

# The Analysis of the Competitive Strategies of Korean Firms Entering the Shanghai Luxury Consumer Goods Market and Its Implications

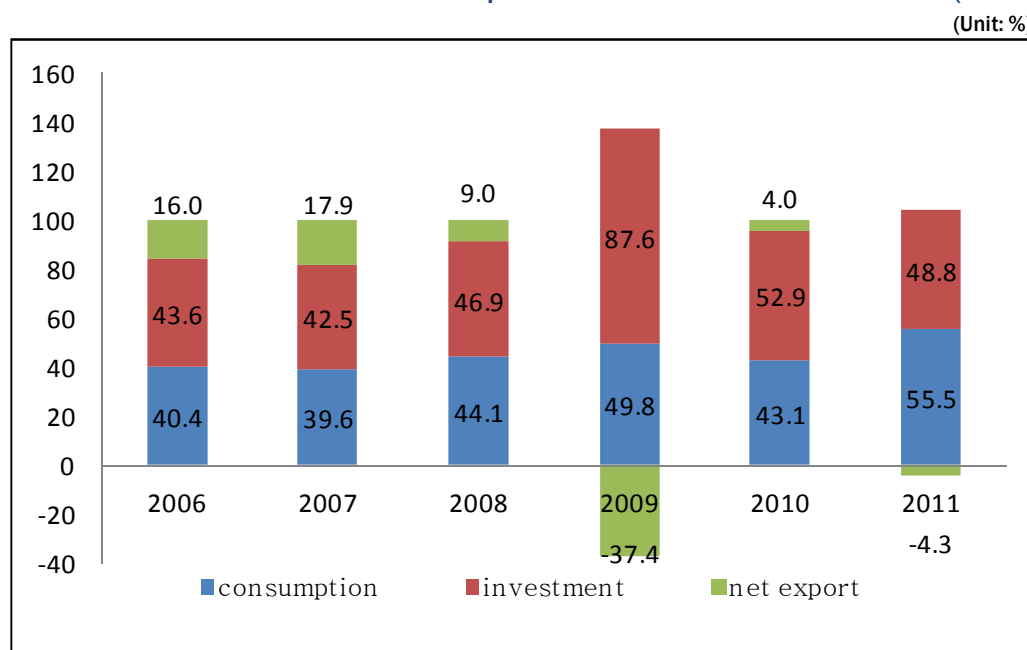
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## The Rise of the Chinese Luxury Consumer Goods Market

Since its reform and liberalization in 1978, China has recorded rapid economic growth over the past 30 years because of its growth in trade and investment. However, with the worsening of the external economic conditions that started in 2008, the country has been placing emphasis on domestic demand as the new growth engine that will drive continued economic

growth. It was declared in the 12th Five-Year Plan for National Economic and Social Development (2011–2015) that consumption is at the core of the country's strategy for expanding domestic demand, and similarly, at the National People's Congress in March 2012, it was emphasized that the central agenda for the year 2012 was the expansion of domestic demand that is centered around consumption. In fact, the contribution share of consumption to the growth of China's GDP has been steadily increasing.

**Figure 1. Contribution Share of the Three Components of GDP to the Growth of GDP (2006–2011)**

Source: China Statistical Yearbook 2012.

In particular, as the purchasing power of the Chinese consumers is increasing and as their purchasing pattern is changing—the luxury consumer market has been growing rapidly in the recent years. The consumption of luxury consumer goods in China has continuously risen by 25% every year, and the total amount of national consumption of luxury goods in 2008 reached USD 8.6 billion, which already makes up 1/4 of the world's market. Moreover, the World Luxury Association (WLA) has predicted that China (not including Hong Kong and Macau) will become the world's largest center for luxury consumer goods trade and consumption in 2012, with the amount of consumption reaching USD 14.6 billion.

## The Significance of the Shanghai Luxury Consumer Goods Market

With the rapid growth of the Chinese luxury

consumer goods market, many global luxury goods makers are also rushing into the Chinese market. In the past, global luxury goods makers had often adopted the strategy of entering the Chinese market indirectly by being listed in the Hong Kong stock exchange. While this may enhance corporate brand recognition, it does not necessarily lead to success in the Chinese market. Accordingly, in order to tap the Chinese luxury consumer goods market, a regional market is necessary where the consumer preferences, distribution and marketing could be tested in mainland China. This is where the Shanghai comes in as a good test market.

