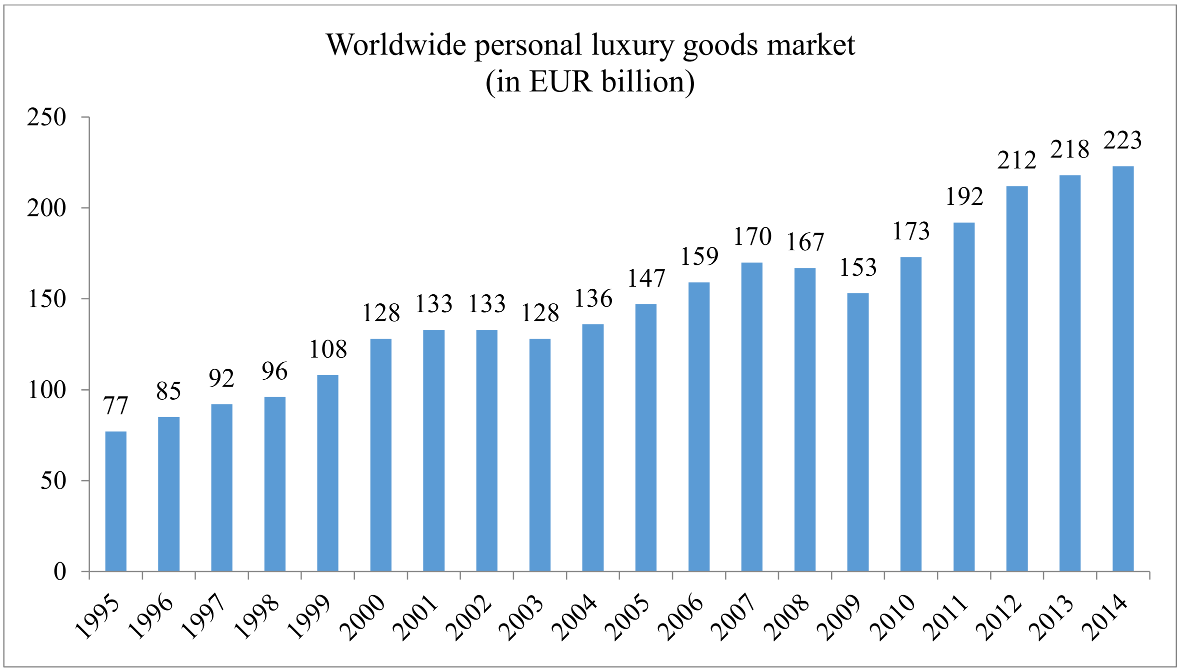

Figure 1: Worldwide personal luxury goods market

(Source: (Statista, 2015a) retrieved from http://www.statista.com/statistics/266503/value-of-the-personal-luxury-goods-market-worldwide/ and (D'Arpizio, 2013; 2014))

1.1.2.2. Geography, consumer nationality and luxury goods nationality

On the geographic level, emerging markets are expected to grow the most in a mid-term view (from 2013 to 2018) with a CAGR[1] of 6%, outpacing developed markets at 4% (Ortelli *et al*., 2015). In 2013, the biggest luxury markets in the world were the US (29% market share) and Greater China (11% market share) (Ortelli *et al*., 2014). The two strongest growth opportunities are expected to be situated in the US and China as well.

When looking at consumer nationality, in 2014 European consumers accounted for 21% of total luxury consumers, Americans for 22% and Chinese, the winning nationality in terms of consumption, for 29% (Ortelli *et al*., 2015). Over time, European consumers are decreasing in relative percentage while American and Chinese consumers are increasing. Noteworthy is that 75% of Chinese luxury consumption is bought abroad.

[1] CAGR or Compound Annual Growth Rate is "*the year-over-year growth rate of an investment over a specified period of time*" (Investopedia, 2015a).

Regarding luxury goods nationality, in 2013, French luxury brands accounted for most of the luxury goods market with 25% market share, closely followed by Italian brands (24%) and US brands (23%) (D'Arpizio, 2013). These countries' main luxury hub cities are Paris, Milan and New York respectively. Overall, Italian brands have gained the largest share these last years. However, when looking at the owner nationality, French players have acquired most of the brands. This made France the largest country owning luxury brands in 2013 (D'Arpizio, 2013).

1.1.2.3. Luxury brands and luxury companies

In 2014, the most valuable luxury brand worldwide was Louis Vuitton, founded in 1853, with a brand value of USD 25,873 million (Statista, 2014). Next in line came Hermès (with a value of USD 21,844 million), Gucci (USD 16,131 million), Prada (USD 9,985 million), Rolex (USD 9,083 million), Cartier (USD 8,941 million), Chanel (USD 7,810 million), Burberry (USD 5,940 million), Coach (USD 3,129 million) and Fendi (USD 3,023 million) (Statista, 2014).

When looking at the world's 75 largest luxury goods companies, their sales amounted to USD 171.8 billion in 2012 (Deloitte, 2014). Top player is the French group LVMH[2] owning amongst other brands such as Louis Vuitton, Fendi, Loewe and Marc Jacobs and reaching USD 21,060 million sales in 2012. Second comes the Swiss Richemont, owning brands such as Montblanc, Cartier and Chloe, with USD 12,391 million sales. The fastest growing luxury good company between 2010 and 2012 was Michael Kors Holdings Limited, based in Hong Kong, with a luxury goods sales CAGR of 64.8%. When comparing these world's 75 largest luxury goods companies to the world's top 250 consumer goods companies, in 2012, sales growth has been more than twice as high for luxury goods companies (Deloitte, 2014). They were also more profitable.

1.1.2.4. Some key drivers and change areas

According to a Boston Consulting Group study lead by Achille (2014), the "Made in" concept for luxury is perceived as an important factor to 78% of all worldwide respondents. This percentage is even higher for emerging markets consumers. For clothing, accessories and

[2] LVMH or Moët Hennessy Louis Vuitton is a leading French luxury goods conglomerate.

jewelry, the number one country for a product to be "Made in" is Italy. For watches, "Made in Switzerland" obtains the best score.

Achille (2014) also found that worldwide, mainly "*intro values*" (quality, exclusivity, craftsmanship and timeless) are thriving, especially in the UK, the US and China. "*Extro values*" (aesthetics, brand visibility, customization and being cool or sexy) seem to be accorded less importance.

Another BCG study revealed that the luxury market is going through four big areas of change: (1) new customers and new buying behaviors (a shift toward luxury experiencing and more detailed segmentation and customization), (2) cities instead of countries as markets, (3) new business models and (4) new digital technologies (Abtan *et al*., 2014).

1.1.3. Types of luxury brands

Luxury brands can be classified using several criteria, such as luxury level, awareness and business volume (Heine, 2012a, pp. 62-65).

First, brands can differ in their **degree of luxuriousness**. Heine (2012a, pp. 62-63) distinguishes entry-level luxury brands (not generally recognized as luxury, such as Hugo Boss) from medium-level luxury brands (widely recognized as luxury, such as Dolce & Gabbana), top-level luxury brands (established as leading luxury, such as Louis Vuitton) and elite-level luxury brands (niche brands on top characterized by the highest quality level and highest exclusivity, such as Hermès). Bernstein Research, a research and brokerage firm, classifies personal luxury brands into three luxury tiers as well – "*accessible*", "*aspirational*" and "*elitist*" (or "*absolute*") – ranked according to price and exclusivity (Warburton *et al*., 2014). While accessible brands, such as Marc Jacobs, Ralph Lauren and Shanghai Tang, focus on functionality and fashion, aspirational brands, such as Yves Saint Laurent, Dior and Prada highlight status, design and quality and elitist brands, such as Chanel, Hermès and Bottega Veneta, aim at excellence and distinction.

Second, brands can be differentiated by **awareness** (Heine, 2012a, pp. 63-64). On the one hand, "*connoisseur brands*" are mainly addressing a niche market, have limited awareness and are network brands recommended by word-of-mouth. On the other hand, "*star brands*" aim at maximizing brand awareness and demonstrating wealth to everyone, even to those who cannot afford it. These "*stars*" can be "*little stars*" which are still relatively little-known such as Shanghai Tang, or "*global stars*" which are globally well-known such as Rolex and Louis Vuitton.

Third, luxury brands can also be compared in terms of **business volume** (Heine, 2012a, p. 65). The scale goes from micro-scale brands to small-scale brands, medium-scale brands, large-scale brands, big players and giant players. While micro-scale brands only count few employees and earn modest revenues under EUR 10 million, giant players have much more employees and attain high revenues of more than EUR 5 billion.

1.2. China

1.2.1. Introduction

For thousands of years, “Made in China” was associated with craftsmanship and high quality products such as silk, porcelain and cashmere (Armoudom, 2012). However, over the last decades, industrialization, low costs and mass production have harmed the image of Chinese manufacturing. Today, attitudes are changing again since the Chinese are showing growing interest in their cultural heritage (Prasso, 2007; Wang & Lin, 2009). In 2014, China’s brand value increased at a double-digit rate. Internationalization, through amongst others exports and Foreign Direct Investment[3] (FDI) outflows, has boomed as well (Morrison, 2014). All of this has contributed to an increasing number of globally competitive Chinese brands (Warburton *et al.,* 2012). Nonetheless, many hurdles still need to be overcome, such as the negative connotations associated with everything that is “Made in China”. Moreover, it can be observed that certain sectors tend to break through more easily. Chinese consumer electronics, for instance, find their way to the market with less burden than the automotive and luxury industry. In light of these evolutions, one might wonder if China’s history is going to repeat itself.

1.2.2. Overview: geography and economy

1.2.2.1. A brief geographical overview

When analyzing a country, it appears essential to have a short overview of its geography. First, it is important to highlight the distinction between “Mainland China” and “Greater China”. Greater China includes Mainland China (also known as the People’s Republic of China), Hong Kong, Taiwan and Macau. Second, when analyzing Chinese cities, it is common to classify them into five tiers (Madden, 2007). This is necessary given China’s huge land area and population. Moving towards tier I, cities are bigger, income levels are higher and population is denser. Tier I cities include Beijing, Shanghai, Guangzhou, and Shenzhen. Tier II cities include 30 cities which are mostly provincial capitals with more than 5 million inhabitants. Tier III cities englobe 150 county capitals, each with more than 1 million people. Tier IV includes

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[3] Foreign Direct Investment or FDI is the term used to describe “*an investment made by a company or entity based in one country, into a company or entity based in another country*” (Investopedia, 2015b)

thousands of towns with 100,000 to 1 million inhabitants. Last, tier V comprises China's smallest towns and villages.

1.2.2.2. China's economy

Before 1979, China was a centrally planned economy with most of its industry composed of State-Owned Enterprises[4] (SOEs) aiming at making the country almost self-sufficient and limiting foreign trade (Morrison, 2014). Nevertheless, the Great Leap Forward[5] and the Cultural Revolution[6] had led to famine, deaths and political chaos (Schept *et al*., 2014). 1978 was the beginning of a series of economic reforms, also named "Reform and Opening Up" (Schept *et al*., 2014, p. 4). Among other reforms, four special economic coastal areas were assigned to attract foreign investment, boost exports and import technology products.

This trade liberalization has played a major role in China's current economic success by encouraging competition and attracting Foreign Direct Investment (FDI) inflows. FDI inflows to China have shown a clearly increasing trend since 1985, amounting to USD 124 billion in 2013 and making China the second largest recipient of global FDI after the US (Morrison, 2014). In addition, China's FDI outflows, which are principally directed towards the US, have risen from USD 2.7 billion in 2002 to USD 67.6 billion in 2011. Regarding exports and imports, although both significantly dropped in 2009, their CAGR between 1990 and 2013 averaged 19.5% and 18.4% respectively reaching USD 2,230.6 billion and USD 1,982.4 billion in 2013.

Since 1979, China's average annual real GDP grew at a rate of nearly 10%, which equals a doubled economy size every eight years (Morrison, 2013). These last years, however, real GDP growth has slowed down to 7.7% "only" in 2013. This slowdown can be attributed to several factors (Deloitte, 2014). Amongst others, slow overseas growth, appreciation of the Yuan and rising wages made export more expensive, which, in turn, reduced manufacturing. However, some think that China still has some advantages in manufacturing which can benefit its economy as (1) even with rising wages, it will still be able to produce low-cost because of its efficient suppliers and infrastructure, and increased automation, (2) it has started to outsource

[4] A SOE or State-Owned Enterprise is "*a legal entity that is created by the government in order to partake in commercial activities on the government's behalf*" (Investopedia, 2015c).
[5] The Great Leap Forward was a communist industrialization campaign led by Mao Zedong from 1958 to 1960.
[6] The Cultural Revolution was an attempt to preserve China's communist ideology from 1966 to 1976.

labor to some lower-income countries in South-East Asia, and by doing so, it reinforces "Factory Asia" with China in the middle of the supply chain, and (3) domestic demand is boosted by the increasingly affluent Chinese consumers (The Economist, 2015).

Indeed, even though growth in China is decelerating to some extent, its rising Chinese middle class, increasing financial confidence, increasing purchasing power of women and changing lifestyles of Chinese all have resulted in a boom of Chinese luxury consumers (Atsmon *et al*., 2012). According to Hurun (2012), China contains ca. 2.7 million "high net worth individuals" (HNWIs) and 63,500 "ultra-high net worth individuals" (UHNWIs) with personal assets of more than USD 0.95 million and USD 15.8 million assets respectively.

1.2.3. "Made in China"

Thousand years ago, China was a major power and known for high quality products and craftsmanship. In Imperial China, which started in ca. 200 BC, luxury goods were the main export commodities (Cotterell & Buller, 2006). Along the Silk Road, luxury goods such as silk, porcelain, jade, lacquer and bronze were transported by camels from East to West. Chinese artisans, who were seen as important members of society, used innovative techniques for decorating ceramics with porcelain and for manufacturing fine silk cloths and many more. In 1602, the kings of England and France bought blue and white porcelain from the Ming dynasty (Debnam & Qian, 2013).

A few decades ago, the situation with regard to the quality of Chinese production has been turned upside down. The "Reform and Opening up" political restructurings introduced in 1979 liberalized trade and economy (Schept *et al*., 2014). This liberalization significantly impacted industrialization and manufacturing. Whereas in 1990, China did not even produce 3% of worldwide manufacturing output by value, nowadays, it produces nearly a quarter of it (The Economist, 2015). It is by far the biggest producer of some specific product categories, such as air-conditioners, mobile phones and shoes. With low Chinese labor costs, China has been producing massively, and quality and craftsmanship, in turn, suffered (Armoudom, 2012). The "Made in China" label is one of the most recognizable labels worldwide, but its connotation is often very negative, symbolizing cheap and poorly manufactured products (Jiabao, 2013).

