

# **Tips for Newly Entered Companies (NEC) in Running Luxury Goods Logistics in China**

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BUD Project  
21 Nov 2013**

# What is that ?

The features of Luxury Goods can be concluded as follows:

- High Price
- High Quality
- Uniqueness
- Symbolic Value

# What happens ?

- China shows great potential to the world market.
- China as a huge market with 1.4 billion populations.
- Goldman Sachs investment bank predicted that “in 2015 China will surpass Japan and become the world's largest luxury goods consumer market with a share up to 32%”.

<http://www.pressinterpreter.org/node/262>

- With such a strong trend, understand the current situation of Chinese luxury market in order to find how to choose a suitable strategy for expansion is highly indeed.

# Macro-environment Analysis

## Political Factors

- Tariff and excises policy affect on the development of luxury goods market.
- Tourism policy encourage the luxury good consumption.
- Fight against counterfeit purifies the environment for development of luxury goods.

# Macro-environment Analysis

## Economic factors

- Rapid economic growth
- Evidence from per capita GDP
  1. The rich in China are growing rapidly in both figures and wealth.
  2. New money
  3. Young owner
  4. Risk of inflation

# Macro-environment Analysis

## Social Factors

- Face (Mianzi)

In Chinese, face has two distinguished expression: Lian and Mianzi.

- Guanxi

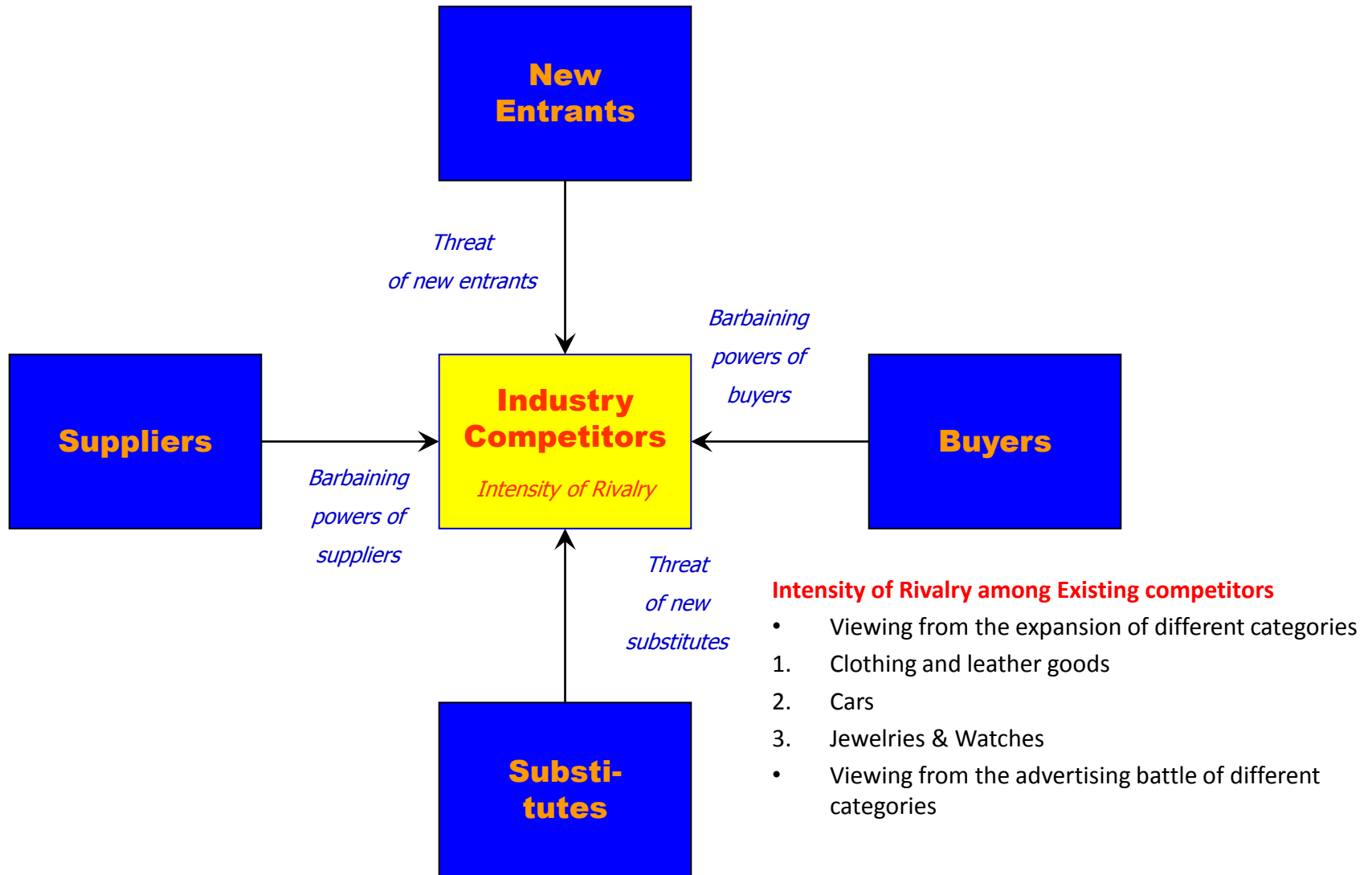
Guanxi literally means relationship. In China, it refers more to a network with mutual benefit.