Shanghai is the most liberalized and global city in China. It is also China's largest luxury consumer goods market. Accordingly, whenever a foreign luxury consumer goods company enters the Chinese market, they consider entering the Shanghai market for the maximization of the brand promotion effect, as well

as to test the likelihood of success in the Chinese market.

Therefore, this study analyzes the competition strategy of the major companies through case studies in apparels and cosmetics products, which are the most universal of the products in the Shanghai luxury consumer goods market.

## Clothing Industry

The clothing industry is a representative labor-intensive industry, which is responsive to economic conditions and where competition is fierce.

### 1. Eland

Eland is a Korean clothing manufacturer that entered the Chinese market early on using Shanghai as its entry point. It positioned itself in the market through product differentiation strategy and mid-to-high product price range. In addition, by establishing its image as a luxury brand, it successfully localized product design, which helped it become number 2 in China's mid-to-high price range women's clothing market and exceed KRW 2 trillion in terms of overseas sales for the first time among Korean clothing manufacturers.

### 2. Company S

Company S is a Korean unrelated diversified firm and the clothing business is one of its six major lines of business. It is a late comer who does the manufacturing clothing in Korea and makes the sale in China. It has adopted a strategy focused on the luxury goods market, targeting the Shanghainese high-income earners.

### 3. Bestseller

Bestseller is a Danish clothing manufacturer that has years of international experience and famous brands. It entered the Chinese market as an entirely owned company in 1996, with its base in Beijing. It adopted the low-cost strategy through contract manufacturing.

### 4. Shanghai Tang

Shanghai Tang started out as a Hong Kong company but was acquired by the Richmond Group of Switzerland in 2000. In the same year, the company entered the Chinese market. Shanghai Tang used a differentiated focus strategy. By introducing unique retro designs that combine the traditional and modern styles, it has met the foreign tourists' demands for the Chinese concept.

### 5. Shiatzy Chen

As a Taiwanese company, Shiatzy Chen entered the Chinese market in 2005. It adopted a focused strategy, targeting the female celebrities' market. Through local manufacturing and various product portfolio, it satisfied the consumer's desire for status symbol and grace and also highlighted China's traditional aesthetics.

### 6. Prolivon

Prolivon is a stated-owned Shanghainese company. It is a late comer to the market, having entered the market as late as 2010. By studying the first mover, hiring foreign manpower and through international strategic cooperation, it made up for its shortcomings. The company targets professional women in the mid-to-high products range.

## Cosmetics industry

The cosmetics industry is a technology and knowledge-intensive industry where products are affected greatly by place of origin. Therefore, many Chinese cosmetic brands enjoy only slim profit margins, with small market share, in the low-price range cosmetics market, whereas a few foreign brands are dominating the mid-to-high price range cosmetics market in the Chinese cosmetics industry while netting high profits.

### 1. Company K

Company K is a diversified Korean company that is related to household goods, which engages in cosmetics business. It has 30 years of experience in foreign markets. It established a joint venture in Shenyang in 1994 that failed, and then established a sales subsidiary in 2000 in Shanghai. It is considered a late comer in the Shanghai cosmetics market and has adopted the differentiation strategy, targeting mid-to-high-income earners in China. It also divides the market depending on the product. It has established a manufacturing headquarters in the Jiading District in the outskirts of Shanghai, and has been expanding its markets into Shanghai, the Yangtze River Delta, and the rest of China.

### 2. Shiseido

Shiseido is a well-known Japanese cosmetics manufacturer with 100 years of history. It entered the Beijing market before anyone else in 1981, and in 1998, it established a joint venture in Shanghai and a China headquarters in Shanghai in 2003. The company emphasizes quality management, through diverse brands and segmentation of the consumer market. By establishing an independent subsidiary for each brand, it has maximized the brand value.

It has also built and continues to build trust with the Chinese government.

### 3. Herboist

Herborist is a local Shanghainese company, a late comer that entered the Shanghai market in 1998. It has adopted the differentiation strategy. At pace with the consumer trend that seeks natural and healthy products, the company has positioned itself in the market with “natural luxury traditional Chinese medicinal cosmetics.” Using Chinese elements to enter the overseas luxury market, it has also enhanced its name recognition in the domestic market as well.