Today, attitudes towards Chinese products are gradually changing. With China's powerful economic revival, blind admiration for anything that is Western is over: Chinese consumers are becoming increasingly optimistic and interested in "*Chineseness*" (Prasso, 2007). They want their tradition and culture to be present in their consumption experience, which Wang and Lin (2009) refer to as the "*cultural renaissance in China*": the recovering of their lost national culture. Chinese companies are benefitting from these nationalistic feelings (Prasso, 2007).

1.2.4. China's brand value

Next to this booming production of "Made in China" goods, China's brand value, defined as the aggregate value of its 50 top brands by BRANDZ™ [7] is on the rise (Schept *et al*., 2014, p.13). China's brand value amounted to USD 362 billion in 2014, which is a yearly increase of 13% in almost all product categories from 2012 to 2014. This rate surpasses the growth rate of China's economy almost twice. Also, brand value is increasing much faster than Chinese stock performance, as shown by comparing the growth rate of BrandZ™ China Top 50 Portfolio value and Top 10 Portfolio value to the appreciation of MSCI[8] China, a weighted index of Chinese stocks.

Although most of the ranking's brand value is attributed to State-Owned Enterprises (SOEs), the brands showing strongest value growth were market-driven (Schept *et al*., 2014). "*Chinese brands are now roughly comparable in brand equity, the power to influence purchase, with foreign brands competing in China, although Chinese brands lag in differentiation*" (Schept *et al*., 2014, p.12). Furthermore, "*as Chinese brands expand abroad, overseas revenue is increasing and consumer recognition and consideration is gradually rising, especially in fast-growing markets*" (Schept *et al*., 2014, p.12). When comparing the age of the brands, almost half of the brands in the BrandZ™ Top 100 Most Valuable Chinese Brands are twenty years old or less. In general, the time distribution reveals that "*(1) Chinese brands can gain value rapidly; (2) Chinese brands can sustain value. The oldest brands indicate respect for heritage and a desire in Chinese society to create something new while preserving some of the old*" (Schept *et al*., 2014, p. 19).

[7] BRANDZ™ is a brand equity database of Millward Brown, used to estimate brand value.
[8] MSCI (Morgan Stanley Capital International) is a US-based investment research firm.

FutureBrand[9] has shown that in 2012 and 2013, China was ranked 9th in the top countries of origin influencing purchase decisions (FutureBrand, 2014). This rank was mainly driven by electronics, but some brands from the automotive and fashion industry also improved the ranking. Looking forward, in order to move further up the list, Chinese brands should increasingly focus on the concept of "authenticity" (FutureBrand, 2014). According to Interbrand, the "*Best China Brands*" are mainly banks, insurance companies and Internet companies (Warburton *et al*., 2014).

1.2.5. Internationalization strategies

Today, China is the country with the most active internationalizing economy among all developing countries, in the meaning of "*crossing national boundaries in the process of growth*" (Buckley & Ghauri, 1999, p.ix, as cited by Ding *et al*., 2009, p. 150). A few basic expansion modes for internationalizing Chinese companies can be distinguished. The first and most popular one – especially in the beginning of the 1980s after the "Reform and Opening up" policy – is **exporting**. Next to the traditional exporting, Chinese companies often practice Originally Equipment Manufacturing[10] (OEM) which is a way to combine the low labor cost advantage of China with the brand and design advantages of a foreign company in order to achieve economies of scale (Ding *et al*., 2009). A big drawback of the latter is the non-improvement of own Chinese brand building and designing experience (UKEssays, 2013). The second mode is a **joint venture**. This is a very fast way to gain expertise and access to R&D, manufacturing, technology, etc., but with the risk of having troubles managing the differences in cultures and processes (Ding *et al*., 2009). A company can also choose for **mergers or acquisitions**, which are a fast way of gaining resources and expertise as well, but which are very expensive and risky (UKEssays, 2013). Last, a company can choose to establish its own ventures abroad ("**greenfield establishment of subsidiaries**") by purchasing overseas assets and establishing new subsidiaries such as overseas manufacturing plants and distribution channels. This last method allows to gain full ownership but it is not the easiest way for Chinese companies sometimes lacking economic capability or brand awareness (UKEssays, 2013).

[9] FutureBrand is a creative consultancy for brand expertise.
[10] Original Equipment Manufacturing or OEM is the term used for when "*a company buys a product and incorporates or re-brands it into a new product under its own name*" (Investopedia, 2015d).

According to Parmentola (2010), traditional internationalization theories such as the Uppsala model of Johanson and Vahlne (1990) cannot explain the internationalization of Chinese firms. This model explains two patterns in the internationalization process of firms: (1) firms go abroad step by step, with a higher degree of commitment for every new step, going from exporting via an agent, to establishing sales subsidiaries, to building production facilities (see figure 2); (2) they enter new markets with increasing psychic distance (Johanson & Vahlne, 1990, as cited in Parmentola, 2010). However, internationalizing Chinese firms do not necessarily direct toward near markets but more toward developed countries, and they do not aim at exploiting their existing resources but at learning by imitation, often through the use of complex entry modes such as acquisitions or joint ventures (Parmentola, 2010).

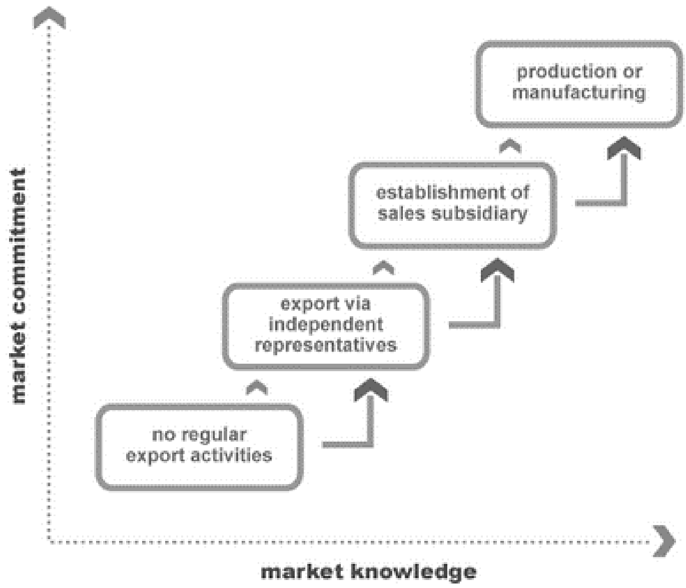

Figure 2: One internationalization pattern in the Uppsala model

(Source: (Villarreal, 2014) retrieved from https://novoed.com/minimba-2-2014/reports/254298)

1.2.6. Globally competitive Chinese brands

With increasingly valuable Chinese brands and increasing efforts towards internationalization, Chinese brands are becoming globally competitive. According to Bernstein Research and Interbrand, in the domestic market, Chinese brands are the most impactful in categories of consumer staples, beverages and restaurants (Warburton *et al.*, 2014). Brands with most potential for competing internationally are consumer electronics brands, such as Huawei and Lenovo, which have become technologically competitive. Automobile and luxury goods are the two categories with difficulties to globally break through as technological barriers and heritage issues leave international brands dominating their Chinese competitors. For these categories, analysts suggest that, "*despite a greater desire to go global […], we do not believe global relevance is going to be a realistic goal any time soon*" (Warburton *et al*., 2014, p. 2). Table 1 shows China's emerging consumer brands and their potential global competitiveness (Warburton *et al*., 2014, p.5).

Sector	Leading Chinese brands in China	Chinese globally competitive brands	Best global players in China
Autos	Great Wall, Changan	None yet	Brilliance – BMW
Beverage	Tsingtao, Snow and Moutai	Tsingtao	Pernod Ricard
Consumer Staples	Tingyi, UPC, Vinda and Hengan	None yet	Estée Lauder
Luxury	Shiatzy Chen, Shang Xia and Wallace Chan	None yet	Richemont
Restaurants	Kungfu Fast Food, Da Niang Dumpling and GLL Wontons	Da Niang	Yum! Brands
Consumer Electronics	Huawei, Lenovo and Xiaomi	Huawei, Lenovo	Lenovo

Table 1: China's emerging consumer brands and their potential global competitiveness

(Source: Bernstein Research (Warburton *et al*., 2014, p. 5) retrieved from http://interbrand.com/assets/uploads/Bernstein_Interbrand_China_Brands_Report_141120.pdf)

To help branding Chinese brands before even thinking of going global, Bernstein Research and Interbrand share the opinion that brands first need to establish their brands on the domestic market (Warburton *et al*., 2014). This is especially necessary in the case of many monopolistic SOEs that suffer from a poor brand image. Brands also need to unify their image within China itself (tier I, II, III and IV cities). To appeal to Chinese consumers, it is not necessary for Chinese brands to be seen as internationally competitive, but it definitely adds value (Warburton *et al*., 2014). Indeed, foreign brands in China have stronger brand equity than local brands. Meanwhile, a growing interest in China in "buying Chinese" can be noted. As Interbrand stated: "*Yes, Chinese people are becoming more and more proud of Chinese brands. Even if they are not proud, they like brands they are familiar with and in everything, from internet companies to cigarettes, there are familiar Chinese brands that consumers trust*" (Warburton *et al*., 2014, p. 12).

Overall, Warner, Sek Hong and Xiaojun (2004) have found that the biggest problems for Chinese companies going abroad are the lack of knowledge, marketing capability, R&D capability, strategic focus and coordination experience and the fact that there are few international Chinese brands today (Warner *et al*., 2004, as cited in Ding *et al*., 2009). These could be overcome by increasing government support, building new capabilities through differentiation and brand advantages, resolving the differences in business cultures and management styles and becoming socially responsible (Ding *et al*., 2009). According to BRANDZ™, Chinese brands trying to expand are facing two big challenges: (1) building awareness and consideration among overseas consumers and (2) changing the overseas perception of "Brand China" (Schept *et al*., 2014, p. 26). Also Bernstein Research and Interbrand have found that one of the biggest challenges for Chinese companies to compete globally is to overcome the widespread image of China as a merely huge producer of goods which is lagging its ability of improving technology, quality, and sophistication (Warburton *et al*., 2014). "*Chinese consumer companies need to overcome the negative connotations associated with their national origin, before they can even hope to be genuinely competitive*" (Warburton *et al*., 2014, p. 22). Only 1% of overseas consumers have a positive impression towards "Made in China"; 69% is negative and 30% is neutral. The biggest negative perception comes from quality issues. Next in line comes cheapness, poor working conditions and counterfeiting. The three categories most affected by negative connotations of "Made in China" are food, skin care and personal care products.

1.3. Luxury in China

1.3.1. The Chinese personal luxury goods market

In 2013, the personal luxury goods market in Mainland China and Greater China amounted to ca. EUR 15.3 billion and EUR 28 billion respectively, representing a growth rate of ca. 2.5% and 4% (D'Arpizio, 2013). Compared to previous years, China's personal luxury growth has slowed down in line with the worldwide luxury market slowdown. Mainland China's slowdown can be explained by two factors (D'Arpizio, 2014). First, as part of the anti-corruption campaign, the Chinese government has cracked down on public officials spending in luxury, which has negatively affected the buying of presents. However, some say this effect is limited because gift-giving is deeply rooted in the Chinese culture (Debnam & Qian, 2013). Second, Chinese consumers are increasingly buying luxury goods abroad because of growing ease of travelling and price differences due to import duties and taxes (Fung Business Intelligence Centre, 2013). Nowadays, they spend more than three times more abroad than in China itself (D'Arpizio, 2014). Despite the slowdown, China is expected to account for a quarter of the world's luxury goods market in 2015 (Debnam & Qian, 2013).

1.3.2. Luxury brands in China

In 2011, the top three most desired luxury brands in China were Louis Vuitton, Chanel and Gucci (Bain & Company, 2011). Next in line came Dior, Armani, Hermès, Rolex, Cartier, Prada and Burberry. The general top ten was thus constituted of Western European brands only. When looking at each luxury category individually, about half of each category's sales is dominated by five major brands. In the hard luxury category, which consists of watches and jewelry, the five major watch brands are Swiss (Longines, OMEGA, Rolex and Tissot) and French (Cartier) and the five major jewelry brands are Western European (Van Cleef & Arpels, Bulgari and Cartier), American (Tiffany) and Chinese (Chow Tai Fook). In the beauty category, they are French (Chanel, Dior and Lancôme), American (Estée Lauder) and Japanese (Shiseido). In the soft accessories category, the leather goods' five major brands are French (Chanel, Hermès and Louis Vuitton) and Italian (Gucci and Prada) and shoes' brands are Italian (Salvatore Ferragamo, Gucci and Tods), Swiss (Bally) and French (Louis Vuitton). In the apparel category, the five major brands are Italian (Armani and Ermenegildo Zegna), British (Burberry and

Dunhill) and German (Boss) for men and Italian (Armani, MaxMara and Prada), French (Chanel) and British (Burberry) for women.

According to the World Luxury Index China, the most searched-for personal luxury brand in China in 2011 was Louis Vuitton, followed by Chanel, Estée Lauder, Dior, Lancôme, Hermès, Chow Tai Fook, Clinique and Gucci (Doran, 2012). Next to these brands, the top 20 was constituted of other impersonal luxury brands from the automobile industry. For apparel, beauty and soft accessories, Western (mainly French and Italian) brands dominated the ranking. For hard luxury, the best player is Chow Tai Fook, a Chinese jewelry brand, far surpassing Cartier and Swarovski ranked second and third respectively.

When looking at China's luxury brand momentum[11] in 2014 for soft luxury, Bernstein Research found out that the brands with the greatest appeal are niche brands with the strongest heritage, such as Hermès, Chanel, Dior and Givenchy, while brands with the least positive momentum are those who have an overextended presence in china, those who have larger revenues and those who suffer from logo fatigue such as Hugo Boss, Dunhill and Gucci (Warburton *et al*., 2014). When looking at the hard luxury brands, however, the situation is very different. Watch brands such as Longines and Tissot, belonging to the more affordable mass market brands, are strongly outperforming Omega and Rolex which are higher priced and more exclusive. In the jewelry brands category, the best performers are European and American brands (Cartier, Tiffany and Bulgari), but also some Chinese high-end brands such as Wallace Chan and Qeelin are gaining momentum. The Chinese brand Chow Tai Fook does not seem able to continue attracting new customers.

Between 2008 and 2011, most of the new stores in China were opened by Armani (70), followed by Dunhill (61), Hugo Boss (46) and Coach (45) (Bain & Company, 2011). In 2014, these four brands owned the highest amount of stores in China, Armani taking the lead with 141 stores (Statista, 2015b). It is remarkable that most of these newly opened stores were not opened in tier I cities (Beijing, Shanghai, Guangzhou and Shenzhen) but in tier II cities.

