

Market penetration of foreign clothing companies in china



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As mentioned in previous chapters, Chinese high-quality clothing market is growing rapidly. In 2008 it was worth \$15 billion what represents around 5.5% of the global market. Estimated year-to-year growth rate in 2008 was 25% a year, what shows very high dynamism of this growth. It is said that even in case of decrease of this amazing growth rate, mainland China will have 15% share of luxury market by year 2015 (with Hong Kong, Macau and Taiwan between 20% and 25%). According to Beijing News China has already overtook USA and are the second

Table 1. Forecast of Worldwide luxury market value

Source: Fox, C., Luxury Market Update 2012 Outlook, Bain & Company, 2009.

In China, within category of luxury goods, “clothing and accessories” account for \$3.1 billion (total market value in 2008 was \$15 billion) and are only behind “fragrances and cosmetics” (\$4 billion) and “spirits, champagnes and still wines” (\$4 billion). (3)

Many of foreign high-quality clothing companies are growing even at more impressive rate. Between 2001 and 2007 many of them has grown by 50% when considering their annual sales. What is important, these brands don't stop investing in China and were opening new stores that generated almost 20% of its growth in the same period of time (rest came from existing stores). (3) As an example we can take Gucci Group that grew by 46% in Mainland China in 2009. (4) China in this case is a main driver of PPR sales in Asia-Pacific region. In first quarter of 2010 year-to-year sales of the group rose by another 39%. (5)

6. 2. Main players and market share in China

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Global luxury brands such as Louis Vuitton and Cartier have discovered the importance of Chinese market as early as in the 1990s. Since then some of them, such as Alfred Dunhill or Ports 1961, have focused on China as a main market. E. g. Louis Vuitton, that entered China's market in 1992 remains on top today despite market becoming more competitive every year. These brands benefit from their long-term and localized marketing campaigns.

In order to illustrate market share of main players on Chinese luxury market we will analyze their number of stores operating in China (see table 2). It seems that Chinese customers are loyal to brands that they know the longest. There are twelve main players in China, but almost 40 international high-quality brands are present. With such high development of the market many companies recognize that they simply could no longer afford being absent and were entering China within last couple of years.

As we can observe on the pie chart, biggest major brands operating in China are Alfred Dunhill (19%), Hugo Boss (16%), Armani (14%), Ermenegildo Zegna (11%). Following brands are: Burberry (9%), Coach (7%), Gucci (7%) and Louis Vuitton (6%). All these brands have multiplied number of stores within last 3 years e. g. Armani (from 31 to 72 locations), Gucci (from 17 to 35), Coach (from 14 to 40).

Table 2. Number of stores of major brands in China (2009).

Source: Own elaboration based on data from company websites and annual reports.

Alfredo Dunhill - market leader - is particularly interesting. As early as in

1960s Dunhill started to develop business in Asia. First steps were made in <https://assignbuster.com/market-penetration-of-foreign-clothing-companies-in-china/>

Japan and Hong Kong, later Singapore, Taiwan and Malaysia. In 1994 Dunhill entered mainland China and since then is developing at amazing rate. In 2006, according to China Daily, it became its second largest market, behind Japan. What is surprising is that China exceeded even Dunhill's country's of origin market - United Kingdom. One of the reasons for such a success may be recognition of differences in Chinese consumers taste. Dunhill offered in mainland market more casual wear in addition to formal tailoring.

Jonathan Seliger, managing Director of Chinas branch states that Dunhill takes a "two-prolonged approach to building distribution in China. While we continue to internalize strategic cites from legacy franchisees, we also promote our local partners to explore opportunities in fast-developing second and third tier cites that are now ready for luxury brands. At the same time, our retail business continues to expand in large first and second tier cities, opening larger flagship stores in key shopping malls, for example our Brand Home in Shanghai".

Case of Ermenegildo Zegna is also interesting. Company is one of the market leaders in China with plans to accelerate market race even more (in two years Zegna opened 25 new stores to a total of 56 and is announcing further expansion).

Gildo Zegna, the CEO of the company, said for Reuters:

"as matter of fact this happened already few years ago, just before the crisis, when we decided to shift resources from the West to the East, in particular China and other countries like Taiwan, Hong Kong. I think that was

an act of courage, and we were right because we are progressing at 30% growth every year". (6)

Internationalization strategies

Like in any market, there is many ways to start operating on Chinese market. One of the first and most obvious ways is to set up a wholly owned subsidiary. Nevertheless many companies don't decide to make is as their mode of entry for different reasons. One of them might be market size. Besides Beijing, Shanghai and Guangzhou - cities that are a natural choice for opening first activities, China has 815 cities, of which 200 with population between one million and five million inhabitants and 12 metropolises of more than five million. (17) For this reason it may be difficult for a new company to choose a starting point.