# Macro-environment Analysis

## Technological factors

- Internet and related new media broaden the platform.
- Application of high technology on credit cards stimulates the consumption.

# Porter's 5-Forces Competitive Model





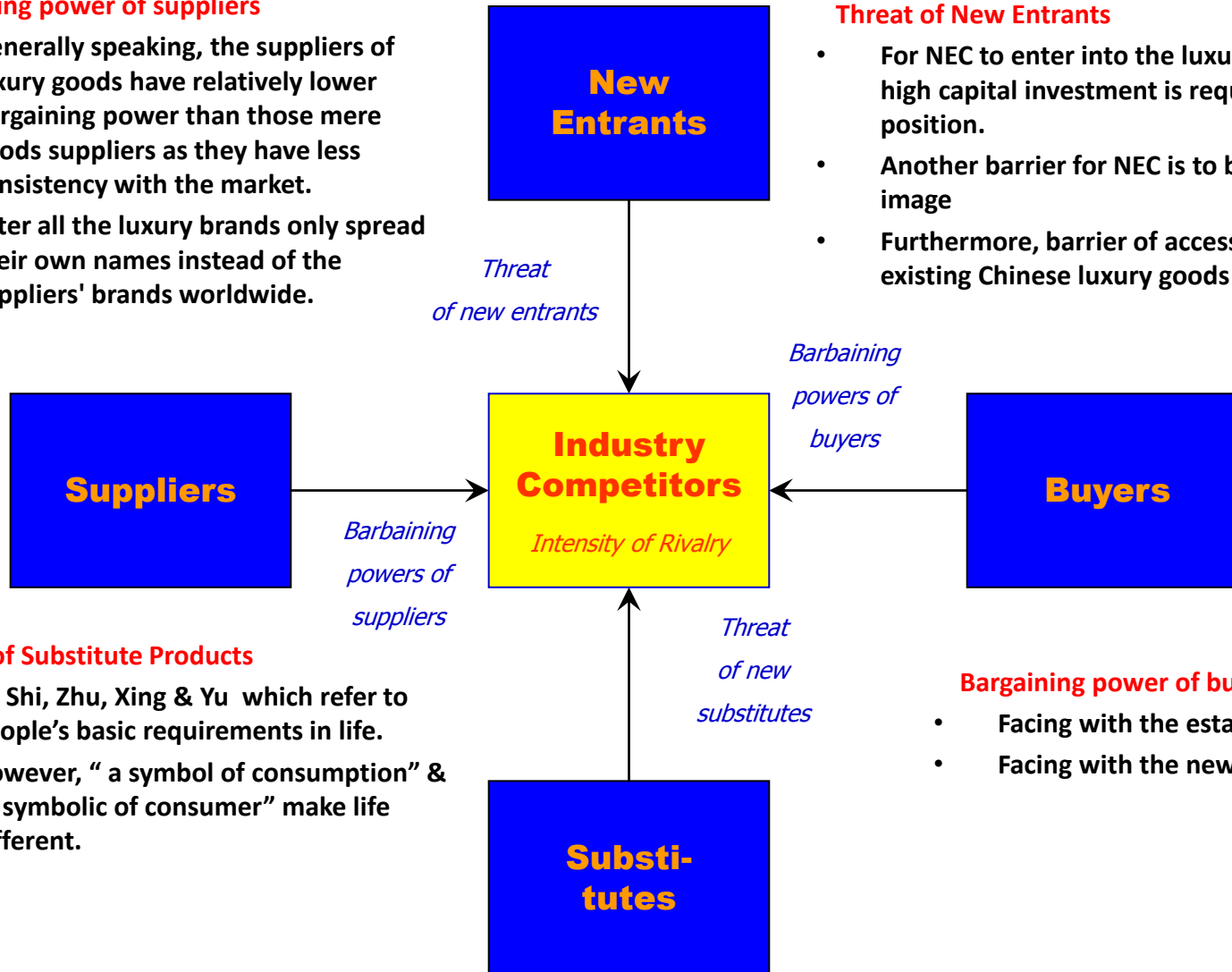
# Porter's 5-Forces Competitive Model

## Bargaining power of suppliers

- Generally speaking, the suppliers of luxury goods have relatively lower bargaining power than those mere goods suppliers as they have less consistency with the market.
- After all the luxury brands only spread their own names instead of the suppliers' brands worldwide.

## Threat of New Entrants

- For NEC to enter into the luxury goods market in China, high capital investment is required to achieve the market position.
- Another barrier for NEC is to build up/leverage its brand image
- Furthermore, barrier of access to distribution also existing Chinese luxury goods industry



## Threat of Substitute Products

- Yi, Shi, Zhu, Xing & Yu which refer to people's basic requirements in life.
- However, "a symbol of consumption" & "a symbolic of consumer" make life different.

## Bargaining power of buyers

- Facing with the established brands
- Facing with the newcomers

# CONSUMER ANALYSIS

## Geographic Features

- Beijing
- Shanghai
- Guangzhou
- Shenzhen and Hong Kong

# CONSUMER ANALYSIS

## Demographic Features

- Chinese luxury goods consumers are relatively quite young.
- The role of Chinese women in luxury goods consumption is growing rapidly.

# CONSUMER ANALYSIS

## Classification of the Consumer Groups

- The establishment group
- The middle-class group (New luxury shopper and empowered women)
- The youth group/little emperors

# SWOT Analysis

Based on the Macro and Micro environment analysis, the current situation in China's luxury goods market can be summarized as follows:

- Strengths
- Weaknesses
- Opportunities
- Threats

# SWOT Analysis

## Strengths

- Abundant experience from the previous explorers.
- More experienced suppliers.
- For local players, there are advantages of deep understanding of the local culture.
- For the foreign players, there are advantage of good perception of brand image from country of origin.

# SWOT Analysis

## Weaknesses

- Unbalanced development.
- For local players, there are lack of brand equity.
- Incomplete retail environment and increasing media cost.

# SWOT Analysis

## Opportunities

- Stable political environment in China.