[11] Brand momentum refers to consumers' subjective reactions to a brand, such as the brand's popularity, the perceived quality of the brand's products, etc. (McEwen, 2001). While positive momentum can grow the brand, negative momentum (being perceived as "not as good as before") can be very harmful for it.

1.3.3. Chinese luxury brands

1.3.3.1. Country of Origin

This subchapter briefly clarifies what exactly is meant by "Chinese luxury brands" in this thesis, as globalization might complicate the "*Chineseness"* of the notion. "Chinese luxury brands" are brands of which the country of origin (COO) is China. Whereas, traditionally, the COO referred to the country in which a product is made, increasing internationalization of business makes it more complicated when multiple countries are involved. Next to the country of manufacturing (COM), other concepts can be used such as the country of design (COD), referring to the place of development and design (Aiello *et al*., 2008, p. 3). With growing globalization, COM and COD are becoming more disparate. COO is thus increasingly considered as "*that country which consumers typically associate with a product or brand, irrespective of where it is actually manufactured*" (Aiello et al., 2008, p.3). Han and Terpstra (1988, p. 235) classify these international products into four tiers, depending on two factors: country of manufacturing and country of the brand. According to them, products can therefore be either foreign-made and carry a foreign brand name, foreign-made but carry a domestic brand name, domestic-made and carry a domestic brand name, or domestic-made but carry a foreign brand name.

Also, mergers and acquisitions can blur the COO concept. Some might question whether multinational-acquired Chinese brands are really "Chinese luxury" (Zoo, 2013). This is the case for some Chinese brands such as Qeelin, Shanghai Tang and Shang Xia. Qeelin, a Chinese jeweler, was acquired by the French luxury goods holding company Kering (previously named "PPR") in December 2012. Shanghai Tang, a luxury Chinese lifestyle clothing company, completed its acquisition in 2008 by Richemont, a Swiss luxury goods holding company. Shang Xia is a Chinese niche brand backed by the French luxury goods group Hermès. Thus, in this dynamic global market, products can be "hybrid" with brand nationality differing from owner nationality.

To conclude, "Chinese luxury brands" or "brands of which the COO is China" will be considered as brands that are both manufactured in China and branded as Chinese, irrespective of the owner nationality. For example, both NE-Tiger and Shanghai Tang will be treated as Chinese luxury brands here as they are both made in China and positioned as Chinese brands, but NE-Tiger is a pure Chinese brand whereas Shanghai Tang is more hybrid. Note that "Chinese" will refer to Greater China, which includes Hong Kong, Taiwan and Macau.

1.3.3.2. Examples of Chinese luxury brands

Table 2 shows examples of personal Chinese luxury brands ordered in the appropriate luxury tier (accessible, aspirational and absolute/elitist) and category (apparel, beauty, hard luxury and soft accessories) (Warburton *et al*., 2014). Most of them are skewed towards the accessible tier and belonging to the apparel and hard luxury categories. As explained above, some of them are more "hybrid" brands, which means they are Chinese but either acquired by foreign luxury companies, or created by foreign luxury companies.

	Apparel	Beauty	Hard luxury	Soft accessories
Absolute/Elitist			Wallace Chan	
Aspirational	Shiatzy Chen Shang Xia*		Qeelin*	
Accessible	NE-Tiger Shanghai Tang* Exception De Mixmind Bosideng Ports 1961 Marisfrog Dorian Ho AUM Erdos Cashmere Xander Zhou Comme Moi Trands	Herborist Shanghai Vive	Longio Chow Tai Fook Luk Fook Tsi Sui Luen Fiyta Sea-Gull	Mary Ching Sheme

* Hybrid brands

Table 2: Some examples of Chinese personal luxury brands

(Source: based on Bernstein Research (Warburton *et al*., 2014) retrieved from http://interbrand.com/assets/uploads/Bernstein_Interbrand_China_Brands_Report_141120.pdf and own research)

Hereunder follows a brief description – about the brand itself, a short history, the stores, products sold, prices and customers targeted – of some Chinese luxury brands that are known in China and/or internationally: Shang Xia, Herborist, Wallace Chan, Qeelin, Chow Tai Fook and Fiyta. Shanghai Tang, Shiatzy Chen, NE-Tiger and Longio will be left out here as they will be discussed more in depth in part 2, the case study research. Logos and product images of each brand can be found in appendices 1 to 6.

i. Shang Xia

Shang Xia is a Chinese 21st century lifestyle brand offering personal luxury goods such as apparel and jewelry, but also impersonal goods such as furniture, decorative objects and teaware (see appendix 1) (Shang Xia, n.d.). The name "Shang Xia" means "Up-Down" in Mandarin, which is a notion in the yin-yang harmony (Movius, 2010). The brand was co-created in 2008 by Hermès and Chinese designer Qiong Er Jiang who became the brand's CEO and Creative Director (Bain & Company, 2011). This was the first time Hermès was involved in the creation of a brand from scratch; in the past, it has always bought existing brands (Weil, 2009). Hermès is now completely separated from Shang Xia, apart from the shareholding – it owns a majority stake in the brand – giving it complete creative freedom (Waldmeir, 2014). The first store was launched in Shanghai in September 2010. Today, the company owns three stores: two stores in Mainland China (Shanghai and Beijing) and one store in France (Paris) (Shang Xia, n.d.).

The brand concept is deeply anchored in Chinese heritage and craftsmanship. Every piece has a connection with China's past (Waldmeir, 2014). For example, a cashmere felt coat is inspired of the woolen blankets used by Mongolian horsemen. A "ladder to heaven" necklace made of jade refers to bamboo undergarments worn in Imperial China. Overall, the products are very high priced. A chair made of zitan, which is a rare, tropical and extremely dense wood, costs more than USD 130,000 (Armoudom, 2012, p. 8). However, prices are slightly lower compared to those of Hermès (Song, 2013).

Shang Xia's market strategy is to target Chinese customers and then expand outside China (Bain & Company, 2011). Today, Shanghai Tang hopes to benefit from the changing Chinese consumer buying behaviors, namely a shift from acquiring big, famous brands with logos to buying smaller, more individualistic labels and an increasing appreciation of their own cultural roots (Burkitt, 2014). Today, 60% to 70% of its customer base are influential Chinese people from all ages with a deep cultural background (Bain & Company, 2011).

ii. Herborist

Herborist is a premium Chinese cosmetics brand based on traditional Chinese herbology (Herborist, 2013a). It was launched in 1998 by parent company Shanghai Jahwa, one of the largest Chinese personal care products founded at the end of the 19th century. Herborist has been growing enormously since its launch, with around 300 stores and a counter presence in around 900 Chinese department stores (Armoudom, 2012, p. 6). It is not only successful in China as a big national brand competing against multinationals, but also internationally. In 2008 Herborist started selling products in the French Sephora store in Paris, its first step into the European market (Global Times, 2014). In 2013, Herborist entered the German market via Douglas, a German perfume and cosmetics company. Today, the brand is also sold in other European countries such as Italy, Spain, and Poland.

Its product line consists of Tai Chi products and silky moisturizing, re-energizing, firming, color-control and body and after-sun products (Herborist, 2013b) (see appendix 2). As an example, a moisturizing facial serum costs EUR 45 and the Tai Chi mask costs EUR 55 (Herborist, 2013b). In general, products cost USD 70 to USD 100 in China (Armoudom, 2012, p.6).

iii. Wallace Chan

Wallace Chan is a jeweler and sculptor based in Hong Kong. Born in China, Mr. Chan grew up in Hong Kong and studied Western sculpture. He began his lifework with a workshop in 1974 (Wallace Chan, 2014). In 1987, he invented the “Wallace cut”, which is a technique for carving human faces into precious stones making them look three dimensional (The Economist, 2014). In September 2012, Mr. Chan was invited to the “Biennale des Antiquaires” in Paris, an international jewelry and art collection fair, to show his 38 collections. This made him the first Asian jeweler to join this event. Nowadays, his art and jewelry is exhibited at important auction houses and museums (Wallace Chan, 2014).

Wallace Chan's collection is very exclusive and famous for its use of precious materials such as titanium, diamond and jade (see appendix 3). Prominent examples include the very expensive "Great Wall" necklace of diamond and jadeite, sold for EUR 56 million, and the "Vividity", a brooch made of Elbaite tourmaline, diamonds and green tourmalines (The Economist, 2014). Buyers of Wallace Chan's collection are mostly the rich Chinese elite and some European royalties (The Economist, 2014).

iv. Qeelin

Qeelin is an international Chinese jewelry brand created by Dennis Chan, Qeelin's Hong Kong-raised creative director, who collaborated with French entrepreneur Guillaume Brochard in order to create the brand in Paris in 2004 embracing Chinese cultural heritage with French savoir-faire (Qeelin, 2015a). In December 2012, Qeelin was acquired by Kering (formerly "PPR[12]"). The reason for Kering having acquired a jewelry brand rather than a fashion one is that clothing is more of a tradition originating from Latin cultures, while jewelry is a tradition deeply-rooted in Asia (such as in India and China) (Masidlover, 2012). The name "Qeelin" comes from the Mandarin word "qilin" which is a creature from the Chinese mythology.

Today, Qeelin is sold in 11 stores in Mainland China, 7 in Hong Kong, 1 in Japan (Tokyo), 1 in Korea, 2 in France (Paris) and 1 in Ukraine (Kiev) (as of March 31st 2015) (Qeelin, 2015b). The company's initial plan was to obtain international recognition first (Bain & Company, 2011). In line with this objective, Qeelin announced last year it wants to double the number of stores in Mainland China over the next two years (Thomson, 2014). This intent would constitute the brand's biggest push since its acquisition by Kering in 2012.

Qeelin has launched twelve collections and aims at launching a new one every year (see appendix 4) (Thomson, 2014). These are all made of precious materials such as gold, platinum, sapphire, diamonds and jade (Qeelin, 2015a). Some examples of collections are Wulu (a Chinese fruit expressing good fortune and positive energy), Bo Bo (pandas, symbols of innocence and peace) and Qin Qin (goldfishes, symbols of summon abundance and harmony) (Qeelin, 2015c). Prices vary from EUR 500 to EUR 100,000 for customized products

[12] PPR or Pinault-Printemps Group was a world leader in apparel and accessories brands such as Gucci and Yves Saint Laurent, renamed "Kering" in 2013.

(Thomson, 2014). The average price of a Qeelin product is about EUR 4,000 (Roberts, 2014). With its use of Chinese traditional symbols, Qeelin mainly targets Chinese clientele (Masidlover, 2012). In European stores, the customer portfolio is formed of about 15% Chinese; the rest is European, Middle Eastern, and Russian (Reingold, 2013).

v. Chow Tai Fook

Chow Tai Fook (CTF) is a leading jewelry brand in Mainland China, Hong Kong and Macau (Chow Tai Fook, 2014a). It is the iconic brand of Chow Tai Fook Jewellery Group Limited, headquartered in Hong Kong. CTF was founded in 1929 in the Chinese city Guangzhou by Chow Chi-Yuen, after whom it was partly named (Ying, 2014). “Tai Fook” means “big blessing” in Chinese. In December 2011, Chow Tai Fook Jewellery Group Limited was listed on the Hong Kong Stock Exchange (Chow Tai Fook, 2014a).

The company counts about 2,250 points of sale, of which 2,129 in Mainland China, 91 in Hong Kong, 19 in Macau, 8 in Taiwan and 3 in the rest of Asia (as of March 31st 2015) (Chow Tai Fook, 2014d). Today, CTF does not have any stores outside Asia. The group plans to open about 200 new stores in China every year for the next 10 years and does not consider conquering the US during that period (Xin, 2014). Only when China will become saturated, the company might start targeting the US. 55% of its revenue comes from Mainland China; the remaining 45% comes from Hong Kong, Macau and other Asian markets (Chow Tai Fook, 2014c).

CTF’s products are divided into four categories: gem-set jewelry, gold products, platinum/ karat gold products and watches (Chow Tai Fook, 2014c) (see appendix 5). It sells mass luxury with prices most often ranging from HKD 2,000 to HKD 100,000 and high-end luxury with prices above HKD 100,000 (Chow Tai Fook, 2013). As an example, a “Cars” golden pendant, referring to the Disney animated movie, is priced at HKD 2,465 (Chow Tai Fook, 2014b).

CTF is simultaneously aiming at being exclusive and offering diverse products to target a broad customer base. As Mr. Kent Wong, CTF’s managing director, stated: “*We’ve got our flagship gem stores and our jewelry focus in department stores; but we’ve also expanded to specialist ‘concept’ stores to target younger consumers seeking ‘trendier’ items. Tastes are always evolving and we need to reflect that*” (Debnam *et al*., 2010, p. 11).

vi. Fiyta

Fiyta is a Chinese watch manufacturer launched in 1987 (Fiyta, 2013) (see appendix 6). It is particularly known for its professional aerospace collection for Chinese astronauts – a Chinese space hero wore a Fiyta watch on China's first manned space mission – and for collaborating with sports events such as the Asian Winter Games and the Dakar Rally. The word "Fiyta" means "flying high in sky" in Chinese (Baselworld, 2015). In 1993, the company was for the first time listed on the Shenzhen Stock Exchange and became, thereby, the only publicly listed Chinese watch company (Wu & Zhang, 2012). In 1997, it was China's first watch company to use 18 karat gold, diamonds and precious crystals for its watches (Fiyta, 2013). In 2001 Fiyta joined the BaselWorld Watch and Jewelry Show. Fiyta's watches are most often priced between USD 200 and USD 1000, which makes it an affordable luxury brand (Wu & Zhang, 2012).

1.3.3.3. Internationalization of Chinese luxury brands

As said before, the Chinese personal luxury market is abundantly dominated by foreign brands from Western Europe and America, which are often very international in terms of coverage and benefit from a high level of recognition. In an opposite perspective, table 3 shows an overview of some Chinese personal brands and how their stores are spread around the world (Warburton *et al*., 2014). In the aspirational tier, presence outside of Greater China remains very limited. Qeelin, for example, which strongly positions itself as an "*international fine jewelry brand blending Chinese inspiration and French craftsmanship*", only has 5 out of its 23 stores that are located outside Greater China (Qeelin, 2015b). In the accessible luxury tier, brands seem to have more shops located outside Greater China. However, international reach still stays very limited.