6. 3. 1. Foreign direct investment

Three main types of foreign direct investments in China are Equity Joint Ventures (EJVs), Contractual Joint Ventures (CJVs) and Wholly Foreign Owned Enterprises (WFOEs). CJVs initially were most popular type since the late 1970s, however from the late 1980s on, EJVs and WFOEs replaced them as main strategies of entry. Recent years have proven that investors are mostly interested in establishing wholly foreign owned enterprises. There were two reasons why equity joint ventures have been most popular back in the days. First, the Chinese government considers EJVs as an option that helps the Chinese to gain experiences in fields like foreign capital, technology, and management. Second, foreign investors hope to be supported by local partner in the domestic markets. It is believed that because of the problems <https://assignbuster.com/market-penetration-of-foreign-clothing-companies-in-china/>

with equity joint ventures in recent years, foreign investors are now choosing WFOEs as the preferred mode of entry more often. Many multinational companies that previously formed joint ventures with Chinese investors are now trying to establish WOE in order to improve efficiency and corporate control.

6. 3. 1. 1. Joint venture

Before China's accession to WTO joint venture with a Chinese minority partner was the only way of opening a subsidiary and operating on Chinese market. Usually partners were state-owned enterprises that managed distribution. As much as it made sense to enter a new, unknown and unexplored market with joint venture with local company, before

11th December 2001 no company had a choice as it was obliged by law to have a joint-venture partner. (15)

It is said that having a partner when opening a subsidiary abroad is usually beneficial, especially in a country like China, where it takes time to understand business traditions but also local culture and language. At the startup partner may also help with all administrative procedures that a company has to go through.

Pierre Xiao Lu points out that joint venture “ proves to be the most effective entry path”, nevertheless he also warns:

“ There is one system which definitely does not work, although it is frequently used. This is the case where foreign group purchases a majority interest in a local Chinese company (anything from 51% to 75%, say) and <https://assignbuster.com/market-penetration-of-foreign-clothing-companies-in-china/>

leaves the former owner to run the company. The majority owners must be sure they have executives who accept and understand the basic philosophy of the group. Management control and accountabilities must be clearly stated. This cannot be overstated. In our experience, this is often neglected, perhaps because of language difficulties or cultural differences.” (3)

If a company chooses not to open a wholly owned subsidiary, it has following internationalization strategies to choose from:

Direct imports,

Distributor (importer).

6. 3. 1. 2. Direct imports

Main advantage of this mode of entry is its low cost. However each company has to evaluate whether low cost is more important than losing control over its products and its image on the market. This approach has many advantages, but it is also important that products will be associated with one department store in a long term. This might be both, positive and negative, as it depends on the image of the partner chain. What also has to be considered that even if importer has positive image among consumers and it might be beneficial to be associated with him, company limits itself only to the chain-stores, and cannot grow in this way.

This approach might be a good temporary solution for companies that are reluctant to risk and invest in the first years of operations, and want to wait for a consumer response.

There is couple of department-store chains in China that a high-quality foreign company could approach.

One of the biggest is Parkson - Malaysian company that is present in China since 1994. For past two years it proved to develop very fast, 19 new stores had been opened to a total of 47. Parkson operates in majority of biggest cities in China (including two in Dalian). (7) Main focus of Parkson is on middle / middle-upper segment, it has two types of stores - very upscale and mainstream. While it would be a good choice for cosmetics exporter, for one producing high-quality garments might not be the best mode of entry. (8)

Isetan, Japanese department store, could be another option as it has an upscale image and would definitely reach targeted consumers for a high-quality brand. Unfortunately it has stores only in Shanghai, Tianjin, Shenyang and Chengdu - not even in Beijing. (9)

Maison Mode is a Chinese chain that carries luxury brands such as Louis Vuitton, Gucci, Salvatore Ferragamo, Cartier, MaxMara, Dunhill and Emporio Armani. First branch was opened in 1994 in Shanghai. Since then four more stores including one in Changsha (first group's flagship store in Central China). Maison Mode has already established its presence in five more major cities in China: Beijing, Chengdu, Chongqing, Tianjin and Xi'an. (10)

Other department stores worth mentioning are: Seibu, Sogo, Lane Crawford, Guangzhou Friendship Stores, Intime and Beijing Hualian Group. (10)

Even though a choice is not poor when it comes to department-store companies, managers have to remember that those have a limited number

of outlets, so they can't provide a well developed, nationwide distribution network.