- Emerging economy and the increasing purchasing power and demands.
- Growing outbound tourism and abroad shopping in accordance with WTO entry.
- Advantage from development of high technology especially the Internet.



# SWOT Analysis

## Threats

- The adjustment of tax policy.
- Threats from intense competition and newcomer.
- Threat from the counterfeit.

# Logistics Players in China

## State-owned Players

- Sinotrans
- COSCO
- China Post Logistics,
- CCSC (China Courier Services Corporation)
- China Rail Logistics

# Logistics Players in China

## Private Players

- Da Tian W Group (DTW)
- SF Express

## International Logistics Players

- DHL
- TNT
- Federal Express
- United Parcel Service

# Future Strategies Analysis of International Players

## Strategies for Infrastructure Growth

- Direct Investment
- Merger & Acquisition
- Franchising
- Strategic Alliance

# Future Strategies Analysis of International Players

## Strategies for Business Growth

- Strategic Alliance
- Merger & Acquisition and Buyout
- Independence

## Service Enhancement

# Future Strategies Analysis of Chinese Logistics Companies

- State-Owned Players
- Private Players
- Merger & Acquisition
- Service Differentiation
- Cooperation
- Overseas Expansion

# Thirteen Tips to NEC

## 1. Brand Positioning

- A properly designed Brand Positioning is critical.
- Various brand positioning strategies are available in China.
- Brand associations differ among Chinese customers.
- The level of local adaptation varies between brands.
- The number and quality of brand extensions may vary depending on brand positioning.

# Thirteen Tips to NEC

## 2. Resources

- To launch and operate in China, extensive resources are usually needed.
- Most significant costs include those relating to marketing, real estate, staffing and training of employees, legal advice and local administration costs.
- NEC should consider the timeframe of their operations as well as their attitude towards risk, as profitability is likely not to come instantly.
- Lastly, smaller firms outside conglomerates are disadvantaged as they usually lack extensive resources, and may have to team up with external partners to be competitive.



# Thirteen Tips to NEC

## 3. Customers

- The characteristics of customers in China differ both compared to Western markets as well as in between domestic cities and regions, and will continue to change as the Chinese luxury market grows.
- Several NEC will resist change that alters the companies' core values.