			Store count								Source	
Luxury tier	Cate-gory	Brand	M China	HK	Macau	Taiwan	Rest of Asia	Europe	USA	Rest of world	BR	OR
Asp.	A	Shiatzy Chen	19	4	2	39	2	1			✓	✓
	A	Shang Xia	2					1			✓	✓
	J	Qeelin	11	7			2	3			✓	✓
Acc.	A	Bosideng	1163					1			✓	
	A	Ports 1961	89		1		2				✓	
	A	Marisfrog	7	1				7	5	2	✓	
	A	Dorian Ho	4	2	1		2		35	9	✓	
	A	NE-Tiger	5								✓	✓
	A	Shanghai Tang	24	14	1		4	1	1	2		✓
	J	Chow Tai Fook	2129	91	19	8	3				✓	✓
	J	Luk Fook	2000	62	8		1		2	2	✓	
	J	Tsi Sui Luen	168	21	3		3				✓	

Table 3: Chinese luxury brands' store count

(Legend: Asp. = Aspirational luxury tier (medium luxury); Acc. = Accessible luxury tier (low luxury); A = Apparel; J = Jewelry; M China = Mainland China; HK = Hong Kong; BR = Bernstein Research from November 2014; OR = updated with Own Research (company websites) on March 31st 2015)

(Source: based on Bernstein Research (Warburton *et al.*, 2014) retrieved from http://interbrand.com/assets/uploads/Bernstein_Interbrand_China_Brands_Report_141120.pdf and own research)

According to Bernstein Research and Interbrand, the international distribution of Chinese luxury brands is very far from established which makes them geographically constrained (Warburton *et al.*, 2014). The main problems faced by Chinese luxury companies trying to go abroad are the shortage of talented luxury specialists and the lack of brand awareness, especially when the brand's history is very short (UKEssays, 2013).

1.3.3.4. Potential for Chinese luxury brands

i. In China

The following renowned and trustworthy authors and consultancy firms (A.T. Kearney, Added Value, KPMG, Jing Daily and Cheng Lu Wang and Jiaxun He) have all researched and expressed their opinion about Chinese luxury brands' success and potential in China. Table 4 summarizes their findings.

A.T.Kearney

A.T. Kearney, a global management consulting firm, has looked at China's emerging luxury brands and analyzed their potential for success based on its "A.T. Kearney Luxury Compass" (Armoudom, 2012). This tool relies on six criteria, of which three internal (creating products and building long-term success) and three external (attracting and selling to customers). These six criteria, aiming at determining Chinese luxury firms' success, are the following (Armoudom, 2012, pp. 3-4):

1. "*A core focus on product creation*": emotion, experience, consistency, and the vital role of the artistic director

2. "*Long-term vision and strategy"*: the need for time, money and patience; not only looking at short-term financial results

3. "*Well-known* savoir-faire *and craftsmanship"*: expertise, know-how and customization

4. "*A specialized selling approach to VIP clients"*: the point-of-sale experience and the rewarding of loyal customers

5. "*Iconic products and style*": timeless references for the industry

6. "*A truly "exclusive" assortment*": unaffordable prices to show exclusivity

Based on A.T. Kearney's findings on 15 Chinese brands, they concluded that "*(1) nearly all of them combine both Chinese and Western elements, which they find to be the most sustainable platform for drawing consumers; (2) key enablers include allying with Western luxury players, acquiring Western competencies in-house, and incorporating Western distribution; and (3)* *these brands are learning fast, they have improved their brand storytelling, but it will take time for consumers to shift their perception of Chinese brands, as the abundance of Chinese brands are still associated with the poor quality of the last 40 years*" (Armoudom, 2012, p. 10). This is changing as the youngest Chinese generation is increasingly being exposed to better-quality Chinese products, becoming more confident and more prone to buy these goods. "*Based on these findings, we predict that China's long journey back to luxury will soon meet success*" (Armoudom, 2012, p. 10).

Added Value

Added Value, a global marketing consultancy, conducted a survey about luxury in China in 2014. The survey aimed at finding out how Chinese luxury brands would perform among Chinese luxury buyers. Among 600 Chinese luxury targets, 84% of consumers agreed that "*in the future, Chinese luxury brands will be just as good as Western luxury brands*" (Added Value, 2014). When looking at their attitudes towards the purchase of luxury brands, 9% said they would only buy Western brands and more than half of the respondents (51%) said they would buy Western brands first, and maybe consider Chinese afterwards. 22% said they would buy both. 14% of the consumers claimed they would buy Chinese brands first and consider buying Western brands afterwards. Only 4% would only buy Chinese brands.

It is also interesting to see the Chinese consumers' parameters of luxury and compare these to Chinese and Western luxury brands characteristics (Added Value, 2014). According to the survey, Chinese consumers perceive luxury in terms of authenticity, customer service and craftsmanship, irrespective of the brand origin (Western of Chinese). But according to the same survey, Western brands focus more on exclusiveness, expensiveness and reflecting the latest trends, while Chinese brands' elements relate with long history, strong heritage, great craftsmanship and authenticity. When matching these to the Chinese consumers' perceptions and expectations of luxury, Chinese brands might become increasingly successful with the growing appreciation of craftsmanship and heritage.

One of the important driving forces shaping the rise of Chinese luxury in China is the increasing cultural confidence and optimism (Added Value, 2014). As a contributing event, the Olympic Games in Beijing have increased self-awareness. The future is seen more optimistically than before. Chinese draw more inspiration from visuals, materials and techniques of ancient times. They have started to believe in Chinese brands, their value and quality.

KPMG

According to a KPMG study, China does not have a brand with a 200 years history (Debnam & Qian, 2013). But China can make luxury goods. Big luxury goods companies (Hermès, Kering and Richemont with Shang Xia, Qeelin and Shanghai Tang respectively) are investing millions in the belief that Chinese brands have the potential to break through.

Another KPMG report reveals that Chinese middle class consumers believe that domestic Chinese brands will be able to compete better in the experiential luxury goods sector (with 56% and 41% of respondents seeing Chinese brands emerge in the alcohol and restaurant categories respectively, being the two best experiential luxury goods categories) than in the personal luxury goods sector (with 24%, 21%, 20%, 18%, 17% and 13% of positive respondents for the footwear, jewelry, clothes, bag, watch and cosmetics/perfume categories respectively) in 2012 (Debnam *et al*., 2013, p. 38).

Jing Daily

According to Jing Daily (2009), a magazine about the business of luxury and culture in China, "*as Mainland brands start to pick up steam and compete on a broader scale, eventually spreading into overseas markets, it's likely that Chinese luxury brands will develop a clout on par with their French or Italian counterparts in time. They just need to figure out their marketing and growth strategy, and need to fully get over the hump of Chinese luxury consumers often looking down at domestic brands and products."* The biggest obstacle for Chinese brands is the Chinese consumer: "*if home-grown brands, particularly in the luxury segment, want to raise their brand visibility (and the capital required for overseas jaunts), they'll have to convince domestic buyers of their quality and value – not as easy as it sounds, as Chinese consumers have gotten used to most domestic brands competing on price alone, with a requisite sacrifice of durability, material quality, or design*" (Jing Daily, 2009).

Jing Daily's luxury insiders also state that luxury brands need two main factors to succeed: history and a mature consumer base (Jing Daily, 2011). However, there are almost no Chinese homegrown luxury brands that simultaneously own these two characteristics, because "*they tend to focus on short-term gains rather than nurturing the brand culture*" (Jing Daily, 2011).

Cheng Lu Wang and Jiaxun He

Wang and He, two professors interested in marketing and consumer behavior, have compared "pure blood" Chinese brands with hybrid brands such as Qeelin and Shanghai Tang (Wang & He, 2014). They have found that "pure blood" is not yet a very successful concept. Brands with mixed nationalities can benefit from their international background. "*To succeed with a Chinese brand in the Chinese market, cultural heritage and international brand prominence are both required*" (Wang & He, 2014, p. 215).

Author	Source type	Are Chinese luxury brands successful in China?
A.T.Kearney	Research publication	"*China's long journey back to luxury will soon meet success*" (Armoudom, 2012). Chinese luxury brands… - tend to find the combination of both Chinese and Western elements a sustainable strategy - tend to find that allying with Western luxury players is key - are learning fast, but it will take time for consumers to shift their negative perception of Chinese brands
Added Value	Survey	"*Chinese brands will be increasingly successful with the growth of appreciation of craftsmanship and heritage*" (Added Value, 2014). - 84% of Chinese luxury consumers believe that, in the future, Chinese luxury brands will be just as good as Western luxury brands - when matching consumers' perceptions of Chinese and Western brands with general expectations of luxury, Chinese brands match better - the driving force is the increasing cultural confidence and optimism in the Chinese culture
KPMG	Report	In the personal luxury goods sector, footwear, jewelry and clothes are seen as the products with most potential for competing against foreign brands (Debnam & Qian, 2013; Debnam *et al*., 2013)
Jing Daily	Articles	"*It's likely that Chinese luxury brands will develop a clout on par with their French or Italian counterparts in time*" (Jing Daily, 2009; 2011). However: - the biggest obstacle for Chinese luxury brands is the Chinese consumer: convincing them of their quality and value is not easy. - Chinese luxury brands tend to focus too much on short term results
Cheng Lu Wang & Jiaxun He	Book	"*It seems that "pure blood" Chinese luxury brands are not yet fully successful as a Chinese luxury brand*" (Wang & He, 2014). Both cultural heritage and international brand prominence are required to succeed in the Chinese market.

Table 4: Summary of authors' findings about the potential of Chinese luxury brands in China

ii. Abroad

Hereunder follows a variety of opinions of some experts and researchers (a financial analyst at Petercam, Bernstein Research and Interbrand, Jonas Hoffman and the Fung Business Intelligence Centre) about Chinese luxury brands' potential to succeed abroad. Table 5 summarizes their findings.

Interview with Petercam's financial analyst (see appendix 7)

According to Petercam's financial analyst specialized in the luxury sector, Chinese luxury brands are not really known abroad (financial analyst, personal communication, September 30th, 2014). There are a few successful Chinese designers, such as Uma Wang and Qui Hao, and Chinese-born American designers, such as Alexander Wang and Jason Wu. However, whereas a successful designer is a necessary condition for a brand to be profitable, it is not a sufficient condition. Chinese brands' lack of global success can be attributed to five main reasons:

- they are relatively young brands
- they have mainly been created to serve the domestic Chinese market (Greater China) and possibly a bit of the rest of Asia as well, but not to become global from scratch
- they are not positioned towards the super high-end luxury brands, but are more "premium" brands, targeting a mid-range customer
- they can be constrained geographically as they usually use local distributors or their own distribution holding company
- they target a large local customer base rather than Chinese tourists abroad as they do not have to carry import duties when selling "Made in China" products on their own grounds

The biggest threats and challenges Chinese luxury brands are facing today are the following:

- the Chinese perception of their own "Made in China" label, often synonym for "mass market", "cheap" and "inferior quality" according to many Chinese consumers
- high costs for global retail expansion, such as real estate, advertisement and promotion
- cross-cultural issues when Chinese brands are owned by Western conglomerates (such as Shanghai Tang owned by Richemont and Qeelin owned by Kering)

- the Chinese government anti-corruption campaign and crackdown on gifting affecting them on home ground, although Chinese luxury brands are less affected than Western brands

Perhaps the rise of Chinese pride can help Chinese luxury to catch up, but only if true global Chinese brands exist, and so far China has been quite weak in exploiting its huge heritage, craftsmanship, know-how and materials (such as silk, porcelain, calligraphy, etc.) and converting it into "brands". Chinese brands might need to catch up with the highly qualitative storytelling of their of their French, Italian and Swiss competitors.

More importantly, state intervention is required to create a true, global Chinese luxury sector, for instance by establishing industry lobbies, paying subsidies, etc. Only if the Chinese government starts facilitating and supporting the creation of such an industry in the desire to compete with Westerners, just like it did in some other sectors of the economy (e.g. steel, electronics, etc.), global Chinese luxury brands might start to emerge. However, "*I don't think the Chinese government is obsessed with this idea but would rather consolidate market leading positions in sectors where they have a competitive advantage, i.e. where they can use cheap labor for decent output quality such as in the automotive and electronics industry*" (financial analyst, personal communication, September 30th, 2014).

Bernstein Research & Interbrand

Bernstein Research has, together with Interbrand, recently published a report about globally competitive consumer brands emerging in China (Warburton *et al*., 2014). In the luxury category, it "*does not believe global relevance is going to be a realistic goal any time soon*" (Warburton *et al*., 2014, p. 2). According to Ravi Thakran, LVMH's Southeast Asian group president: "*The European guys, whether British or Italian or French, they know how to brand things, market things, package things well, go for finesse, and the whole quest for quality. Asians have been the factory of the world. They were great at manufacturing things but in building brands they've been short*" (Warburton *et al*., 2014, p. 6). The main findings of Bernstein Research and Interbrand are the following:

- When asked people how well attributes describe products made in China, less than 5% mentioned "luxurious" (Warburton *et al*., 2014, p. 23).
- Chinese luxury brands are mainly situated in the accessible tier, while European brands are present in all three tiers (accessible, aspirational and elitist/absolute) (Warburton *et al*., 2014).
- In terms of consumer perception, Chinese brands are not yet seen as on the same level as European or American brands (Warburton *et al*., 2014). The main reason for this is lack of credibility: local brands are too often associated with lower quality. There are exceptions, such as Shang Xia and Qeelin, both supported by large international companies, but these are small niche brands with only weak brand loyalty as half of their customer base consists of international consumers interested in trying something new. Hence, even for these "more successful" brands, Bernstein Research does not believe they will be able to reach global scale in the medium term.
- As it is widely acknowledged that China lacks a number of brands with long history and unique heritage, this in itself becomes a barrier for new Chinese brands wishing to climb up the ladder (Warburton *et al*., 2014).
- Local Chinese luxury brands are not a threat to Western and American brands, but "*could be relevant for minor brands in the accessible apparel/jewelry segments only*" (Warburton *et al*., 2014, p.63). Apparel has potential for gaining competitiveness because of the high relevance of fashion trends and jewelry due to China's strong heritage and history of craftsmanship. This finding is consistent with the actual distribution of domestic luxury brands, concentrated within these two categories (see table 2 on p. 22). In addition, when looking at the categories where consumers believe local luxury brands will take off, it seems that hard luxury (with 42% positive responses for jewelry and 25% for watches) is the winner; then comes apparel (19% for clothes) and beauty (18% for cosmetics and perfumes). Soft accessories seem to have the least potential (only 17% and 13% for bags and footwear respectively). Examples of brands belonging to these two categories (apparel and jewelry) are Shiatzy Chen, Shang Xia and Wallace Chan as exclusive brands for sophisticated consumers, and Marisfrolg and AUM for more fashionable consumers (Warburton *et al*., 2014, p. 3). However, even these brands are lagging behind most European luxury brands in terms of relevance to Chinese consumers. They also only have minimal international recognition today.

To conclude, "*while there exists some domestic Chinese luxury brands, which start to compete marginally within the luxury goods space domestically, we believe that these brands are still very small with little brand reach/recognition and limited distribution (virtually non-existent internationally). The success of domestic Chinese luxury brands to date has been unimpressive, with Chinese consumers skeptical about the quality of the product and the brands lacking in heritage and history"* (Warburton *et al*., 2014, p. 57).