6. 3. 1. 3. Distributor (importer)

This is the most popular way to start operations in China. A distributor purchases goods from the company, organizes logistics and deliveries as well as import duties. Furthermore he is responsible not only for reselling goods but also for promoting the brand on the market. In this situation company often co-covers costs of marketing activities with importer with right to have of supervising the spending. Usually this budget is counted on basis of percentage of sales to the distributor.

Main distributors of high-quality garments in China are Bluebell, Dickson Concepts, Fairton International Group, Hembly, Imaginex and Li & Fung Limited. (3)

Bluebell is a major Asian distributor owning over 500 stores. Each store is dedicated to one brand that Bluebell has right to distribute exclusively on the market. Even though it has a strong coverage of Taiwanese (24 stores) and Hong Kong's (59 stores) markets, in mainland China it operates only 8 outlets. It also operates in Korea and Japan. It distributes such high quality brands as Blumarine, Moschino, Paul Smith, Jimmy Choo or J. M. Weston. (11)

Dickson Concepts on the other hand has developed very well in mainland China and has now over 230 stores, whereas 68 in Hong Kong and 170 in Taiwan. Main brand that group is importing is Tommy Hilfiger (over 50 stores), but it also rents out stores for Chloe, Gucci etc. (12)

Fairton International Group, created in 1955, owns over 200 stores, of which 123 in mainland China and 51 in Hong Kong. Brand distributed: Max Mara (35 stores), Bally (31 points of sale), Kookai (27). (3)

Hembly, established in 2000, has rights to distribute brands such as Armani, Benetton, Sisley, Moschino, Gaetano Navarra and Sergio Tecchini. (13)

ImagineX group, established in 1992, is concluding operations in over 43 main cities in China with over 360 stores. It has a strong position on high-quality apparel market and owns distribution rights of 22 international brands, such as: BCBG Max Azria, Dolce & Gabbana, Marc Jacobs, Hugo Boss, Versace and Salvatore Ferragamo. (3)

Li & Fung Limited, created in 2002, owning over 200 points of sale. Is main distributor of Calvin Klein Jeans, Calvin Klein underwear, Gap and Mango. (14)

What is most important when choosing distributor in China is its size and geographical coverage (knowledge of different regions) , but also its future development strategy (whether one is planning to develop in China or other regions of the world) and merchandising habits. The latter might in future decide about the image that brand will have on the market.

6. 3. 2. Retail expansion

Chinas retail segment is growing at very high rate over past years and nothing seems to harm it. Out of forecasted 300 luxury stores to be opened in 2010 around the world, 15% of them will be opened in China. (16)

One of the most important issues for foreign companies operating in China is the necessity to prioritize on which cities to focus. As mentioned earlier in this chapter, China has 815 cities, 200 of them have population of at least one million inhabitants (for comparison, in Europe there are only 35 cities of this size). Experts from Reuters say that luxury brands located themselves around four wealthiest coastal cities (Beijing, Shanghai, Guangzhou and Shenzhen). However the fastest growth in consumption of high-quality goods has shifted West, says Shaun Rein from China Market Research Group:

“ In reality though, the fastest growth is happening in places like Chengdu, Harbin and Dalian. Consumers there have very high-rising incomes and that’s where a lot of the countries new billionaires are. There are almost 80 billionaires in China right now.”(6)

“ China is filled with different cultures and consumer patterns vary from city to city,” says Raphael le Manse de Chermont, executive chairman of Shanghai Tang, a high-quality goods chain and is now operating 39 stores world-wide. According to him “ Tier-one” cities are entering an experimental luxury phase, when customers put more emphasis on style, personal enjoyment and “ experience” connected with the product. At the same time “ Tier-two” cities are still in a status-driven phase, when more attention is paid to brand reputation as well as its price perception. (17)

Table 3. China’s high-quality outlets expansion.

Source: Anestis, M., Bellaiche, J-M., Hsu, H., Eirinberg, M., Lou, Y., Lui, V., China's Luxury Market in a Post-Land-Rush Era, Boston Consulting Group, 2009. (18)

“ Tier-one” cities mentioned above are also known as the “ Big Four”: Beijing, Shanghai, Guangzhou and Shenzhen. “ Tier-two” cities are then subcategorized and divided between “ Climbers”, “ Niche” and “ Mainstream” categories.