# Thirteen Tips to NEC

## 4. Marketing Communication

- Marketing efforts, while critical for a NEC's success, often prove both costly and ineffective in China.
- Central means of communication in are PR, advertising and events.
- Marketing messages often aims to communicate a Western image, brand heritage, high pricing and visible logos.

# Thirteen Tips to NEC

## 5. Locations

- Prices and availability of attractive locations are likely to continue to be an issue in the future.
- As conditions in 2nd and 3rd tier cities differ from 1st line cities, certain assessments should be conducted before considering entry there.
- Heavy location costs may continue to pose challenges especially to small- and medium sized companies

# Thirteen Tips to NEC

## 6. Staffing

- Finding employees at all company levels is very difficult, and even more so in 2nd and 3rd line cities.
- Training of staff at all levels is required, which incur heavy costs and is often made difficult due to a lack of service providers.
- Retaining staff with the company, as many employees tend to quit for higher pay elsewhere, is a major issue for NEC in China. This has lead to fierce competition for staff within the industry.

# Thirteen Tips to NEC

## 7. Competition

- Competition is in fact a big issue, but for various reasons.
- Whether over-establishment is in general or only in certain markets and services categories, it is clear that competition poses challenges to NEC in China.
- Lack of brand awareness has led to weak brand loyalty.
- NEC are disadvantaged. In certain product categories, competition is more intense than in others.

# Thirteen Tips to NEC

## 8. Regulations

- Previous studies have identified several different regulations.
- The Chinese market has continued to deregulate in terms of regulations in recent years.
- Despite recent regulations, companies should also pay close attention to any contradicting trends.

# Thirteen Tips to NEC

## 9. Local Collaborations

- International Logistics Services Providers now have more opportunities to independently tailor operations for their activities in China.
- Local collaborations pose both opportunities and risk to NEC in China.
- These include tradeoffs between control and risk, as well as between profits and upholding brand values.

# Thirteen Tips to NEC

## 10. Domestic Turbulence

- Domestic turbulence seem to pose challenges to companies relating both to the actions of domestic politicians as well as among customers.
- Despite DT being largely unpredictable, the core characteristics of NEC together with risk awareness and control may prevent international brands from experiencing sudden unpleasant surprises.



# Thirteen Tips to NEC

## 11. Corruption

- It is clear that Corruption as a challenge for NEC need more research for any clear conclusions to be drawn.
- Findings indicate that corruption in terms of bribes or 'gifts' have diminished in recent years, but may still have impact on especially local Chinese markets.

# Thirteen Tips to NEC

## 12. Counterfeiting

- Counterfeiting remains among the most frequently discussed challenges on the Chinese luxury market, but the reasons for concerns about product piracy are scattered.
- While respondents have different views on how counterfeiting affects the company, there is no doubt that it is still a major issue that poses various problems for brands in China.
- To handle the counterfeiting challenge, more efficient regulations, common efforts by NEC and additional considerations when launching downwards extensions may be some efforts to make this challenge less significant.

# Thirteen Tips to NEC

## 13. Currency Fluctuations

- No or little research has previously connected luxury brands with currency fluctuations as a challenge.
- Brands have to closely consider how margins are affected by any fluctuations, and hedge for any risks.
- Dealing with financial risks, companies could perform “stress tests”, wherein assuming that heavy currency fluctuations will take place in the future, thus identifying any sensitive areas to minimize overall currency risk.

# Case Study (SZ)

## Shenzhen

- Population: over 10,000,000
- Location: Southern Tip of Mainland China
- Climate: Temperate and Mild
- Geographic Coverage: 1953 sq km
- Key Facts: Worlds 4th Busiest container port.  
Majority of luxury goods sold here are to consumers that live within the bounds of Shenzhen.

# Case Study (MO)

## Macau

- Population: over 600,000
- Location: In southern China on the Macau Peninsula, including the Islands Taipa and Colaone
- Climate: Mostly warm and humid with large variations in climate throughout the year along with tropical cyclones
- Geographic Coverage: over 30 sq km

# Case Study (MO)

## Key Facts:

- Gambling is a key industry, with many Casinos and resorts such as The Venetian.
- Many of its luxury consumers are tourists or visitors from places outside of Macau.
- Macau's target luxury goods consumer is most likely not from within the confines of Macau.
- This city is the home of many luxury hotels, with the likes of The Venetian and casinos like The Sands Macau.

# Discussion

**Q & A**

# Thank you !

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