Jonas Hoffmann

While today "*no local brands exist so far to challenge the likes of Louis Vuitton, Hermès or Prada in China, and even less abroad*" (Hoffmann & Coste-Manière, 2013, p.23), Hoffmann (2012, pp. 46-47) believes in the global Chinese luxury players' potential in the long term. He proposes a framework distinguishing three "luxury value propositions" to enable Chinese luxury brands' international development (see figure 3). The first one is the "heritage value proposition" (or "looking to the past"). This orientation highlights China's history, heritage and craftsmanship by using products such as silk, tea, porcelain, jade, bamboo, tea and liquors. Shang Xia, for instance, uses this technique as it revitalizes ancient Chinese craftsmanship. The second proposition is the "contemporary value proposition" ("looking to the present"). Here, inspiration is drawn from China today and mixtures between Eastern and Western styles. Lifestyle brands such as Shanghai Tang and jewelry from Qeelin, for instance, try to blend in Chinese elements with Western modernity. The last proposition is the "forthcoming value proposition" ("looking to the future"). This orientation focuses on innovation and sustainability. As young Chinese adults are becoming increasingly affluent, their luxury aspirations are rapidly evolving and simply reproducing a model of the West can hold limitations. Instead, brands can decide to follow the path of sustainable luxury. While "looking into the past" and "looking into the present" value propositions can lead to internationalization but through a long process, the "looking into the future" proposition enables an acceleration of the international expansion (Hoffmann & Coste-Manière, 2013, p. 27).

Looking to the past ←	Looking to the present	→ Looking to the future
Heritage	**Contemporary**	**Forthcoming**
	Luxury value proposition	

Figure 3: Orientation of luxury value propositions

(Source: Hoffmann & Coste-Manière, 2013, p. 25)

Fung Business Intelligence Centre

Researchers at the Fung Business Intelligence Centre, a research company, argue that not many Chinese homegrown luxury brands have gained international recognition today, except for some fashion brands such as NE-Tiger and Shanghai Tang and the jewelry brand Qeelin (Fung Business Intelligence Centre, 2013). However, "w*hile domestic brands are yet to establish a strong foothold in the global luxury arena, it is expected that further fragmentation of consumer demand and behavior will open new doors for domestic brands in the near future*" (Fung Business Intelligence Centre, 2013, p. 24). Some foreign luxury players such as Kering and Richemont have eyed the emerging local luxury brands and invested in these companies to gain Chinese foothold.

Author	Source type	Are Chinese luxury brands successful abroad?
Petercam's financial analyst	Interview	"*Chinese luxury brands are not very known abroad*" (financial analyst, personal communication, September 30th, 2014). Lack of global success is due to 5 main reasons: - young brands - created for China, not in order to become global - only medium luxury, no high-end positioning - geographical constraints, e.g. for distribution - tax considerations There are big threats: - negative Chinese perception of "Made in China" - high costs for global retail expansion - cross cultural issues with Western conglomerates - government crackdown on luxury gifting The following is needed to catch up: - rise of Chinese pride, but only once Chinese global brands exist - learning from competitors, e.g. brand storytelling - state intervention (through lobbies, subsidies, etc.)
Bernstein Research & Interbrand	Report	"*Global relevance is not going to be a realistic goal any time soon"* (Warburton *et al*., 2014). Chinese luxury brands are… - not present in all three luxury tiers, but only in the accessible tier - not yet perceived as on the same level as European and American brands due to a lack of credibility - lacking long history and unique heritage They could become competitive in the accessible apparel and jewelry segments only.
Jonas Hoffmann	Book	In the long term, we can expect to see global Chinese luxury players (Hoffmann & Coste-Manière, 2013; Hoffmann, 2012). 3 luxury value propositions can enable Chinese luxury brands' international development: - "looking to the past" ("heritage value proposition"): highlighting China's history, heritage and craftsmanship - "looking to the present" ("contemporary value proposition"): blending Eastern and Western styles - "looking to the future" ("forthcoming value proposition"): focusing on innovation and sustainability
Fung Business Intelligence Centre	Report	"*Domestic brands are yet to establish a strong foothold in the global luxury arena*" (Fung Business Intelligence Centre, 2013).

Table 5: Summary of authors' findings about the potential of Chinese luxury brands abroad

1.4. Conclusion of the Literature Review

Part 1, the literature review, presented the major facts about luxury, China and luxury in China. The first chapter looked at luxury in general, the luxury goods market and the different types of luxury brands. It appeared that personal luxury goods are subdivided into four subcategories: beauty (perfumes and cosmetics), hard luxury (jewelry and watches), soft accessories (shoes and leather) and apparel (textile and eyewear). Worldwide, personal luxury goods growth is slowing down. In the next years, strongest growth is expected for jewelry (in the hard luxury category) and soft accessories (Ortelli *et al*., 2015). The US and China are the most promising growth countries. Regarding luxury consumer nationality, almost one third of all luxury consumers is Chinese. However, they spend much more heavily abroad than in China itself.

Regarding luxury brands, these can belong to one of three luxury tiers: elitist (or absolute), aspirational or accessible (in decreasing order of price and exclusivity) (Warburton *et al*., 2014). French, Italian and US brands dominate the market with, all together, 72% of market share in 2013 (D'Arpizio, 2013). Louis Vuitton was the most valuable luxury brand worldwide in 2014, followed by Hermès, Gucci, Prada and Rolex (Statista, 2014). For 78% of worldwide consumers, the "Made in" concept for luxury brands is considered as an important aspect (Achille, 2014).

Chapter 2 analyzed China in terms of geography, economy, "Made in China" goods, brand value, internationalization strategies and globally competitive brands. Since the economic and trade reforms in 1979, China, with its competitive low labor costs, has been producing massively. Today, the country produces about a quarter of worldwide manufacturing output (The Economist, 2015). Unfortunately, these last 40 years of low cost manufacturing went hand-in-hand with a deterioration in quality (Armoudom, 2012). This has negatively impacted the "Made in China" label connotations.

However, brand value seems to be increasing at double-digit rates every year, much faster than its GDP growth (Schept *et al*., 2014). Also, China is a very active internationalizing economy (Ding *et al*., 2009). Foreign Direct Investment (FDI), export and import, for instance, have been growing heavily these last decades (Morrison, 2014). In line with the above, several Chinese brands have become globally competitive. Nonetheless, this potential for international breakthrough varies depending on the products category: it seems that consumer electronic brands have succeeded more easily than automobile and luxury goods, for instance (Warburton *et al.,* 2014). The biggest challenge for Chinese brands to expand abroad is the building of brand awareness overseas and the changing of the "Made in China" label perceptions. Next to this, both the fact that there are relatively few international Chinese brands today, and their lack of knowledge, marketing and R&D capability, strategic focus and coordination makes it even harder for them to internationalize (Schept *et al*., 2014; Warner *et al*., 2004; Warburton *et al*., 2014).

In the last chapter, luxury in China was discussed. Whereas today, the most desired and most present luxury brands in China are Western European and American, Chinese personal luxury brands – in the meaning of personal luxury brands manufactured in China and branded as Chinese, irrespective of owner nationality – do exist. Most of them are oriented towards the accessible luxury tier and belong to the apparel or hard luxury category (Warburton *et al*., 2014). Allying with big Western luxury players, such as Richemont, Hermès or Kering which acquired or created Shanghai Tang, Shang Xia and Qeelin respectively, seems to be a successful strategy. Also, many brands combine Chinese and Western elements in their collection (Armoudom, 2012). The biggest obstacle for succeeding in China is the Chinese consumer himself: convincing him of quality and value (Jing Daily, 2009). However, 84% of Chinese believe that, in the future, Chinese luxury brands will be on par with their Western counterparts (Added Value, 2014).

Today, Chinese luxury brands are not yet very known abroad, and global relevance does not seem to be realistically achievable in the short term (financial analyst, personal communication, September 30th 2014; Warburton *et al*., 2014). In terms of international presence, it seems that the brands only own a very limited number of stores outside Greater China. In general, international distribution is not very established. The main problems for expanding abroad are the shortage of talent (designers and luxury specialists) and lack of brand awareness (UKEssays, 2013). So far, China has been quite weak in leveraging its heritage and craftsmanship and converting it into brands. Most of the potential for Chinese luxury brands to succeed abroad lies in the accessible apparel and jewelry segments (Warburton *et al*., 2014). In addition, the "forthcoming value proposition" of Jonas Hoffman, which means focusing on innovation and sustainability, seems to be the most promising one in order to accelerate international expansion (Hoffmann, 2012).

2. PART 2 : CASE STUDY RESEARCH

2.1. Methodology

Part 2 of this thesis contains four case studies of different Chinese personal luxury brands. As argued by Yin (2014, p. 21), the goal of conducting case studies is not to extrapolate probabilities ("*statistical generalizations*") but to generalize theories, i.e. to find out more about Chinese brands and to analyze whether they are as international as literature and research (mentioned in part 1) suggests. The type of design used in this thesis is multiple-case and holistic: more than one case will be analyzed, with a single unit of analysis – the brands themselves. The advantage of conducting multiple cases is that the evidence is more compelling and, as a result, the overall study becomes more robust (Yin, 2014, p. 57).

The first step was the selection of Chinese luxury brands to analyze. More precisely, this consisted in reading valuable reports such as A.T.Kearney's report about luxury goods "Made in China" and Bernstein Research and Interbrand's joint report about Chinese competitive brands, screening all luxury brands that were mentioned in these reports and afterwards conducting individual research on each brand to see whether they were significant enough (in terms of notoriety and availability of information) to analyze. It appeared that the following brands were the most relevant ones: Wallace Chan (jewelry), Chow Tai Fook (jewelry), Qeelin (jewelry), Shang Xia (apparel), Shiatzy Chen (apparel), Shanghai Tang (apparel), NE-Tiger (apparel), Herborist (beauty), Fiyta (watches), Sea-Gull (watches) and Longio (watches).

Second, a list of interesting questions addressing the thesis research topic was composed. These questions needed to be most informative as possible, while at the same time not asking for too confidential information since this could have discouraged answers. Together, these questions were ranked logically into a questionnaire (see appendix 8).

Third, the questionnaire needed to reach the selected brands. This one was sent out to the brands' mail addresses which were often easy to find on their webpage. However, obtaining responses from the brands turned out to be the hardest task of the entire thesis. The initiative generated either negative responses, or no responses at all. Quickly realizing the need for a plan B, I asked friends and relatives for help. An uncle turned out to know several people working in China. One of these persons knew a Chinese consultant working in Shanghai, who, in turn, could lead me to a person working for Shanghai Tang. This is how the first positive response was obtained. Another acquaintance of this same uncle led me to someone working for the second brand targeted for this analysis, Shiatzy Chen. Then, a Chinese friend at the Louvain School of Management knew a headhunter working in the Chinese luxury industry, through whom the third brand, NE-Tiger, was reached. The last brand contacted was Longio, which the same Chinese friend successfully called in Chinese after finding the brand's phone number on the Internet. In the end, the four contact persons were Annie Ho, marketing manager at Shanghai Tang, Sueann Su, public relations manager at Shiatzy Chen, Holly Meng, marketing manager at Longio and Zhang, brand manager at NE-Tiger.

Next to this structured questionnaire ("*survey interview*" which is a targeted and very insightful source of evidence), documentation (articles, webpages, surveys, studies, etc., which are stable, unobtrusive, specific and broad sources of information) was consulted as a good case study corroborates "*multiple sources of evidence*" (Yin, 2014, p. 105). Due to the long distance between China and Belgium, observations could not have been made, and the two other sources of evidence (archival records and physical artifacts) did not prove useful in my case study research (Yin, 2014).

The last step consisted in writing four individual case reports, comparing the cases, drawing cross-case conclusions and verifying the theory (Yin, 2014).

2.2. Case studies

This chapter describes the findings made about the above-mentioned four Chinese personal luxury brands: Shanghai Tang, Shiatzy Chen, NE-Tiger and Longio. Each brand will be examined in terms of history, brand aspects, products offered, pricing and degree of internationalization. Degree of internationalization comprises brand perception nationality (which nationality does a brand want to be perceived[13] as), consumer nationality (what is the nationality of the principal consumers), locations (where are the products manufactured, where are the headquarters, where are stores located and where do most of the sales come from) and strategy (where are they heading to). Note that all of these are purely qualitative; degree of internationalization, for instance, has nothing to do with Sullivan's statistical tool of measuring the degree of internationalization ("DOI") of firms through the combination of five variables[14] (Sullivan, 1994).

2.2.1. Shanghai Tang

2.2.1.1. Introduction

Shanghai Tang is a Chinese luxury lifestyle brand mixing Chinese culture and craftsmanship with 20th century modernity (Heine & Phan, 2013). Especially known for its Shanghainese 1920s style, which is characterized by the use of bright colors, Shanghai Tang has reoriented itself several times since its foundation in 1994.

2.2.1.2. A short history

Shanghai Tang was founded in 1994 by David Tang, a Hong Kong businessman, as "*a chic Chinese emporium for visitors to Hong Kong*" (Debnam *et al*., 2010, p. 37). He conceived it as a Chinese brand inspired from Chinese fashion of the 1920s. In 1997, he decided to expand the

[13] Note that there might be a difference between the way a brand wants to be perceived, and the way it really is perceived. This is the case for Shiatzy Chen. In this thesis, the focus lies on the way it wants to be perceived.
[14] Sullivan's five variables constituting the Degree of Internationalization (DOI) are Foreign Sales as a percentage of Total Sales (FSTS), Foreign Assets as a percentage of Total Assets (FATA), Overseas Subsidiaries as a percentage of Total Subsidiaries (OSTS), Psychic Dispersion of International Operations (PDIO) and Top Managers' International Experience (TMIE) (Sullivan, 1994).

brand by building a second store in New York City on the Madison Avenue. This turned out to be a big failure because of several reasons: (1) a knowledge gap about American consumers and an overestimation of their interest in Shanghai Tang's products (for instance, they found the colors overwhelming), (2) a confusing style with no consistency, (3) a difficult understanding for its high prices while cheaper Chinese alternatives were directly available at the local Chinatown, and (4) the Madison Avenue retail location was too expensive compared to Shanghai Tang's sales volume (Heine & Phan, 2013).

In 2001, Swiss luxury goods company Richemont took a majority stake in the brand. A direct consequence of this acquisition was the opportunity to benefit from Richemont's competencies and network (Heine & Phan, 2013). Richemont assigned the French Raphael Le Masne de Chermont as Shanghai Tang's new CEO. Since then, the brand has undergone a repositioning and some strategic changes (Heine & Phan, 2013). As a result, the brand became more relevant and wearable. Mr. Le Masne de Chermont created an artistic director position and chose Joanne Ooi to fill it. She tried to move away from the traditional 1920s Chinese style to a more contemporary style while keeping Shanghai Tang's bright colors. Next to the "Authentics" (original founding collection, released twice a year), a ready-to-wear collection was launched (Balfour, 2007). Designers were given more freedom and responsibilities (Heine & Phan, 2013). Also, the brand has built more awareness by investing in advertising and social media campaigns. The brand's presence in travel retail, such as in major Asian airports, was strengthened. Last but not least, customer services were improved.