Together, “ Tier-one” and “ Tier-two” consist of 41 cities, which occupy more than 50% of GDP of China, 23% of the nation's population and about 50% of sale of consumer goods on the market (see Table 4.). It is a huge market and companies start to realize that they need to be present not only in “ Big Four” cities:

“ All brands have opened stores in Beijing, Shanghai and Guangzhou, because that's where the money is now, but expansion into secondary cities will be inevitable” said Patricia Pao, founder of New York-based fashion consultancy.

Many brands that understood it earlier continue to go deeper into new territories gaining market shares and developing brand awareness. We can observe a very fast high-quality outlets expansion throughout China on Table 3 (above). At the end of 2009, Louis Vuitton and Ermenegildo Zegna opened new stores in Ulan Bator (Mongolia). Soon after that Louis Vuitton's managers announced new opening: in Hohhot (in north-central China). Pace of high-quality retail expansion is now faster than ever before.

According to Ermenegildo Zegna, today “ Second-” and even “ Third-tier” cities are driving overall market growth. What does it mean for brands? Companies must do necessary market research, select right locations and come up with effective marketing plans to sustain customer relations. (19)

Table 4. “ Tier-one” and “ Tier-two” cities characteristics.

Source: Debnam, N., Svinos, G., China’s Luxury Consumers: Moving up the curve, KPMG, 2008.

Brand perception of foreign clothing brands on Chinese market

It seems that Chinese have agreed on the premium value of European brands. While we can observe an emerging presence of Chinese high-quality companies, many consumers are still considering “ Western” companies and goods as those of higher quality. KPMG in its report on China’s Luxury Consumers presents a survey where more than 30% of respondents said that they are “ willing to pay a premium for goods of European origin” and almost 20% agreed the same for the goods of North American origin (see Table 5.).

Table 5. Characteristics of Chinese consumers.

Source: Debnam, N., Svinos, G., China’s Luxury Consumers: Moving up the curve, KPMG, 2008.

This survey shows how foreign companies, in particular European and North American, are perceived by Chinese. The biggest presence and highest valued companies are those from France. Thanks to their continued

dominance in China and high year-to-year growths, French luxury brands managed to compensate the recession in other markets (mostly Western) better than most. French firms had a considerable “head start” in China (e.g. Louis Vuitton entered China in 1992, Hermès in 1998) and nowadays they continue to defend their market shares (see Table 6.). They are aware that developing a valuable and profitable luxury brand in China takes years and big investments. This is probably the main reason why French pavilion in Shanghai had an opinion, among tourists I met during my trip to Expo 2010, of a “big shopping mall”. French understand that creating brand awareness and “Made in France” perception will pay off in the future. Until today almost 50 million people have visited Expo 2010, according to official website (21), among which the vast majority are Chinese.

Table 6. Brand preference in luxury fashion and accessories segment (by region).

Source: China Luxury Forecast, Albatross Global Solutions and Ruder Finn Asia, 2009.

Tourism is the next important factor that reinforces French advantage. Synovate, a market research company, did a study during which Chinese consumers were asked where they would like to go for a romantic holiday. Paris won with incredible pole of 76% of the votes. The target is huge, as in 2008 the number of Chinese overseas tourists rose to 49 million (according to The Economist Intelligence Unit). The World Trade Organization further predicts that in 2020 about 100 million Chinese will travel abroad. (22) KPMG

in its survey proves further that respondents with earnings higher than RMB 8,000 per month travel overseas on average 2.3 times per year.

When Chinese travelers go to Paris, they go shopping. French Tourist Board reports that Chinese people in France spend considerably more than tourists arriving from other European countries or the US. Recent data show that every tourist from the mainland China visiting France spends around \$3000 (USD) on an average, while the average expenditures of American and European visitors to France are just of about \$1000.

This data is a proof that not only a brand's name is important for Chinese consumers, but also its country of origin, and French are taking advantage of this fact already.

High-end products retailers like Gucci, Prada or Chanel started even recruiting Chinese speaking staff in order to service Chinese tourists visiting their stores in a better way. Why? Not only to sell more to the tourist while still in Paris, but also to develop brand loyalty.