## SWOT analysis results

The SWOT analysis for the Korean companies in the Chinese and Shanghainese luxury clothing and cosmetics markets demonstrated that the Korean companies have the technology and designing capability that can be comparable to those of companies from developed countries. Moreover, some, like Eland, have the capability to adopt aggressive, tailored strategies by which consumers are targeted through the segmentation of the clothing industry based on price range, and consumer class. However, when compared to such global luxury brands such as Louis Vuitton, Chanel and Armani, the Korean brands lag behind in many areas such as brand recognition, loyalty, pricing power, trend setting power, etc. This also means that because these global luxury brands are “luxury” goods, they are highly priced, which relatively limits the consumers. Therefore, when competing with global corporations other than some global luxury brands, Korean corporations could secure a competitive edge if only they succeed in market positioning.

**Figure 2. SWOT Analysis of Korean Corporations within China's Luxury Consumer Goods Market**

<p><b>[Strengths]</b></p> <p>Good technology, designing capability</p> <p>Savings in production costs through aggressive localization</p>	<p><b>[Weaknesses]</b></p> <p>Weak brand recognition</p> <p>Difficulties with investing in marketing, and advertising</p>
<p><b>[Opportunities]</b></p> <p>Expansion and diversification of China's consumer market</p> <p>Enhancement of China's consumer purchasing power</p> <p>The Hallyu(K-wave) effect</p>	<p><b>[Threats]</b></p> <p>The rise of the local Chinese firms</p> <p>Counterfeits, imitations</p>

Source: Prepared by the author.

## Suggested strategies for entering China's market

### 1. Entry Points are Important.

Instead of trying to cover the entire Chinese market from the beginning, it would be advisable to open stores in Beijing and Shanghai to monitor the circumstances and then expand into other areas. In particular, as the purchasing power of cities in the Yangtze River Delta are increasing lately and as their spending patterns lean more and more towards luxury goods, Shanghai is one city that Korean firms should give foremost consideration when entering China's luxury goods market.

### 2. It is Important to Make Full Use of Shanghai's Image in Brand Advertising.

Shanghai is the trendiest city in China. What happens in Shanghai also has great ripple effects elsewhere. Accordingly, various sales promotions and marketing activities that highlight Shanghai should be undertaken.

### 3. The Characteristics of China's Luxury Goods Consumers Must be Understood.

A significant number of China's luxury goods consumers make their purchases for purposes of keeping up their social lives.

They therefore give priority to how well known a brand is rather than the product's design concept or cultural backgrounds. On the other hand, however, purchases geared towards self-satisfaction are also on the rise. Korean companies may be able to obtain a competitive edge if they develop products that appeal to the young generation that pursues their own styles.

### 4. New Luxury Goods Markets Must be Created.

It is also possible that China could create its own new luxury goods. Therefore, if the Korean firms move away from the traditional luxury goods items such as clothing, jewelry, luggage, watches, cosmetics, luxury cars and yachts and establish the new image of luxury goods items, their competitiveness will rise.

### 5. Intellectual Property Must be Used to a Full Extent.

Corporations must raise their familiarity through noise-marketing related to intellectual property rights, thereby promoting consumer purchases. And at the same time, it must develop small quantities of luxury products to encourage VIP purchases.

## Suggestions for the Korean government's support

### 1. It Must Support Advertising Activities to Instill the Luxury Images of the Korean Goods in the Chinese Tourists Visiting Korea.

China's luxury goods consumption takes place not only within China, but also during foreign travels and through joint off-shore purchases. Therefore, the effort to enhance the brand recognition of luxury Korean consumer goods must start from within Korea. Accordingly, it is desirable to undertake various advertising and sales promotion activities that could enhance the image of Korean luxury goods in the eyes of Chinese tourists visiting Korea.

### 2. Support Must be Provided to Korean Firms so that They Could Raise the Familiarity of the Korean Goods within China.

The duty-free stores, in particular, are the most effective venues where the luxury brand image can be enhanced. Therefore, the Korean government should provide support so that Korean corporations could run a duty-free shop in China, and help Korean firms open their businesses in China's duty free shops. The government must also help Korean outstanding brands participate in luxury goods exhibitions in China. 