Today, Shanghai Tang is a lifestyle brand blending modernity and Chinese tradition. Fifty percent of the designers are Chinese and the other half is European, both working in international pairs (Heine & Phan, 2013). According to Ms. Ooi, "*there has to be some Chinese-ness, but not the hit-you-over-the head Chinese-ness at the [label's] inception that almost rendered the product unwearable*" (Balfour, 2007).

2.2.1.3. Brand

According to Annie Ho, associate marketing director at Shanghai Tang, the brand's competitive advantage lies in its strong brand DNA and product concept (Annie Ho, personal communication, February 9th, 2015). Shanghai Tang's image can be described as fashionable but timeless and classic at the same time. It highlights luxury values such as aesthetics, heritage and quality more than craftsmanship, exclusivity and symbolism. Two big opportunities for Shanghai Tang today are the rise of Chinese pride and the increasingly affluent Chinese consumers. Rising competition in the affordable luxury domain is seen as its biggest threat.

2.2.1.4. Products

The offer principally encompasses clothing, accessories, cosmetics, jewelry and watches, homeware and decoration (Shanghai Tang, n.d.-a). Fashion and accessories drive the business, with almost equal sales for men and women (Wilkinson, 2014). High quality materials are used such as Chinese silk, fine Mongolian cashmere and precious Chinese jade (Heine & Phan, 2013). Next to its products, Shanghai Tang also sells lifestyle experiences such as its lounge music collections and modern Chinese cuisine experience in a Shanghai Tang Café (Heine & Phan, 2013).

2.2.1.5. Pricing

The brand belongs to the accessible luxury category (Annie Ho, personal communication, February 9th, 2015; Wilkinson, 2014). A dress can cost more than EUR 400, men t-shirts are available at around EUR 125, a velvet jacket for women costs EUR 682 and a silk jacket for men costs EUR 794 (Shanghai Tang, n.d.-a). Products are 25% more expensive in China than Hong Kong, while they are made in China, packaged in Hong Kong and re-imported into China (Balfour, 2007).

2.2.1.6. Degree of internationalization

- Brand perception nationality

In terms of perceived brand nationality, Shanghai Tang wants to be perceived as a 100% Chinese brand by its customers (Annie Ho, personal communication, February 9th, 2015).

- Consumer nationality

In the early beginning, Shanghai Tang targeted Western tourists via export (Harilela, 2013). At that time, the Chinese were not really luxury consumers and they did not travel as much as they are doing today. Now, the brand targets more Chinese consumers. While in 2011, only 2% of Shanghai Tang's clientele were Mainland Chinese customers, today they represent about 20% of the customer base (Debnam *et al.,* 2010; Harilela, 2013). Therefore, the Chinese are Shanghai Tang's main target, both inside China or abroad (Annie Ho, personal communication, February 9th, 2015). The 2008 Olympics in China definitely helped to boost the brand's image amongst Chinese fashion lovers feeling becoming proud on their country and being more aware about its cultural heritage (Harilela, 2013). The second biggest customer nationality is American with 18% living in the US.

- Location

All Shanghai Tang's products are manufactured in Mainland China. Its headquarter, however, is located in Hong Kong. As of March 31st 2015, the brand was exclusively sold in 47 self-owned stores and not in any multi brand shops. Of these 47 stores, 24 are located in Mainland China, 14 in Hong Kong, 1 in Macau, 4 in Singapore, 1 in the US (Miami), 1 in Great Britain (London) and 2 in the Middle East (Shanghai Tang, n.d.-b). As Mr. Le Masne de Chermont stated, "*when it comes to brands in China, the most important word is not luxury, it is international*" (Debnam *et al*., 2010, p. 37). Most of the sales come from Hong Kong (Annie Ho, personal communication, February 9th, 2015).

- Strategy

In terms of brand strategy and expansion, Shanghai Tang will now focus on consolidating a stable position in China and on expanding in Asia (Annie Ho, personal communication, February 9th, 2015; Debnam *et al.,* 2010). Within the next five years, it aims to have a strong foothold in Greater China and within the next ten years in the entire Asia region (Annie Ho, personal communication, February 9th, 2015). In the next eight years, the brand also wants to be available in major European cities and American cities. In addition, it wants to obtain a strong position in e-commerce in the next three years.

2.2.2. Shiatzy Chen

2.2.2.1. Introduction

Shiatzy Chen is a Taiwan-based clothing brand blending Chinese culture and heritage with Western and global fashion. Often referred to as the "*Chanel of Taiwan*" (Chevalier & Lu, 2010, p. 99), the Chinese brand has a presence in many other countries today.

2.2.2.2. A short history

The Shiatzy Chen brand was launched in 1978 by Wang Chen Tsai-Hsia, also known as Shiatzy Chen, the brand's creative director today (Shiatzy Chen, n.d.-a). She started with the creation of a fashion house for women apparel in Taiwan. Her aim was "*to create the new look of China*" (Shiatzy Chen, n.d.-a). After developing her brand in the Taiwanese market, she decided to expand. In 1984, when her husband and she created Shiatzy International Company Ltd., her products started to be exported to the US and Japan, and later to Canada, Hong Kong, Western Germany, the Netherlands, Italy and Austria as well. In 2001, Shiatzy Chen opened a store in Paris, being the first Taiwanese brand name entering the European market (Shiatzy Chen, n.d.-a). Two years later, she entered the Mainland China market with a first shop in Shanghai as she noted Chinese consumers' growing interest in wearing clothes designed in China (Prasso, 2007). In 2008, the estimated sales amounted to more than USD 40 million after having grown heavily through expansion (Chevalier & Lu, 2010, p. 101). In 2014, Shiatzy Chen presented its 12th and 13th collection during the fashion week in Paris (Shiatzy Chen, n.d.-a).

2.2.2.3. Brand

According to Sueann Su, Shiatzy Chen's public relations manager, the brand image is, at the same time, fashionable, timeless and classic (Sueann Su, personal communication, February 13th, 2015; Shiatzy Chen, n.d.-a). The brand adheres more to values such as aesthetics, heritage, quality and craftsmanship, while exclusivity and symbolism are less prevailing (Sueann Su, personal communication, February 13th, 2015). Its competitive advantage lies in its ability to truly integrate Chinese elements and Western design, concepts and style. The biggest opportunities for Shiatzy Chen today are the rise of Chinese pride and the fact that luxury consumers are starting to increasingly admire uniqueness and Chinese heritage instead of ostentatious luxury. Competition coming from Western luxury brands remain, however, still the biggest threat.

2.2.2.4. Products

Shiatzy Chen's collection comprises women and men apparel, accessories and a home collection (Shiatzy Chen, n.d.-a). The style is always a mixture of East and West, which Shiatzy Chen also calls "*neo Chinese chic*" (Chevalier & Lu, 2010, p. 101). For example, it uses Chinese details – embroidery, buttons and collars – and Western cuts. Every product's label contains the Chinese characters meaning "original intention".

2.2.2.5. Pricing

Shiatzy Chen's products are sold at very high prices, almost as expensive as Chanel and 50% more expensive than Shanghai Tang, which is already seen as expensive (Chevalier & Lu, 2010, pp.103-104). For example, a hand-stitched mandarin-collar dress, also called "*qipao*", costs USD 3,000 (Prasso, 2007). Hence, the brand is situated somewhere between the aspirational and absolute luxury tier (Sueann Su, personal communication, February 13th, 2015; Warburton *et al*., 2014).

2.2.2.6. Degree of internationalization

- Brand perception nationality

Although Shiatzy Chen was established in Taiwan, the aim is to be developed and perceived as an international brand blending Chinese and international elements (Sueann Su, personal communication, February 13th, 2015). It wants to be seen as the most luxurious Chinese brand (Amed, 2011). However, in practice, according to Chevalier and Lu (2010), Shiatzy Chen is not always perceived as a Taiwanese or Chinese brand. The brand origin is not yet very clear in consumers' minds.

- Consumer nationality

The target consumers are mostly Chinese consumers in China and Western consumers in China and abroad (Sueann Su, personal communication, February 13th, 2015). Most of Shiatzy Chen's consumers are very sophisticated women, such as celebrities and wives of government officials (Chevalier & Lu, 2010). While most of them are over 35 years old, the company has recently started to target younger consumers.

- Location

Shiatzy Chen's products are all manufactured in Greater China, in Shanghai and Taipei more precisely (Sueann Su, personal communication, February 13th, 2015). The center of design is located in Taipei while the operational center for overseas markets is situated in Shanghai. As of March 31st 2015, Shiatzy Chen counts 67 stores worldwide with more than half of them (39) in Taiwan (Shiatzy Chen, n.d.-b). 19 stores are located in Mainland China, 4 in Hong Kong, 2 in Macau, 2 in the rest of Asia (Malaysia and Japan) and 1 in Europe (France). The majority of the stores are thus located in Taiwan (Taipei, more precisely) and in Mainland China (Sueann Su, personal communication, February 13th, 2015). Most of the sales also come from Taiwan. All stores are directly managed by Shiatzy Chen Corporate, except for the one in Malaysia which is operated by a local dealer.

- Strategy

Today, assuring a stable position in China and targeting the Asia Pacific area are Shiatzy Chen's key objectives (Sueann Su, personal communication, February 13th, 2015; Amed, 2011). Selling in Asia is easier because of the proximity and similar culture (Amed, 2011). The brand also aims at becoming an international luxury label with an increasing number of stores in the US and in Europe (Sueann Su, personal communication, February 13th, 2015). Overall, the target is to open 100 stores in China, 50 in Taiwan, 25 in Japan and another 25 worldwide by 2020 (Amed, 2011). As Sueann Su states: "*it are golden times for Chinese luxury labels. People are aware [of the luxury brands] and are not only looking for styles of luxury brands like Chanel and Dior, but also for a true design spirit and characteristics. Customers are beginning to pay more attention to cultural heritage instead of trends only*" (Sueann Su, personal communication, February 13th, 2015). Every time Shiatzy Chen decides to enter a new market, it will either open a new store by itself, find a partner or be present in department store channels.

2.2.3. NE-Tiger

2.2.3.1. Introduction

NE-Tiger is a Chinese luxury apparel brand creating fur and haute-couture dresses. Since its inception 33 years ago by Zhang Zhifeng, it has become a leading Chinese luxury brand – with five stores in China only.

2.2.3.2. A short history

In 1982, the founder of the NE-Tiger brand, Zhang Zhifeng, started his business and established his first tailor shop (NE-Tiger, n.d.-c). After some years of experience through Original Equipment Manufacturing (OEM) to Eastern Europe, he decided to officially found the NE-Tiger brand in 1992 (Ferguson, n.d.; NE-Tiger, n.d.-c). Five years later, NE-Tiger became the top fur brand in China and soon after, Chinese fur was promoted to the world. In 2004, NE-Tiger's first store was opened in Shanghai. The year after, the first wedding dress series were launched. Today, after 33 years of development, the brand has become a top luxury brand in China and is perceived as a "d*efender and inheritor of Chinese clothing culture and heritage*" and as a brand "*integrating antiquity to the present, converging Chinese and Western*" (NE-Tiger, n.d.-a). Much of its success can be attributed to Zhang Zhifeng's business sense and charisma (Lu, 2008). Although the majority of NE-Tiger's revenues is generated through OEM, NE-Tiger has plans to soon exclusively focus on its own production.

2.2.3.3. Brand

The name "NE-Tiger" comes from "Northeast Tiger" which refers to values such as strength and vitality (Lu, 2008). As stated by Ms. Zhang, NE-Tiger's brand manager, the brand's competitive advantages are the craftsmanship, quality, refinement and service it offers (Zhang, personal communication, February 13th, 2015). Also, its customization possibilities in terms of materials, techniques and accessories for loyal customers' dresses contribute to the brand's strengths (Armoudom, 2012). The brand image is timeless and classic (Lu, 2008). The values that the brands adhere to are oriented towards quality, aesthetics and heritage (Zhang, personal communication, February 13th, 2015). The increasingly affluent Chinese consumers are their biggest opportunity to seize today.

2.2.3.4. Products

NE-Tiger offers evening and wedding dresses and fur and leather apparel. All dresses are handmade. One of NE-Tiger's innovative products is the "*Huaxia*" dress (also called "*Huafu*"), of which the name is derived from "*Hua*" ("beautiful clothes") and "*Xia*" ("great ceremonies") (NE-Tiger, n.d.-a). This is a dress representing Chinese nationalism and spirit. It is made of fine silk with handcrafts such as tapestry, brocade, embroidery, paper-cut and hand-paint.

2.2.3.5. Pricing

The Huaxia dress is priced at USD 30,000 (Armoudom, 2012). However, when asking for a customized service, prices shoot up. NE-Tiger can be ranked somewhere between the accessible and aspirational luxury tier (Warburton *et al*., 2014; Zhang, personal communication, February 13th, 2015).

2.2.3.6. Degree of internationalization

- Brand perception nationality

NE-Tiger positions itself as 100% and inherently Chinese (Zhang, personal communication, February 13th, 2015; Lu, 2008). The brand is made by Asians for Asians (Lu, 2008). It is wholly Chinese owned and does not want to be sold off to a foreign company because it aims to remain a purely Chinese home-grown brand.

- Consumer nationality

The clientele of NE-Tiger comprises newly affluent and middle class Chinese, corporate and social elite and global consumers and Chinese who choose NE-Tiger over foreign luxury goods (Lu, 2008). Customer retention is achieved through NE-Tiger's "fur skin club" which counts 30,000 members. According to Ms. Zhang, the brand attracts mostly Chinese and Westerners in China, among which some royal and famous people (Zhang, personal communication, February 13th, 2015).

- Location

All NE-Tiger's products are manufactured in China, where the headquarters are located as well (Beijing) (Zhang, personal communication, February 13th, 2015). Although founder Zhang Zhifang argues that establishing an internationally famous brand and not only a nationally famous brand is an essential prerequisite in establishing a Chinese luxury brand, the brand is 'only' sold in five stores in Mainland China and currently has no other cross-border shops (NE-Tiger, n.d.-b).

- Strategy

In the near future, NE-Tiger wants to assure a stable position in China by growing in an organic way (Zhang, personal communication, February 13th, 2015; Lu, 2008). Internationalization is not going to be an objective anytime soon.

2.2.4. Longio

2.2.4.1. Introduction

Longio is a Chinese brand and OEM of high-end watches with a design blending Eastern and Western cultures (Longio, 2011a; Lu, 2012). With a mission to "*remodel the Chinese high-end timepiece image*", the brand hopes to become the "*Chinese Rolex*" one day (Longio, 2011a; Holly Meng, personal communication, March 2nd, 2015).