“The number of French luxury sales outlets in China has tripled in four years” said Elisabeth Ponsolle des Portes, president and CEO of the Comité Colbert, an association of 70 French high-quality brands. Its mission is to promote French luxury abroad.

Table 7. The reason why to buy a luxury product (from the perspective of Chinese consumer).

Source: Anonymous, An in-depth analysis of luxury purchase behaviors and trends in Greater China for 2009, Albatross Global Solutions and Ruder Finn Asia, 2009.

Chinese still are very concerned about their social status, thus brand reputation is the most important reason to make a purchase, while quality of the product was the second. KPMG called it in their report on Chinese luxury consumers as the “bling factor”. Status-seeking and conformity are to be key motivators for high-quality goods consumption in China. However Chinese also start developing greater appreciation of factors such as brand heritage as luxury consumption driver.

Table 7 shows a study made by Albatross Global Solutions and Ruder Finn Asia companies, where brand heritage is fourth overall and the second most important brand-related driver to purchase, with 37.7% of indications.

Market researchers believe that heritage as a factor is mostly important to the consumers who doesn't yet know the brand very well and quality it represents. It is easier for them to relate to the values that company communicates and its history. It might be an important marketing tool to convince a potential customer and foreign brands have usually much longer traditions than their local competitors. This brings us to brand awareness that many companies treat as a core objective in strategy on Chinese market.

Table 8. Brand awareness of Chinese consumers.

Source: Source: Debnam, N., Svinos, G., China's Luxury Consumers: Moving up the curve, KPMG, 2008.

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Nevertheless most Chinese consumers have still low levels of brand awareness

(see Table 8.). We can notice positive trend - 2% increase for Clothing brands and 6% (but almost 7 more brands listed) for accessories.

The result from low brand awareness is low loyalty of the consumers. This can mean both good and bad news for the companies. Good news for companies that entered the market relatively recently, as they can gain market share with lower investments. In this case sales staff can be a very powerful tool - well trained staff has the ability to inform consumers about the benefits of the brand and convince them to purchase. In this case also merchandising is important, as nearly 30% of consumers say that a good window display was an reason why they purchased a brand they hadn't consider before. Bad news on the other hand is that more than 60% of respondents claimed that they are able to find suitable substitutes for their favorite brands. (18)

High-quality brands invest a lot in marketing not only to promote their products and brand but to explain to Chinese consumers why they should pay more for their products and to introduce them the concept of "luxury". All over China we can notice big brand building campaigns of foreign companies. During my visit to Shanghai I witnessed at least couple events and shows sponsored by high-end brands, not mentioning print and television advertising.

In Table 9 we can observe the discrepancies between consumers preferred brands and their eventual purchases. It shows how do, the major players
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benefit from having a status of so-called iconic brands, and the reason for their big marketing spending.

Table 9. Brand preference of Chinese consumers.

Source: Anestis, M., Bellaiche, J-M., Hsu, H., Eirinberg, M., Lou, Y., Lui, V., China's Luxury Market in a Post-Land-Rush Era, Boston Consulting Group, 2009.

Some brands operating in China try to tailor some products to Chinese consumers, e. g. Louis Vuitton, when opening a new store in Beijing, presented and offered a variety of "Lantern Charm" accessories inspired by the traditional Chinese lantern. (24)

"As Chinese consumers become more knowledgeable and wealthier, they will evolve in their tastes. We are well-positioned, as we have a portfolio of brands that are all different, well-segmented and able to respond to different consumer desires as they develop over time"

- said Robert Polet, CEO of Gucci Group.

Competitive analysis of domestic vs. foreign clothing brands

In contrary to the previous chapter, now I would like to focus on domestic high-quality brands, which over past years evolved rapidly. Local firms, like NE Tiger or Shiatzy Chen, have successfully copied retail strategies from their foreign competitors. Some of them established stores in good locations and now grow rapidly. Even though they don't yet have a global visibility, Chinese start appreciating them and treat them as a source of pride. Some

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even say that these brands will begin to develop Chinas' emerging self-confidence in high-quality segments. (25) Despite the latest success of many Chinese consumer brands, not many domestic luxury brands has emerged. Some local brands have developed an interesting strategy, e. g. Goldlion is being positioned as luxurious, international brand even though its main market is in China.

In recent years we could notice growing government support for development of design talent and high-quality production. This means that in the next year we can witness the emergence of many new high-quality domestic brands.