2.2.4.2. A short history

Like many Chinese watchmakers, Longio, founded in 1996, started out as an OEM making pieces for European luxurious watch brands (Lu, 2012). Longio benefitted from this obligation to keep up with production technology to meet strict quality requirements. Additionally, it gained expertise and knowledge about trends in the international market, especially in Europe. Since 2009, Longio has developed an own non-OEM business, which accounts for 20% of total revenues today (Armoudom, 2012). Each part of the watches is manufactured in China. Founder Changhong, the brand's chief designer today, wants to "*dispel the cliché that all watchmakers are Western by building an internationally recognized watch brand from China*" (Armoudom, 2012, p. 7). However, with Swiss brands leading the Chinese market, the challenges he faces are not minor. In 2007, Longio joined the international Baselworld Watch and Jewelry Show in Switzerland for the first time (Lu, 2012).

2.2.4.3. Brand

According to Holly Meng, marketing manager at Longio, the brand's competitive advantages are its uniquely designed products with advanced technology and good service and the fact that the brand is very experienced in the manufacturing of luxury watches (Holly Meng, personal communication, March 2nd, 2015). Longio's brand image is, at the same time, fashionable and classic. Its highlighted values are mainly craftsmanship, exclusivity and high quality. The word "Longio" comes from the Mandarin "bridge in the garden" and stands for bridging excellence and passion (Armoudom, 2012). While the popularity on "*Chinese chic*" is rising, competition from Western luxury brands is still tough (Holly Meng, personal communication, March 2nd, 2015).

2.2.4.4. Products

Longio’s collection comprises watches such as Asmara, Telamon, Volcan and X-Racer, respectively inspired by an African city, Greek mythology, Volcanic eruptions and extreme sports cars (Longio, 2011b). They are hand-made, utilizing exquisite materials such as ivory, jade or precious metals.

2.2.4.5. Pricing

The watches are most often priced between USD 1,500 and USD 16,000 each (Armoudom, 2012). The most expensive piece is based on the “*Fenghuang*” design representing a Chinese mythical creature priced at USD 2.6 million. Longio is positioned somewhere between the accessible and aspirational luxury tier (Holly Meng, personal communication, March 2nd, 2015; Warburton *et al*., 2014).

2.2.4.6. Degree of internationalization

- Brand perception nationality

Longio wants to be perceived as an international Chinese brand (Holly Meng, personal communication, March 2nd, 2015; Longio, 2011a).

- Consumer nationality

Most of Longio watch buyers are Westerners, both in and outside China.

- Location

Longio’s headquarter is located in China (Shenzhen). All Longio watches are manufactured in China (Holly Meng, personal communication, March 2nd, 2015; Armoudom, 2012). Products are sold in China and overseas (the US, Switzerland, Singapore, etc.), both trough brand’s own stores and in independent multi brand shops. Most of the sales originate from the US and Germany. Longio has distributors in Switzerland, Russia, the US, Hong Kong, etc. (Baselworld, 2013).

- Strategy

Longio's strategy is to become an international player, and even aims at becoming the "*Chinese Rolex*" (Holly Meng, personal communication, March 2nd, 2015). The plan is to concentrate on markets like North America, Northern Europe and Greater China (Baselworld, 2013). As Holly Meng states: "*we keep looking for new dealers from all over the world, especially from developed countries such as Switzerland, the US, France, etc. […] We discuss with them by mail or face-to-face, such as at the upcoming Basel World Fair. Then we invite some potential dealers to come to our booth and discuss. We would like to open our own markets to the world gradually"* (Holly Meng, personal communication, March 2nd, 2015).

2.3. Analysis

This chapter analyzes the four brands in two subchapters. The first subchapter discusses who they are, i.e. what characterizes them. The second one focuses on their international presence, in the sense of store distribution worldwide (a static take, as of March 31st 2015) and internationalizing strategies (a more dynamic outlook). Table 6 hereunder shows a comparative overview of all four brands.

	Shanghai Tang	Shiatzy Chen	NE-Tiger	Longio
Luxury category	Apparel	Apparel	Apparel	Hard luxury (watches)
Luxury tier	Accessible	Aspirational - Absolute	Accessible - Aspirational	Accessible - Aspirational
Age **(year of establishment)**	21 (1994)	37 (1978)	33 (1982)	19 (1996)
Customer perception (brand nationality)	100% Chinese	Chinese & international	100% Chinese	Chinese & international
Place of manufacturing	China	China	China	China
Targeted consumers	Chinese in China and Chinese tourists abroad	Chinese in China, Westerners in China, Westerners abroad	Chinese and Westerners in China	Westerners in China and abroad
Stores (as of 31/05/'15)	Own stores:	Own stores:	Own stores:	Own stores:
Mainland China	24	19	5	(exact numbers not available)
HK	14	4		
Macau	1	2		
Taiwan		39		
Rest of Asia	4	2		
Europe	1 (London)	1 (Paris)		
US	1 (Miami)			
Rest of World	2 (Kuwait, Dubai)			
Most of the sales come from	HK	Taiwan	China	US
Started selling for…	Hong Kong, and soon after, New York	Taiwan	China	Europe (as an OEM for other European brands)

Strategy	Short term: assuring a stable position in China Long term: expanding in Asia and having a presence in major European and American cities	Short term: Assuring a stable position in China Long term: becoming an international luxury brand with more stores in the US and Europe	Assuring a stable position in China	Going international as much as possible

Table 6: Comparative analysis of Shanghai Tang, Shiatzy Chen, NE-Tiger and Longio

2.3.1. Who are these Chinese personal luxury brands?

- "*Chineseness*"

Of course, as they were preselected in this way, all four brands analyzed are truly Chinese: they are manufactured in (Greater) China and want to be perceived as a Chinese brand by their customers. Shanghai Tang is more "hybrid" as it has been acquired by the Swiss luxury giant Richemont in 2001. Shiatzy Chen and Longio both want to be perceived as international Chinese brands. NE-Tiger appears to be the "purest" Chinese brand of all four, as it is Mainland Chinese owned and does not want to be perceived as international.

- Luxury category and luxury tier

All of the four brands analyzed sell apparel (Shanghai Tang, Shiatzy Chen and NE-Tiger) or watches (Longio) as main products. According to Bernstein Research and Interbrand, apparel and hard luxury are two categories where consumers believe that local Chinese luxury brands will take off the most (Warburton *et al.*, 2014). Apparel is a promising category because of the high relevance of fashion trends, and hard luxury (mostly jewelry) because of China's strong heritage and history of craftsmanship.

In addition, as most of the Chinese brands, the brands analyzed are all are skewed towards the accessible luxury tier, except for Shiatzy Chen, which is a bit more exclusive (Warburton *et al.*, 2014; financial analyst, personal communication, September 30th, 2014).

- Young brands

As many researchers have found, most of Chinese luxury brands are very young, if not all of them. China lacks personal luxury brands with a hundred years old history (Debnam & Qian, 2013; Jing Daily, 2011; Warburton *et al*., 2014; financial analyst, personal communication, September 30th, 2014). This often comes with a lack of heritage, which is a barrier for Chinese luxury brands to succeed, especially abroad. When looking at the four brands analyzed, it is not different. The oldest of them, Shiatzy Chen, established in 1978, is only 37 years old.

Although they all seem to acknowledge this lack of brand history can be a weakness, they all try to reference to Ancient China's heritage and its history of craftsmanship, or to Chinese 1920s style. Shiatzy Chen, for instance, says it "*embraces the inner soul of the East, […], transcending through essence of thousands years of history to create the eternal aesthetics*" (Shiatzy Chen, n.d.-a). Longio "*aims to manufacture top quality wristwatches and remodel the Chinese high-end timepiece image*" (Longio, 2011a). NE-Tiger *"is committed to the revival of the Chinese luxury culture*" (NE-Tiger, n.d.-a). And Shanghai Tang is "*inspired by Chinese fashion in the 1920s*" (Harilela, 2013).

- Blending Eastern and Western elements

According to some authors, a sustainable strategy for Chinese luxury brands is to combine both Chinese and Western elements (Armoudom, 2012; Wang & He, 2014). Hoffmann (2012) names this strategy of mixing of cultures the "*contemporary value proposition*"; Shiatzy Chen calls it "*neo Chinese chic*" (Chevalier & Lu, 2010, p.101). Indeed, when looking at the four brands analyzed, they all claim to blend Chinese culture with 21st century modernity (Shanghai Tang) or with Western design, style or culture (Shiatzy Chen and Longio). Even NE-Tiger, who is not targeting any foreign market, claims to converge Chinese and Western elements.

- Opportunities and threats

As many authors argued, all four brands analyzed indeed seem to capitalize on both the fact that Chinese consumers are becoming increasingly affluent, and the fact that they are becoming more proud and interested in their country. However, they do not seem to consider the negative connotations associated with the "Made in China" label as highly menacing; nor do they seem to be heavily impacted by the Chinese government crackdown on luxury gifting. Their biggest threat is the competition coming from Western and/or affordable luxury newcomers.

2.3.2. What is their international presence?

- Store distribution

Of the four brands analyzed, store count is very limited. Also, they are not present in many different countries worldwide. Shanghai Tang counts 47 stores of which almost all of them (39) are located in Greater China. The same applies to Shiatzy Chen, owning 67 stores of which 64 in Greater China. NE-Tiger only owns 5 stores, all located in Mainland China. Longio sells its products both in own stores and in independent multi brand shops, and both in China and overseas (exact numbers are not available). Longio gradually tries to enter new markets by looking for new distributors all over the world. Except for Longio from whom no conclusions can be drawn due to lack of reliable information, it seems that the brands are still very small and international reach remains still very limited, as Bernstein Research and Interbrand had concluded (Warburton *et al*., 2014).

- Strategy

In terms of international strategy, it seems that Shanghai Tang, Shiatzy Chen and NE-Tiger all have their main priorities focused on assuring a stable position in China today. Moreover, Shanghai Tang and Shiatzy Chen aspire to become international brands by growing in the rest of Asia, the US and Europe as well.

In its early days, Shanghai Tang, founded in Hong Kong, made a first attempt at launching its brand internationally by opening a store in New York City, which ultimately failed for several reasons. Therefore, it looks like the brand is now more cautious about expanding abroad and is first trying to capture the increasingly affluent Chinese consumers who are becoming increasingly proud on their country.

Shiatzy Chen focuses on primarily assuring a stable position in China as well. The brand was initiated in Taiwan in 1978, started to export to the West a few years later, and only entered Mainland China itself in 2003. This allowed the brand to directly position itself as an international Chinese brand when entering Mainland China. In the same way as Shanghai Tang, it is trying to leverage on the rise of Chinese pride.

NE-Tiger started out in Mainland China, and does not want to expand overseas anytime soon. Just like Shanghai Tang, it is capitalizing on the fact that Chinese consumers are becoming increasingly affluent. It wants to be a brand made by Asians, for Asians. However, a part of NE-Tiger's revenues also come from OEM in Europe, but this is said to gradually taper off.

Longio is the only brand not targeting China specifically at the moment. As it started as an OEM for other European luxury brands, the founder soon gained knowledge and became experienced enough to start its own brand. Longio continues entering new markets by discussing with new distributors and hopes to finally become the next international "*Chinese Rolex*" brand.

To conclude, while all four brands share many common elements (Chinese, young brands blending Eastern and Western elements) and most of them belong to the same category, i.e. apparel, and are skewed toward the accessible luxury tier, it seems like they all took different paths until now. Nevertheless, only one of them is focused on internationalization as its primary objective; the others are mainly heading (back) to China.

2.4. Limitations

As with any research, the outcome needs to be considered in the light of some deficiencies. The first caveat encountered was the limited information and previous research done on the topic. As seen before, Chinese luxury brands are generally very young brands. Only few studies have been carried out and a big part of documentation has been found in online articles from Chinese business or fashion magazines. In addition, the resources used are very recent, such as A.T.Kearney's research publication from 2012, Jonas Hoffmann's book from 2012, KPMG's report from 2013, Added Value's survey from 2014, and, the most used source, Bernstein and Interbrand's joint report from 2014. The newness of the articles simultaneously represented a major advantage and inconvenient. On the one hand, it contributed to the relevancy of this thesis by nurturing it with up-to-date information. On the other hand, this also represented a drawback. Indeed, during the writing of this thesis, which ran from April 2014 to May 2015, a lot of new useful documentation has been published. This means that by now, probably, new documentation is already available that could help to elaborate further on this thesis.

A second big limitation was the difficulty of contacting the brands, communicating with their representatives and obtaining the required information. First, as explained in chapter 2.1. 'methodology', it was very hard to reach the brands' representatives (marketing managers, brand managers or public relations managers). Getting their responses and willingness to participate only seemed possible when knowing someone working there, directly or indirectly. This networking occupied several months before finally, and luckily, getting in contact with the four analyzed brands. When finally getting in contact, communication was often tough because of breaches in culture and languages. Finally, even when communication was fluent, other biases such as time constraints or confidentiality issues restrained the brand representatives from answering completely. Due to those confidentiality issues, questions about profitability or about concrete internationalization strategies were often, if not always, left blank.

Third, I do realize this case study research would have reached a higher degree of relevancy if the brands' representative would have been met face-to-face and visits to some stores in China would have been executed. Altogether, this could have given additional insights and personal perceptions. Unfortunately, the long distance separting Belgium and China, time constraints and difficulties in contacting the brands have prevented me from doing so. However, I have visited two shops in Paris: Shiatzy Chen, situated in Rue Saint Honoré, and Qeelin, situated in Galerie Montpensier.

A fourth limitation is linked to the nature of this thesis as a "marketing" and qualitative study and due to lack of access to confidential data. Any type of statistical calculation or quantitative analysis has been left out. Four cases have been studied in depth. These cannot be seen as samples that can be generalized statistically, but as case studies that can generalize – confirm or reject – theories from the literature review (Yin, 2014).

2.5. Areas for further research

In the light of these limitations, some areas merit future research attention. First, since Chinese luxury brands have only started to appear a few decades ago and because they are an emerging business, it is important to closely and continuously follow them up in the upcoming years. Also, it is very likely that much more documentation will be available and that there will be a lot of evolution regarding this research topic – if not soon, then definitely in the long run. At that time, it might become interesting, for instance, to compare Chinese luxury brands' development and popularity to that of Japanese ones such as Kenzo, Miu Miu and Shiseido.

Second, due to limitations in terms of contacting and communicating with the different brands, there are definitely more areas that could be explored by a (preferably Chinese speaking, to avoid language barriers) person who has better contact opportunities in the Chinese luxury sector and who has the possibility to talk face-to-face to brand representatives and visit some stores in China.

Third, it would be interesting to perform some complementary research about the same topic using a quantitative approach, for instance recalling on Sullivan's index measuring the degree of internationalization ("DOI") of a firm through the combination of five statistical variables (Sullivan, 1994).

Last but not least, it could also be worth researching impersonal Chinese luxury brands ("experiential" luxury such as arts, home and decoration, hotels, spas, yachts, wines and spirits, restaurants etc.) next to the personal ones, as, worldwide, impersonal luxury goods account for the biggest part of the total luxury market and are growing at a higher rate than the personal luxury goods sector (Abtan *et al*., 2014).

3. CONCLUSION

The goal of this thesis was to answer the twofold research question: (1) who are the Chinese personal luxury brands and (2) what is their international presence? Whereas China is a promising growing luxury market, and about one third of all worldwide luxury buyers are Chinese, one might wonder whether this enormous “luxury buyer” country is or will become a huge “luxury maker” as well. Thorough literature review and the conduction of four case studies have led me to make the following conclusions.

First, whereas many people have never heard of any of them, Chinese luxury brands – in terms of being both manufactured in China and being positioned as a Chinese luxury brand, irrespective of the owner nationality – do exist. They are mainly skewed towards the accessible luxury tier; some are situated in the aspirational tier, but very few Chinese luxury brands have made it to the absolute/elitist segment (Warburton *et al*., 2014). It appears that most Chinese luxury brands are selling apparel or hard luxury (jewelry or watches), which seem to be the categories with the most room for competition. In addition, most of the Chinese luxury brands were only established a few decades ago and are thus still very young, especially compared to their French and Italian counterparts such as Louis Vuitton, Hermès and Prada, with a one hundred years old history (Debnam & Qian, 2013; Jing Daily, 2011; Warburton *et al*., 2014; financial analyst, personal communication, September 30th, 2014). In turn, many of them try to anticipate this potential weakness by marketing Ancient Chinese heritage and craftsmanship, or Chinese 1920s style. It appears that they are aiming at bridging the gap of communist China and China as a mass producer of low cost goods, by reaching deeper into Chinese history (Weinland, 2012). Moreover, many Chinese luxury brands believe that balancing Eastern and Western elements, as well as openly promoting this, is an attractive strategy (Armoudom, 2012; Wang & He, 2014). Last, they seem to find the increasing competition coming from Western and/or affordable brands the biggest threat to their business, but are benefitting the most from rising Chinese national pride and wealth.

Second, in general, Chinese luxury brands have not yet reached a high level of internationalization. Given the huge size of the Chinese luxury market, which is said to account for a quarter of the worldwide luxury market in 2015 (Denam & Qian, 2013), one might question whether it is truly necessary for Chinese luxury brands to be international brands. Then again, knowing that 75% of Chinese luxury consumption is currently bought abroad, it probably is (Ortelli *et al.,* 2015). Also, the fact that being internationally competitive and appealing to American and European consumer adds value to Chinese consumers is an additional motive for internationalizing (Warburton *et al*., 2014). When looking at the brands analyzed, in terms of store count and number of countries where they are present, international reach still remains very limited with few brand stores situated outside Greater China (Warburton *et al*., 2014). In terms of expansion strategy, many of them are concentrating – once again – on China: some have tried to expand too rapidly a few decades ago, failed, and came back to their home country. Some, however, have been more successful at entering Western markets quite early, subsequently entering Mainland China with the asset of being an "international" brand. On the other hand, others simply never intended to expand outside China, and are not planning to do so anytime soon. And last, some have eyed global markets from scratch thanks to experience through OEM.

Overall, this poor degree of internationalization of Chinese luxury brands is contrasting the fact that China is said to be the most active internationalizing country worldwide (Ding *et al.,* 2009). In addition, China's brand value has been increasing at double-digit rates these last years (Schept *et al*., 2014). Furthermore, besides in the luxury sector, many Chinese brands have already become globally competitive (Warburton *et al*., 2014). If overseas negative connotations associated with the "Made in China" label start to be mitigated and brands continue their efforts for improving marketing (e.g. brand storytelling) capabilities, Chinese luxury brands might start to gain international traction.

With this Master thesis, I have shed some light on the existence of Chinese personal luxury brands, their characteristics, their international reach and their potential success in China and abroad. As young and emerging businesses, they generally remain geographically limited and very small in terms of store count. However, with the increasing Chinese cultural pride and changing attitudes towards what is "Made in China", both from a Chinese and international point of view, the future might hold some interesting progress in the Chinese luxury sector. Western luxury brands are thus warned.

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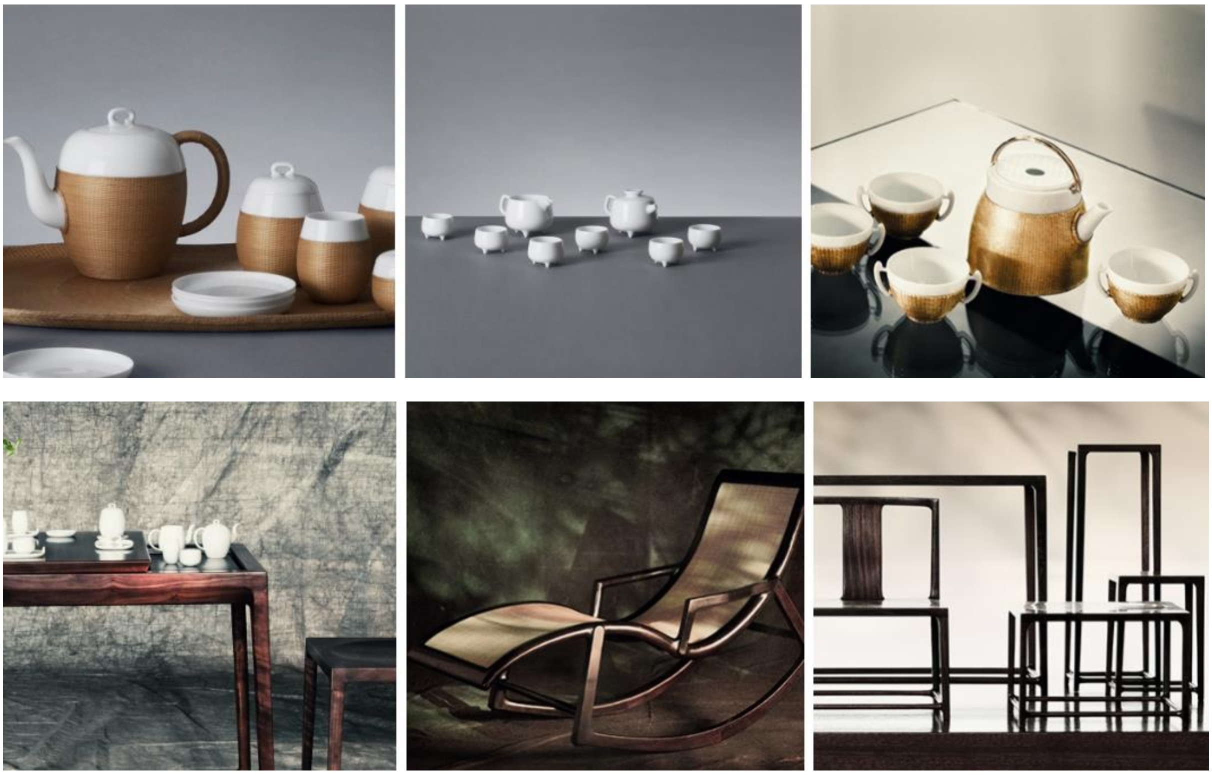
5. APPENDICES

Apendix 1: Shang Xia (http://www.shang-xia.com/ retrieved on April 15, 2015)

SHANG XIA



Appendix 2: Herborist (http://www.herborist-international.com retrieved on April 15, 2015)

佰草集
HERBORIST
THE CHINESE BEAUTY REMEDY

Appendix 3: Wallace Chan (http://www.wallace-chan.com/web/ retrieved on April 15, 2015)



Appendix 4: Qeelin (http://eu.qeelin.com/ retrieved on April 15, 2015)



Appendix 5: Chow Tai Fook (http://www.chowtaifook.com/en/ retrieved on April 15, 2015)



Appendix 6: Fiyta (http://www.fiyta.com/ retrieved on April 15, 2015)








Appendix 7: Interview with Petercam's financial analyst specialized in the luxury sector – September 30th, 2014

Which Chinese luxury brands exist?

Shanghai Tang (apparel, owned by Richemont), Qeelin (Swarovski type of jewelry, with a majority stake owned by Kering, being Kering's first non-European brand), NE-Tiger (traditional Chinese clothing), Powerland (handbags and accessories, listed in Germany), Ochirly (apparel, 10% owned by a LVMH's private equity arm), Fiyta (watches).

How successful are they?

They are all profitable brands but not to the extent of European brands. Sales growth has been robust from 2008 to 2012, mainly fuelled by aggressive retail expansion in Mainland China and Hong Kong. For all the above brands, sales growth has been more moderate in 2013 given the crackdown on gifting, and margins have been under pressure.

Are they internationally successful at the moment? Are they known abroad?

They are not really known abroad as:

1. *They are all relatively young brands.*
2. *They have not been created to become global brands (no major international retail expansion strategy) but rather to serve the domestic Chinese market (including Mainland China, Hong Kong and Macau) and possibly a bit of Asia expansion. Worth noting that there are a few successful Chinese designers (Uma Wang, Qui Hao) as well as Chinese-born American designers (Alexander Wang has a successful own label and designs for Kering's Balenciaga, Jason Wu has also his own label and designs for Hugo Boss womenswear). But as you know, being a successful "couture" designer doesn't mean this will lead to the creation of a large, profitable brand.*
3. *They are more "premium" than true luxury brands, targeting a mid-range customer. They are not super high-end positioned.*
4. *They can be constrained geographically as they usually use local distributors or their own distribution holding company.*
5. *Tax considerations: they are selling "made in China" products which don't carry import duties hence targeting a large local customer base to compete with imported Asian and European brands (rather than Chinese tourists abroad).*

What are their biggest threats and challenges?

1. *Chinese perception of their own "Made in China" label ("Made in Europe" is synonym for quality/exclusivity as opposed to "Made in China", synonym of "mass market", "cheap" and "inferior quality" according to many Chinese consumers)*
2. *Prohibitive cost of global retail expansion (real estate, A&P spend etc.)*
3. *Cross-cultural issues when Chinese brands are owned by Western conglomerates (e.g. Shanghai Tang by Richemont, Qeelin by Kering)*
4. *Anti-corruption measures/gifting crackdown affecting them at home, although less than Western brands*

Is the rise of Chinese pride playing a big role and making Chinese luxury brands successful?

Perhaps one day this will happen, but only if true global Chinese brands exist, and so far China has been quite weak in converting its huge craftsmanship/know-how/heritage (e.g. silk, porcelain, calligraphy etc.) into "brands". India has a similar problems too in not being able to create brands (despite its huge skills in jewelry for instance, their jewelry market is largely unbranded). Chinese brands might need to learn a bit from French/Italian/Swiss luxury brands in the "storytelling"/heritage part of the luxury commercial proposition.

More importantly, I think the emergence of a true, global Chinese luxury sector will require state intervention, i.e. the Chinese government's intentions to become a top 3 player in this sector and create a more organized, powerful sector to compete on a global basis (e.g. creation of industry lobbies, government subsidies, development of foreign "bureaux de representation" etc.). This is how the French and Italian luxury sectors have evolved in the 1950-60s from being small, family owned, fragmented, disorganized businesses to global brands/luxury powerhouses (with a conglomerate structure etc.). If Chinese government has a real desire to compete with the French/Italians in that sector to become a top 3 player then yes, they will facilitate and support the creation of such an industry, just like they have done in other sectors in the economy over the past 10 years (e.g. automotive, steel, electronics, white goods). However, I don't think the Chinese government is obsessed with such an idea but would rather consolidate market leading positions in sectors where they have a competitive advantage (i.e. where they can use cheap labor for decent output quality for instance in the automotive or electronics industry).

Appendix 8: Questionnaire

Questionnaire: Chinese luxury brands and their degree of internationalization

Please fill in the name of the brand: …

Questions:

About nationality:

- How does the brand want to be perceived by its customers?
  - ◯ 100% Chinese
  - ◯ A mixture of Chinese and another (please specify): …
  - ◯ Hong Kong
  - ◯ Other (please specify): …
- Where are its products manufactured?
  - ◯ China
  - ◯ Other (please specify): …
- Who are the targeted consumers?
  - ◯ Chinese in China
  - ◯ Chinese tourists
  - ◯ Westerners in China
  - ◯ Westerners abroad
  - ◯ Others (please specify): …
- Where are the stores situated? Are the products sold in the brand's own stores or in independent multi brand shops?

  …
- Which countries do most of the sales come from?

  …
- Where are the headquarters located?

  …
- What is the brand's strategy for expanding into a new market (e.g. opening stores in new areas) ? Does it use any specific distributors? Which ones?

  …

About the brand:

- What is the brand's image?
  - ◯ Fashionable
  - ◯ Timeless
  - ◯ Classic
  - ◯ Young
  - ◯ Other (please specify): …
- What is the brand's competitive advantage?

  …

- Which values does the brand adhere to (please rank from most to least):
  quality / craftsmanship / heritage / exclusivity / experience / aesthetics / symbolism / other (please specify)
  1.
  2.
  3.
  4.
  5.
  6.
  7.
  …

- How old is the brand? (What is the year of establishment)
  …

- What is the price category?
  ◯ Affordable luxury
  ◯ Medium luxury
  ◯ Absolute luxury
- What is the brand's strategy?
  ◯Assuring a stable position in China
  ◯Going international as soon as possible
  ◯Expanding in Asia only
  ◯Other (please specify): …
- How do you see the future of the brand?
  …

- How profitable is the brand in terms of sales?
  …

About Chinese luxury brands:
- How much does the brand perceive the following as an opportunity:
  - The rise of Chinese pride
  - The increasingly affluent Chinese consumers
  - Other (please specify): …

- How much does the brand perceive the following as a threat:
  - Negative connotations with "Made in China"
  - Chinese government crackdown on luxury gifting
  - Competition from Western luxury brands
  - Other (please specify): …

If you have any other comments, please add them underneath:
…

Thank you very much for your collaboration.

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Appendix 9: Shanghai Tang (https://www.shanghaitang.com/ retrieved on April 5, 2015)

SHANGHAI TANG

Appendix 10: Shiatzy Chen (http://www.shiatzychen.com/home.php retrieved on April 15, 2015 and own pictures).

Appendix 11 : NE-Tiger (http://www.netiger.com/ retrieved on April 15, 2015)

NE·TIGER
1982

Appendix 12 : Longio (http://www.longiowatch.com/ retrieved on April 15, 2015)