Ports International is an interesting case of " Chinese-foreign" brand. It originally was a Canadian company, which moved its headquarters to Xiamen (China). Re-launching in China paid off, as Ports took advantage of both: its foreign origin (perceived as more valuable) and big domestic market. Company then expanded its operations all over Asia and North America, and gained big market share in China over past years. In 2005 Ports was included in TIME magazine's ranking of " best products for 2005", beside famous brands such as Louis Vuitton and Chanel. After such success, company keeps growing and opens new outlets and franchises in both: mainland China and Hong Kong, but also in: Dubai, Japan, Canada and the US.

As mentioned earlier, until now, there aren't many domestic high-end brands in China, but out of those few, there are two that managed to emerge on a global scale. These companies are Shanghai Tang and LaVie. Although

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majority of their clients aren't local luxury consumers but more often foreign tourist and consumers around the world who want to capture a bit of 'Chinese luxury and culture'. LaVie has its headquarters in Shanghai's Bund in proximity to many other worlds' luxury brands. Everything is designed and manufactured in China. Concept of its creator Ji Cheng, who studied at a fashion design school in Milan, was to develop "Eastern concept and Western cutting." Foreigners constitute for almost 60% of LaVie's customers. (26)

Shanghai Tang has a similar situation - local luxury consumers aren't their main target. We can also find a lot of Chinese-inspired products at Shanghai Tang. Brand was partially sold to the Swiss Richemont Group, what could also be a factor influencing company's' popularity.

Study made by Hong Ye Zi Xun (Chinese research company), conducted in ten major cities in China shown that almost 50% of respondents favor foreign brands and only around 20% prefer domestic ones. Besides considering Western apparel products as of higher quality and reliability, what was already mentioned, Chinese consumers feel that with "western look" they will increase their status and thus confidence. This trend is mostly observed among the youth. (LI & FUNG 2006)

Domestic companies have one weakness that most of their foreign competitors consider as their biggest asset - branding. Some companies, like those mentioned above, have been intensifying their efforts to build strong brands. Most common promotional tool used by Chinese brands is sponsoring and celebrity endorsement, e. g. Li Ning Group (Chinese

sportswear company) had sponsored several national teams during Olympic Games 2008 in Beijing. (LI & FUNG 2006)

As the concluding thought I would like to quote Darryl Andrew, CEO of Synovate (market research consultancy):

“ The culture of luxury in China is very different from North America or Europe. So, I think there is a strong potential of homegrown luxury brands, like Shanghai Tang or Vivienne Tam, to grow very quickly”, “ In addition, China wants to establish its own luxury brands as a statement to the world that it can create viable brands.” (Anonymous, 2010)

Governmental restrictions of importations

In the era of abandonment of quotas, it is much harder for Chinese government to restrict or limit imports of high-quality apparel to the market, even though Chinese companies would greatly benefit from it.

Administration tries to give comparative advantage to domestic firms by subsidizing design and quality improvement actions. Nevertheless there is still big gap between domestic and international companies. In order to make it a bit harder for foreign high-quality producers, Chinese government found a way to disrupt their operations from time to time by introducing strict quality control measures on imported goods.

In March 2010, high-end foreign brands such as Versace, Hermes, Dolce & Gabbana, Hugo Boss or Trussardi, were among those that failed Chinese quality control tests. It was said that as much as 60% of clothes, controlled

randomly by Chinese inspectors in Zhejiang province, had failed to meet quality measures:

“ Defects in the manufacturing included poor color fastness, unacceptable amounts of acid and high levels of formaldehyde, which can cause skin rashes, eye irritations, allergies, respiratory problems and even cancer, the report warned.” (China Daily, 2010)

Same report said that tested samples were collected directly from designer stores in Hangzhou, Taizhou and Ningbo, one of the wealthiest cities in the country.

Some have connected this fact to the announcement of French company Hermes, made couple of months earlier - in December. Hermes declared that in the spring, it will launch a new luxury brand - Shang Xia - that will be fully designed as well as manufactured in China. (Anonymous, 2010)

This was not the first case of quality control problems that high-end brands faced within last years. In 2006, Chinese inspectors, have failed Hugo Boss and Dolce & Gabbana's collections of shoes and evaluated them as “ substandard luxury goods”. (Anonymous, 2010)

Counterfeits

The reason why high-end products are being sold so expensive is not because each time consumers can examine and recognize its high quality, but because they perceive certain brand like this. This is what luxury market relies on. However, sometimes this has also a bad dimension for the brand owner - threat of counterfeits.

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In China, for high-quality brands,